



# STATE-OWNED ENTERPRISES IN LITHUANIA

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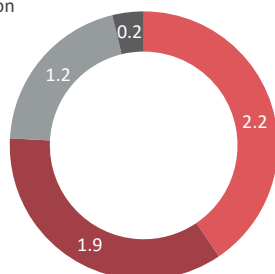
ANNUAL REPORT 2015

# SOE Portfolio: a Brief Overview

## SOE portfolio value

31 December 2015	5.5	+4.9%
31 December 2014	5.2	

EUR billion

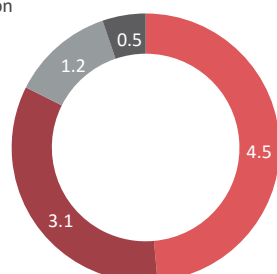


● Energy ● Transport and Communications  
● Forestry ● Other

## SOE portfolio value of book assets

31 December 2015	9.2	+3.6%
31 December 2014	8.9	

EUR billion

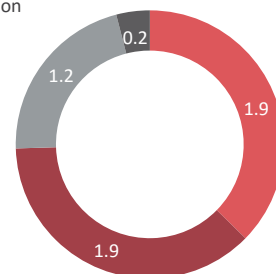


● Energy ● Transport and Communications  
● Forestry ● Other

## SOE portfolio equity value

31 December 2015	5.2	+3.6%
31 December 2014	5.0	

EUR billion

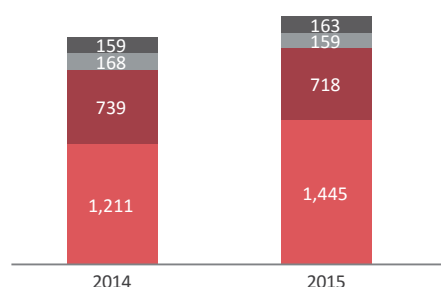


● Energy ● Transport and Communications  
● Forestry ● Other

## SOE portfolio sales revenue

2015	2,485	+9.2%
2014	2,276	

EUR million

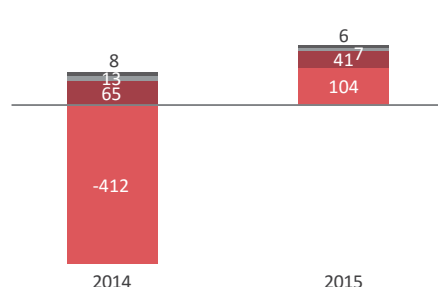


● Energy ● Transport and Communications  
● Forestry ● Other

## SOE portfolio operating profit

2015	159	-
2014	-327	

EUR million

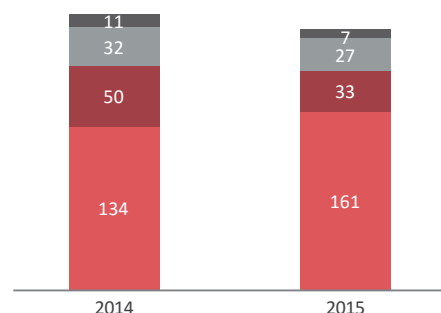


● Energy ● Transport and Communications  
● Forestry ● Other

## SOE portfolio normalised net profit

2015	226	-0.5%
2014	227	

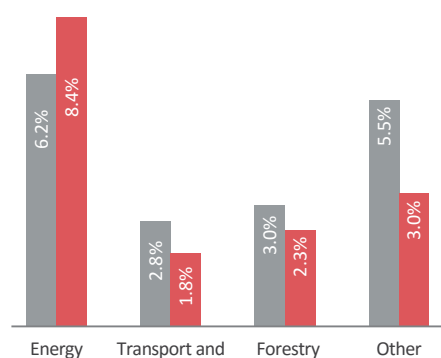
EUR million



● Energy ● Transport and Communications  
● Forestry ● Other

## SOE portfolio ROE

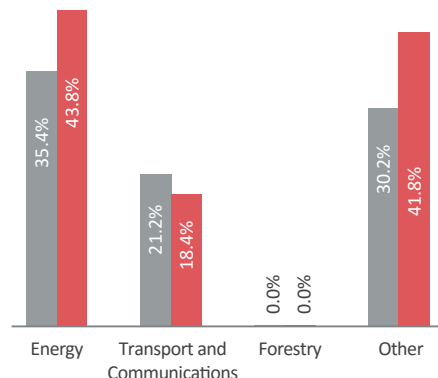
31 December 2015	4.4%
31 December 2014	4.4%



● 31 December 2014 ● 31 December 2015

## SOE portfolio financial leverage

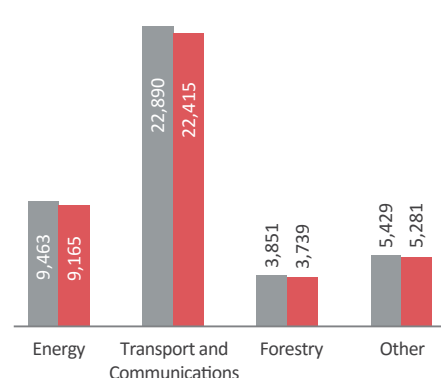
31 December 2015	24.7%
31 December 2014	22.3%



● 31 December 2014 ● 31 December 2015

## SOE employees

31 December 2015	40,600	-2.5%
31 December 2014	41,633	



● 31 December 2014 ● 31 December 2015

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**The Report is available online at [vkc.turtas.lt/en](http://vkc.turtas.lt/en)**

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Dear all,

I am pleased to present you the Seventh Annual Activity Report on State-owned Enterprises. The Report provides information about assets, activity results, and operating efficiency of 128 State-owned Enterprises and consideration of the essential influencing factors.

In 2015, State-owned Enterprises have remained being the substantial part of Lithuanian economy – their contribution to the national economy formed a little more than 3% of the total gross domestic product. Income of the aforesaid enterprises in 2015 amounted to EUR 2.5 billion, what takes even 9.3% more than in 2014. Normalised net profit was EUR 226 million, and the estimated market value of corporate assets increased for 4.9% and reached almost EUR 5.5 billion.

State-owned Enterprises continue their critical mission, i.e. ensure that transport and energy infrastructure serves for promotion of sustainable and long-term economic development as well as achievement of strategic national interests. When carrying out the mission companies have initiated implementation of gas pipeline connecting Lithuania and Poland projects related, continued Rail Baltica and other investment projects of high strategic importance. It shall be highlighted that Lithuanian electricity transmission system operator Litgrid has successfully completed installation of interconnections with the Polish and Sweden systems LitPol Link and NordBalt.

When speaking about governance of State-owned Enterprises I would like to express my joy due to the fact that Organisation for Economic Cooperation and Development (OECD) completed the task of assessing the state-owned enterprises sector compliance with the main governance guidelines in 2015, expressed positive findings on the progress achieved by Lithuania in the reformation of State-owned Enterprises in recent years, as well as in substantial equivalence of key legal acts to the generally recognised good practice.

In the nearest future the Government plans to debate the legislative changes aimed at tightening the requirements for SOE transparency, increase in number of independent members at the boards of SOEs, and introduction of higher level assessment of SOE performance. Greatest part of recommendations is foreseen for implementation by the beginning of 2017. Although the OECD findings are favourable to us, we have decided to take initiative and implement other tasks oriented towards enhancement of State-owned Enterprises management efficiency and creation of higher added-value to Lithuania at once.

*Yours sincerely,  
Evaldas Gustas  
Minister of Economy*

# Lithuanian State Ownership Policy: An Overview

Examples of many foreign countries demonstrate that state-owned enterprises (SOEs) can operate efficiently, bring benefits to consumers and compete successfully on the market, while their operating results can equal or even surpass those of private companies. Modern and effectively functioning SOEs may contribute significantly to state budgets, while the additional funds may be distributed to various areas – from pensions, teacher and doctor remuneration to important national investment projects. Furthermore, these enterprises, implementing innovative governance models, become an example of transparent and responsible business, thus promoting a sustainable development of the economy. The aim of turning state-owned 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 to these enterprises.

## State Ownership Policy

General experience of foreign states demonstrates that implementation of the principles of good governance in SOEs is an important but complicated initiative. The major challenge is to strike a 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 on 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, formalize 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 operation and good results, but would not interfere with their daily business.

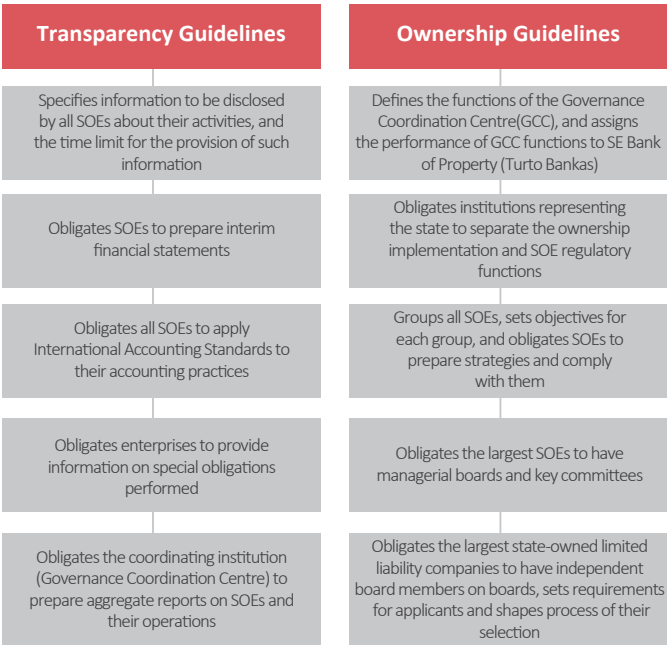
## OECD Guidelines

In 2005, the Organization for Economic Co-operation and Development (OECD) updated and announced the Guidelines on Corporate Governance of State-Owned Enterprises, a document defining the key principles of SOE governance. OECD Guidelines represent an agreement among the most advanced and economically developed countries and have been recognized as an international benchmark. The Guidelines are available on the OECD website at [www.oecd.org](http://www.oecd.org). The adjustments to the guidelines were made with regard to the developments and experience of states in order to identify the new emerging problem areas at national and international level.

The OECD Guidelines provide specific suggestions on solving various SOE governance problems. For example, they suggest that the state should define its ownership policy and make a clear distinction between ownership implementation and regulatory functions. The Guidelines also describe the target roles of the members of SOE collegial bodies (management boards and supervisory boards) and provide recommendations regarding their composition and selection procedures. The document stresses the necessity to establish equal competitive 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 organization. The reorganization of the SOE governance policy in Lithuania was also largely based on these guidelines.

In September, 2015 the OECD presented specific recommendations to Lithuania in the area of good governance of SOEs. Suggestions and recommendations highlight four priority areas. The State should strive to strengthen ownership functions, while optimizing GCC status, ensuring independence and adequate resources for the performance of its functions. The autonomy of supervisory and management boards should

be increased through the standardization and formulation of high criteria for the selection of management board members. The State Enterprise legal form should be revised and gradually shifted towards common legal forms of legal entities. Also attention is drawn to the Transparency guidelines – it is recommended that these guidelines should be compulsory at least for the large state-owned enterprises.



## Key Legal Acts in Lithuania

For a long time after Lithuania regained its independence SOEs in the country remained unchanged – they lacked transparency, no one set high goals for the enterprises, and there was no single centralized institution that would analyze the activities of state-owned enterprises. In 2009, the Ministry of Economy of the Republic of Lithuania prepared an overview of Lithuanian SOEs, which revealed 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 directions 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, several years ago the Government adopted a resolution “Concerning the Approval of the Description of the Guidelines on Assurance of State-Owned Enterprise Activity, Transparency and Appointment of a Coordinating Authority” (referred to as the Transparency Guidelines), which laid down high standards to all SOEs, and resolution “Concerning the Approval of the Description of the Procedure for the Implementation of the Property and Non-Property Rights of the State in State-Owned

Enterprises" (referred to as Ownership guidelines), which define the Government ownership policy with respect to SOEs. The Ownership Guidelines provide principles that should be followed in defining strategic and financial objectives, appointing board members, separating ownership and regulatory functions, etc. The Ownership Guidelines enshrines three essential measures for consolidating SOE governance – strong shareholder, strong management of the enterprises, and clear objectives.

Taking into account the OECD recommendations presented to Lithuania in 2015 in the area of SOE governance improvement, the Ministry of Economy has prepared an action plan for implementation of the recommendations, which was approved by the Government of the Republic of Lithuania in

April, 2016. This plan lays down the measures and period of how and when the problematic aspects of SOE governance raised by OECD will be addressed. The plan takes into account the four areas accentuated by OECD, the principal measures are: to transfer GCC functions to public legal entity, ensuring appropriate resources and capabilities to carry out functions adequately; to strengthen the functions of managerial and supervisory boards, adjusting the selection procedures and adopting legislative amendments; to consider and address the issues regarding the legal forms of SOEs, primarily, consolidating forestry enterprises and road maintenance companies; and to alter the Transparency Guidelines, establishing their imperative nature for large SOEs.

## Lithuanian Ownership Policy

### 1. Application of the Ownership Guidelines

The provisions laid down in the Ownership Guidelines are of compulsory nature and must be followed by all state institutions participating in SOE governance. To some provisions of the Ownership Guidelines a rule "comply or explain" applies, which means that any deviation from these provisions is possible only when that is required for objective reasons – in such cases each deviation must be rationally justified and explained.

### 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 that would monitor and analyze the implementation of the state policy in the state-owned enterprises. 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. On October 1st, 2014 the State Property Fund was incorporated into the Bank of Property (Turto Bankas), and the Bank of Property was assigned to carry out the functions of GCC. Before the adoption of Ownership Guidelines, the functions of SOEs' coordination, collection and analysis of information fell under the competency of the Ministry of Economy.

The Ownership Guidelines define the essential GCC functions. The GCC is obliged to analyze financial and non-financial information disclosed by SOEs as well as operational trends of these enterprises, and publish the summary reports of SOE. 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 GCC also 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

In order to make SOEs operate as efficiently as possible, the state must clearly identify objectives set for SOEs, while these objectives must be coordinated with the long-term strategies of the enterprises. To the greatest extent possible, the objectives must be 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

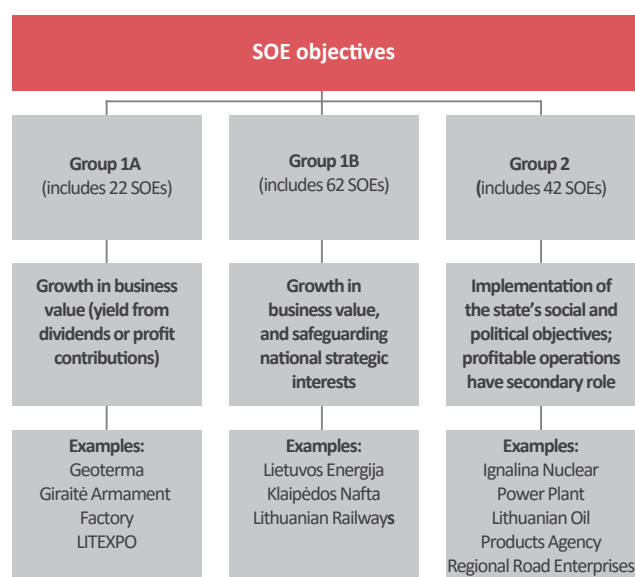
All Lithuanian SOEs were divided into three groups by the state objectives:

- 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 not only growth in their business value and a yield from dividends or profit contributions, but also 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 attainment of social and political objectives, while profitable activities have a secondary role. The enterprises of this group should engage only in non-commercial operations that other profit-making companies would refuse to perform or would perform for a higher price.

Having divided all SOEs into these three groups, the state has started to expect to achieve the pre-set return on its invested capital, the rate of which is calculated by the GCC and approved by the Government every three years. For 2013–2015, the Government had set the minimum 5% target average annual return on equity for these enterprises (except forest enterprises) for the next three years, and for the forest enterprises – the target average annual gross net profit of at least 28 million EUR. For the period of 2016–2018, the target returns on equity are calculated by the SOE individually, taking into account their systematic risk profile, and range between 5% and 8%.

From the enterprises of the Group 2 the state has begun demanding the highest possible transparency and efficiency of the fund usage in their operations.



#### 3.2. SOE strategies

SOEs must have clear strategic plans that would serve as means of communication between the Government, an institution implementing the shareholder rights, managerial boards of enterprises and executives.



The Government has obligated all SOEs to prepare their operational strategies. The strategies should be prepared for the period of minimum of three years and updated at least once a year. The strategies must specify the lines along which enterprises will develop their activities, long-term and short-term objectives and specific 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 enterprise environment, available resources, etc.

By November 15 of each year enterprises are obliged to submit their strategy projects to the Governance Coordination Centre, which provides recommendations and suggestions for their improvement.



## 4. Management Boards

One of the essential factors for profitable and effective operations of an enterprise is a competent, motivated and independent management board. Management board is the principal governing body that determines strategic priorities of an enterprise, evaluates activities of executive managers, and ensures their accountability.

### 4.1. Obligatory Management Boards in the Largest SOEs

All Lithuanian SOEs have been divided into five categories according to their revenue and the value of owned assets. The first category includes the largest SOEs (Lietuvos Energija, Klaipėdos Nafta, etc.), while the fifth category – the smallest SOEs. All enterprises attributed to the categories I and II, and all Lithuanian SOEs of strategic significance must have active management boards. The formation of management boards at smaller SOEs (attributed to categories III, IV, and V) is at the discretion of individual institutions representing the state.

### 4.2. Composition of Collegial Governing Bodies

In a state-owned enterprise the majority of members of the collegial body elected by a general shareholders meeting (GSM) (in most enterprises this means a management board, but in some energy enterprises the GSM elects a supervisory board, not a management board) should be comprised of persons not employed at that enterprise. It is recommended to the state-owned enterprises that executive manager of an enterprise would not be elected the Chairman of management board (if he/she has been elected a member of management board), except cases when a supervisory board is formed in a state-owned enterprise.

It is to be noted that the provisions of the Ownership Guidelines on the composition of collegial governing bodies and the described process of candidate selection apply only to state-owned enterprises. The composition and selection of collegial governing bodies in SOEs having legal form of state enterprise is regulated by State and Municipal Enterprise Law.

According to their legal form, all state-owned enterprises (SOEs) are divided into **state enterprises** (SE) and **state-owned enterprises** - public limited liability companies (AB) and private limited liability companies (UAB).

SEs are companies established using state assets or companies transferred to the state according to the procedure established by law, which are the property of the state and the assets, transferred to them or acquired by them, are managed, used and disposed of according to the right of trust. Lithuania has 79 SEs, among them: regional road enterprises, forest enterprises, Lithuanian airports, SE Klaipėda State Seaport Authority (VĮ "Klaipėdos valstybinio jūrų uosto direkcija"), etc.

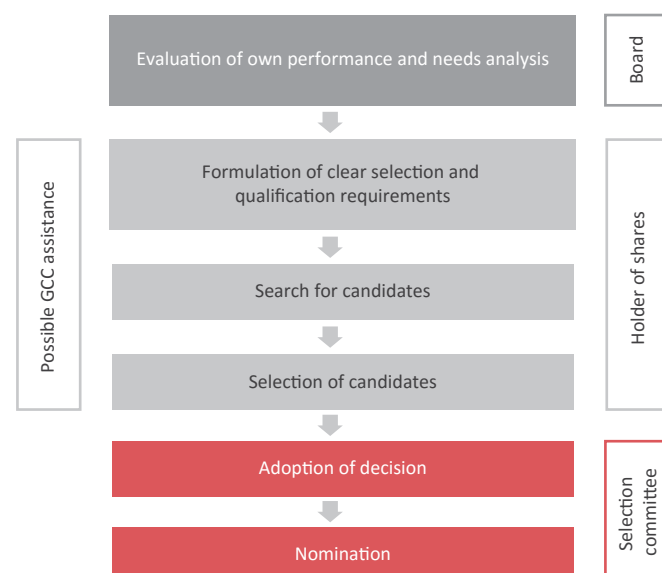
State-owned public LLCs (AB) and private LLCs (UAB) are private legal entities with limited civil liability, whose all or part of shares are owned by the state. In Lithuania 19 SOEs have the legal form of Public LLC (AB) (among them - Lithuanian Post, Lithuanian Railways, Klaipėdos Nafta), and 30 SOEs have the legal form of Private LLC (UAB) (Lietuvos Energija, EPSO-G, Lithuanian Exhibition and Congress Centre LITEXPO, etc.).

The Government has determined the general and specific criteria, which must be satisfied by each candidate to members of a SOE collegial governing body, if this was determined by the Selection Committee (it is described in greater detail in section 4.3 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 recalled from his/her duties within the last five years as a result of inappropriate performance of the duties, the candidate may not have unexpired convictions for any criminal offence, or be a civil servant, who or whose relatives may cause a conflict of public and private interests.

The specific criteria require members of a collegial body to have certain knowledge necessary for the enterprise. Each collegial body, elected by the SOE general shareholders meeting, must include persons having knowledge in such fields as a respective economic sector, finance, strategic planning and management. Separate members of such collegial body may not have 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, the available and missing competencies must be taken into account.

The above-mentioned collegial bodies must be capable of making

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



objective and independent decisions, thus, it is important that they have sufficient number of members who meet the independence criteria. In state-owned enterprises of the categories I and II at least 1/3 of the members of a collegial body elected by GSM must 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, he/she or his/her close family member, may have no, or for the last few years may have had no, employment relationships (except a possible membership in the collegial body), or any business and other contractual relationships with the enterprise.

### 4.3. Selection of candidates to management boards of state-owned public and private limited liability companies (AB/UAB)

Members of collegial bodies of the state-owned enterprises belonging to the categories I and II, elected by the GSM, once a year must carry out the assessment of self-performance and analysis of needs. This enables determining what competences the collegial body lacks in achieving the company's objectives. The results of the self-performance assessment and needs analysis must be reported to the holder of shares and the GCC, which must forward the summary information and recommendations to the Selection Committee.

It is the Selection Committee that is authorised to elect new members of collegial governing bodies. This committee comprises of the Minister of Economy, the Minister of Finance, and the executive manager of the holder of shares (the head of an institution that owns SOE shares), which initiates the work of the Selection Committee. The number of such selection committees must correspond to the number of the holders of shares attributed to the categories I and II.

Holder of shares, if necessary, may consult with the GCC concerning the performance assessment of the collegial body and 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, but 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 managerial boards of all public-interest entities must have audit committees, which would enhance the internal control of an enterprise – monitor the process of preparing enterprises' financial statements, the efficiency of various internal systems, the auditing process, etc. Some of Lithuanian SOEs are public-interest entities and audit committees are compulsory for them. However, the Government has provided that even the large Lithuanian SOEs (attributed to the categories I and II), which do not form audit committees, must form internal control committees that would perform the functions of an audit committee. At least one member of an internal control committee should be an independent member of managerial board competent in the financial field.

Each SOE attributed to the category I or II 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 managerial board. The minimum number of members of each enterprise's internal control committee and remuneration committees must be at least three and they should not be the executives of the enterprise.

## 6. Remuneration

With a purpose of attracting as many independent professionals to collegial bodies as possible, such persons may receive remuneration for their work. The issue of remuneration to the members of collegial bodies must be discussed at a general shareholders meeting of each enterprise, but it is recommended that members of managerial and supervisory boards of the state-owned enterprises are paid a fixed remuneration not exceeding 1/4 of the salary of enterprise's executive manager, and remuneration to chairpersons of the managerial and supervisory boards should not exceed 1/3 of the said salary.

## SOE Transparency

Operational transparency is especially important for state-owned enterprises as the owners of the SOEs are, albeit indirectly, all citizens of the state. In order to achieve good enterprise governance, it is necessary not only to declare clear objectives for SOEs and their managers, but also to periodically assess whether SOEs have achieved these objectives.

Based on the world's best practice and the OECD Guidelines, the Government has adopted the Transparency Guidelines, which stipulate that SOEs must comply with similar transparency requirements that the companies, quoted on the stock exchange, comply with. Also it is recommended that SOE accounting practices and audits of annual financial statements should be executed following international standards.

In December, 2013, the Transparency Guidelines were supplemented by a Government resolution obligating SOEs to provide, along with their annual financial statements, information on special obligations implemented by them (these obligations are described 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, also state-owned enterprises are recommended make sure that all their subsidiaries comply with these Guidelines as well. 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 quoted on the NASDAQ OMX Vilnius with respect to information disclosure, regardless of whether a SOE is or is not quoted 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 liability companies) or annual activity reports (state enterprises) – documents that overlook financial and other operational indicators of an entire year, specify the number of employees, the annual remuneration fund, salaries of the management staff, procurement and investments that were implemented during the financial year, are in progress or are planned, etc. The large SOEs of Lithuania 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 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. Accordingly, a general overview of the SOE activities is published five times a year. This periodicity has been chosen with a purpose of establishing regular public accountability of enterprises,



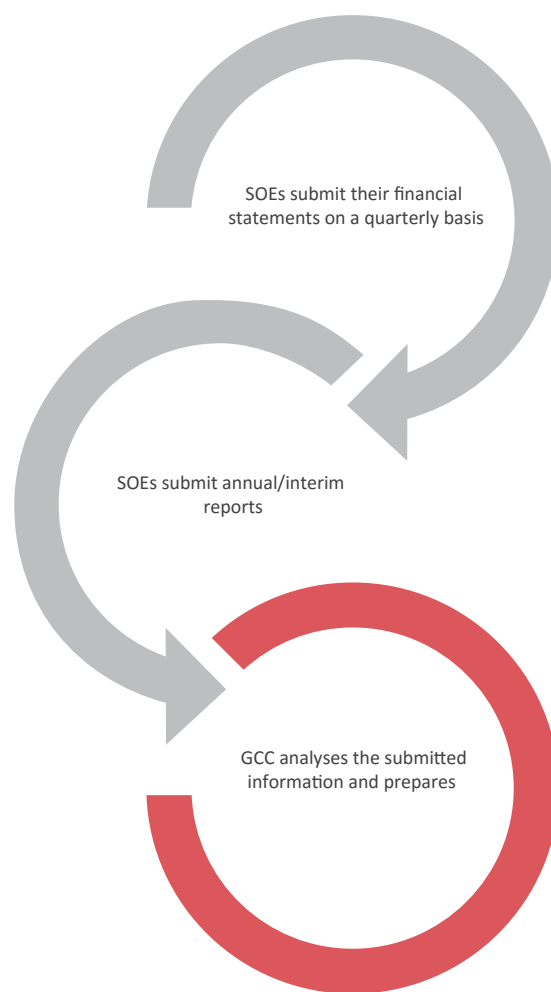
monitoring changes in the SOE portfolio, and responding adequately.

Summary reports present financial information and dynamics of the SOE sector, discuss the principles of implementation of governance and ownership functions of these enterprises, while the major and most important companies are reviewed separately. Since 2014, the GCC also analyses and provides information on the fulfilment of the special obligations and financial information of them. All these reports are submitted to the Government and published on the GCC website (<http://vkc.turtas.lt>). 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 purpose of increasing operational transparency and facilitating financial analysis, Lithuanian SOEs have been obligated to provide information on the pursued non-commercial activities (the so-called special obligations) together with annual financial reports. This means that SOEs must also publish the costs of all social commitments or public obligations assumed, various subsidies and financial support granted, etc. This allows assessing the scope of these functions and their influence on the results. It is important in order to set clear and transparent mechanisms of financing non-commercial functions, which would prevent market distortions – enterprises, while pursuing commercial activities, must act under conditions of fair competition.

The Governance Coordination Centre is obligated to provide, in addition to summary annual reports on SOEs, summary information on special obligations implemented by SOEs. Such analysis is presented in Special Obligations part (page 25) of this report. The section contains more 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.



## Composition of the management board of state enterprises and nomination process

The Law on State and Municipal Enterprises provides for the possibility to elect a collegial governing body of an enterprise – management board, which would comprise of at least 3 members elected for 4 years.

After the adoption of the amendment to the Law on State and Municipal Enterprises on April 30, 2015, civil servants and other natural persons may be appointed as members of management board of state enterprise, the number of whom must constitute at least 1/3 of the board members in the state enterprises, holding assets of EUR 14 million and higher-value and earning annual revenue of at least EUR 5.8 million. The management boards of other enterprises may also contain such natural persons, if required. Prior to the amendment of this law only the public servants of the institution implementing the owner's rights and obligations and the executive manager of the enterprise could be members of the management board of state enterprise.

The law stipulates that members of the management board must have a higher education, be of impeccable reputation, have no relations with other legal entities that could cause a conflict of interest. Specific requirements for the members of the management board are established by the institution implementing the owner's rights and obligations, which may consult with the Governance Coordination Centre.

In order to increase transparency, information about the organization of selection of a management board member must be publicly declared by state enterprises on their websites and electronic public Journal of Registers Centre and the Governance Coordination Centre must be informed. Governance Coordination Centre publishes the received information about the selection

process on its website and informs persons registered in the database of managerial board members.

Government Resolution "On the Approval of the Description of the Procedure for the Selection of Candidates to the Board of a State Enterprise or Municipal Enterprise" establishes a common procedure for the selection of a candidate, which provides that candidates for management boards are elected by a specially formed selection committee. The selection committee is formed of regular members and three members of the state enterprise implementing the owner's rights and obligations. Regular members of selection board are members proposed by the Prime Minister, Ministers of Finance and Economy as well as a member proposed by GCC.

Independent members of management board are paid salaries. Terms of remuneration of a board member are determined in the Board Member Agreement concluded between an enterprise and a member of management board, which specifies, among other conditions, hourly rate in euros for the board member's activities (participation in the meeting of the management board, preparation for the meeting of the management board, and traveling to the meeting). Remuneration to board member cannot exceed 1/5 of average monthly salary of the executive manager of an enterprise. According to the terms of the agreement, an enterprise may also compensate for the travel (transport) expenses incurred during the performance of the activities of a board member.

# SOE Good Corporate Governance Index

As every year, the annual SOE activity report presents the assessment of the SOE governance practice, which aims to assess the SOE implementation of the practices of good governance, including key recommendations of the OECD, provisions of Ownership and Transparency Guidelines, and other documents regulating the activities of SOEs. This year, the methodology of SOE good governance Index (hereinafter - the Index) has undergone significant changes: the Index has been supplemented with new criteria, the data collection methods have been modified as well as dimensions and weights of criteria have been adjusted. Index has been expanded with a purpose to reflect the existing SOE governance practices more accurately and embrace a wider domain of SOE governance, at the same time reducing the probability of fallacious and subjective answers. It is important, that the Index is not designed to assess only the compliance with the provisions of the Ownership and Transparency Guidelines, therefore the part of criteria falls outside the scope of the provisions of these guidelines. Due to the essential amendments to the methodology of the Index, the direct comparison of the 2015 Index to the earlier periods is no longer possible.

## Methodology and limitations

The Index of 2015 (as last year) is comprised of three key dimensions: Transparency, Management Boards (or Supervisory Boards, if formed), and Strategic Planning and Implementation. Transparency dimension is comprised of 6 criteria, Management Boards – of 7, and Strategic Planning and Implementation – of 5. Different weight for each criterion is assigned; also, a part of the criteria, based on enterprise's size, legal form and nature of the activities, may be excluded from the assessment. A more detailed description of the criteria is presented further in this section. Data for the SOE good corporate governance index of 2015 has been collected based on:

- the questionnaires completed by SOEs and (or) institutions representing the state during the period from May 18, 2016 to June 28, 2016;
- the results of quality assessment of the SOE strategies carried out by GCC at the end of 2015;
- the results of the assessment of the implementation of SOE strategies carried out by GCC in July, 2016;
- the assessment of SOE annual activity reports or annual reports and disclosure of special obligations, which were carried out by GCC for the first time in June, 2016;
- the assessment of the dissemination of SOE financial data on enterprise websites, carried out by GCC, during the period of June 22 – June 27, 2016;
- the rates of annual normalized return on equity of SOEs;
- Altman Z"-Score methodology for assessing the creditworthiness of an enterprise.

When compiling the Index, the following was taken into consideration: the size of enterprises (for example, smaller enterprises were subject to lower standards of social responsibility), legal form and activity objectives (enterprises engaged in commercial operations were subject to higher profitability requirements than enterprises carrying out non-commercial activities), to make sure that the Index reflects as precisely as possible the nature of enterprise activities and the criteria that have the greatest impact on its governance. The updated Index presents the results in a scale from A+ to D, where A+ is the highest evaluation, D- the lowest. A more detailed description of evaluation values is provided in the evaluation table. This evaluation system enables eliminating the insignificant differences among the enterprises, which might be mistakenly interpreted as a certain percentage higher or lower quality of corporate governance.

Often enterprise evaluation depends not only on its efforts to improve

governance quality, but also on the existing legal environment. For example, currently the legal form of 'the state enterprise' limits the essential functions of the management boards: appointment and dismissal of CEO, establishment of remuneration and other conditions of employment contract, as well as approval of operational strategy. However, the Index is intended to evaluate the quality of enterprise governance, based on the best international corporate governance practices, irrespective of the reasons that gave rise to that particular governance model.

It must be noted, that the Index does not cover all the aspects of corporate governance and in some cases may inaccurately reflect the governance quality of a certain SOE. There is a possibility of distortions of the obtained estimates due to the biased answers provided in the questionnaires; also, attribution of an enterprise to a certain group or category may have significant influence as well. It is important that, although the Index is not intended only for the assessment of the implementation of Ownership and Transparency Guidelines' provisions, but relies extensively on the provisions set out in these documents; therefore, for example, in the case of the assessment of annual activity reports or annual reports only certain parts of these documents are evaluated.

6 SOEs are not included in this year's Index: **Kaunas Metrology Centre, Klaipėda Metrology Centre, Panevėžys Metrology Centre, Šiauliai Metrology Centre, Senevita and Athletes Testing and Rehabilitation Centre**. These enterprises at the time of the compilation of the Index (May-June of 2016) had already been merged, privatized, or had changed their legal form and were no longer considered to be state-owned enterprises.

Evaluation table

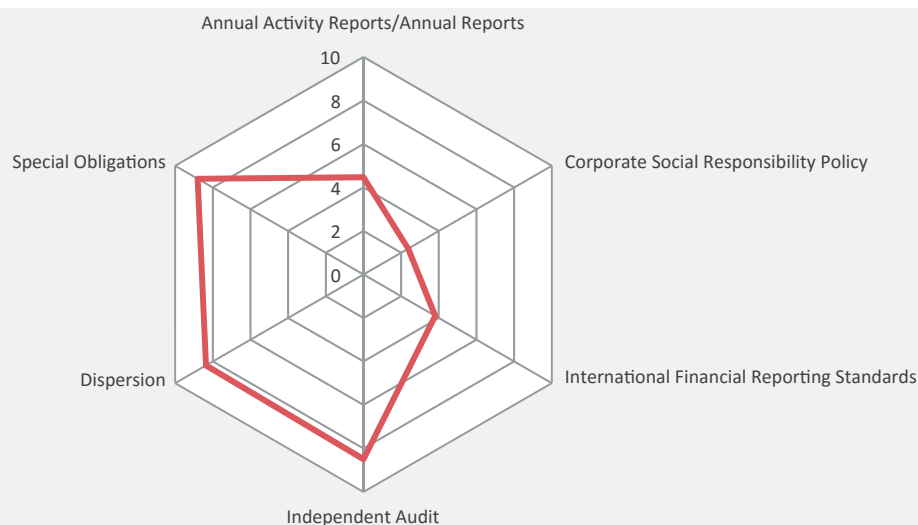
Positive evaluation	A+	>9	-	10
	A	>8	-	9
	A-	>7	-	8
Neutral evaluation	B+	>6	-	7
	B	>5	-	6
	B-	>4	-	5
Negative evaluation	C+	>3	-	4
	C	>2	-	3
	C-	>1	-	2
	D	0	-	1

## Transparency

This year, the Transparency dimension has been supplemented with two new criteria: Dispersion and Special Obligations. The assessment of annual activity reports and annual reports was carried out by GCC (up till then – by questionnaires) and the criterion of the Corporate Social Responsibility Policy was significantly complemented. In the Index of 2015 the Transparency is assessed according to the following criteria:

Criterion	Description
Annual Activity Reports/Annual Reports	The assessment covers the comprehensiveness of annual activity reports or annual reports, and their compliance with the provisions of the Transparency Guidelines as well as other documents.
Corporate Social Responsibility Policy	The assessment covers corporate social responsibility (CSR) policy, its disclosure in annual activity reports and annual reports, and the preparation of separate CSR reports.
International Financial Accounting Standards	The assessment covers the application of International Accounting Standards (depending on the size of an enterprise and the group it is attributed to).
Independent Audit	The assessment covers the rotation of independent auditors and their opinion on the SOE financial statements provided in the annual audit findings.
Dispersion	The assessment covers the presentation of annual financial statements on SOE websites and the submission of annual data to GCC.
Special Obligations	The assessment covers the accounting and disclosure of the SOE non-commercial special obligations.

Transparency	B	A+	A	A-	B+	B	B-	C+	C	C-	D
Annual Activity Reports/Annual Reports	B-	A+	A	A-	B+	B	B-	C+	C	C-	D
Corporate Social Responsibility Policy	C	A+	A	A-	B+	B	B-	C+	C	C-	D
International Financial Accounting Standards	C+	A+	A	A-	B+	B	B-	C+	C	C-	D
Independent Audit	A	A+	A	A-	B+	B	B-	C+	C	C-	D
Dispersion	A	A+	A	A-	B+	B	B-	C+	C	C-	D
Special Obligations	A	A+	A	A-	B+	B	B-	C+	C	C-	D



## Annual Activity Reports/Annual Reports

Every year each SOE must prepare annual reports (public and private limited liability companies) or annual activity reports (state enterprises) (hereinafter – Annual Reports), the comprehensiveness and publicity of which are ensured by the requirements of the Transparency Guidelines. This year, the assessment of Annual Reports was performed by GCC, therefore, the score of this Transparency criterion is significantly lower comparing to the previous year (B- grade). Parts that were disclosed the worst – the discussion of risk factors related to the enterprise activities and the presentation of information on the observance of the provisions set out in the IV-VII chapters of the Transparency Guidelines. 85 SOEs, of the 122 included in the Index, did not disclose the key risk factors in their Annual Reports, 67 enterprises failed to provide information on the observance of the Transparency Guidelines provisions. Information related to the remuneration and analysis of financial results could be considered as strongest parts; however, a fair number of SOEs either undisclosed or disclosed too narrowly and poorly these parts as well. The Annual Reports

of **Klaipėdos Nafta**, **Smiltynė Ferry Terminal**, **Detonas** and **Pieno Tyrimai** received the highest grades in the SOE good corporate governance index. A tendency has been observed, that the smaller the category, to which an enterprise is attributed, the poorer the disclosure of information in the Annual Reports is. In order to increase the observance of the provisions set out in the Transparency Guidelines and other documents, the majority of the Annual Reports should undergo significant improvements.

## Corporate Social Responsibility Policy

Based on the international good practice, enterprises should be accountable not only to a shareholder, but also to all other interested parties – creditors, employees, customers and the general public. The practice when enterprises, taking into consideration the needs of all interested parties, integrate social, environmental and ethical principles in their activities is called corporate social responsibility (CSR). CSR principles are particularly important to SOEs, as they seek not only commercial, but also strategic and social goals raised by the state. The assessment of CSR policy and

its disclosure is based on how SOEs disclose the implemented initiatives of social responsibility in their Annual Reports, as well as, whether an enterprise has an approved CSR policy, what standards are referred to, and whether separate CSR reports are prepared. It must be noted, that during the assessment of CSR, significantly lower requirements were applied to smaller enterprises, for example, it was not assessed whether an enterprise prepares a separate CSR report; the adoption of CSR policy also has lower influence on the evaluation. In 2015, the implementation of SOE social responsibility received the lowest grade among all Transparency criteria (C grade). Such situation reveals that SOEs are still falling behind the global standards of CSR implementation. 25 SOEs provided no information on CSR, even in their Annual Reports (as is required by the Transparency Guidelines and other documents). Also, only several enterprises indicated that CSR policy is approved and implemented, or that CSR policy was implemented according to the principles of the United Nations Global Compact or ISO 26000:2010 standard. Separate reports on social responsibility are prepared only by **Lietuvos Energija Group** and **Klaipėdos Nafta**, which draft the CSR reports according to the Global Reporting Initiative G4 Guidelines or Global Compact COP Guidelines. The implementation of social responsibility in these enterprises complies with the global standards, and were evaluated as the best among all SOEs.

### International Financial Reporting Standards

The International Financial Reporting Standards (IFRS) increase the comprehensiveness and reliability of financial statements; financial statements of the enterprises become comprehensible and comparable on an international level, the differences in the accounting practice as well as the risk of distortion are reduced. It is particularly relevant in assessing SOEs' operating efficiency or determining the value of SOE portfolio. Application of IFRS is recommended by the Transparency Guidelines to all SOEs, yet to the largest SOEs IFRS are of particular importance. Due to these reasons, when assessing the influence of IFRS application on the Transparency dimension, enterprise size (attributed category), enterprise group, and enterprise activities in foreign markets have been considered, i.e. the grade of smaller enterprises was reduced relatively less for non-application of IFRS standards than the grade of large SOEs. In 2015, only 8 enterprises of 122 SOEs prepared their financial statements according to IFRS (**Lietuvos Energija**, **EPSO-G**, **Klaipėdos Nafta**, **Lithuanian Post**, **Oro Navigacija**, **Lithuanian Radio and Television Centre**, **Lithuanian Airports**, and **Investicijų** and **Verslo Garantijos**). Comparing to the previous year, the number of SOEs that apply IFRS decreased by one (Lithuanian Shipping Company). **LITEXPO** is currently preparing to switch to the IFRS. In 2015, the following large enterprises still did not apply IFRS: **Lithuanian Railways**, **road maintenance enterprises**, **Klaipėda State Seaport Authority**, **Lithuanian Oil Products Agency**, **Visagino Energija**, **Regitra**, and the **Centre of Registers**; therefore, this criterion remains at very low level.

### Independent Audit

The assessment of the quality of SOE financial statements is facilitated by the opinions of independent auditors, who conducted enterprise's financial audit, presented in the auditors' findings. In 2015, 40 SOEs indicated that they had received conditional opinions in audit findings. Comparing to the data of 2013 and 2014, a significant increase was noticed (16 SOEs received conditional opinion at least once), but the increase was determined by the **forest enterprises**, 26 of which had received conditional opinions. Usually conditional opinion is presented due to restrictions on the scope of audit, when an auditor is selected after inventory procedures and is unable to examine the amount of accounted inventories. When assessing an auditor's opinion, one of the indicators of audit independence – the rotation of

auditors – is taken into consideration as well. The attachment to one auditor may limit the impartiality of auditor; therefore, the good practice is to regularly change independent auditors. However auditor rotation is often limited, since election of auditor is subject to the Law on Public Procurement. With the help of questionnaire it was determined whether the frequency of the change of an independent auditor (natural person, which signs the audit findings) and audit firm is sufficient. During the last 6 years independent auditor has not been changed in only 4 SOEs, while audit firm has not been changed in 12 enterprises during the same period (including the SOEs that have not changed independent auditor). When assessing the SOE portfolio, the criterion of independent audit was given a high score (A grade), as the majority of the SOEs regularly change their independent auditors and receive unconditional opinions in audit findings.

### Dispersion

In pursue of SOE operational transparency, information on SOE operating results should be public and easily accessible to the general public, to whom, in principle, these enterprises are accountable. The easiest way of ensuring the dispersion of information on operating results and other related data is to present such data on the websites of SOEs or institutions representing the state. The dispersion of SOE data is ensured by the provisions in the Transparency Guidelines, which oblige SOEs to regularly publicize the financial and also non-financial information. When assessing the dispersion of SOE data, the submission of annual SOE data to the GCC was taken into consideration as well. This year, the dispersion of SOE data received a high evaluation (A grade). It was determined by the fact that 47 SOEs received the maximum score (financial statements, annual activity reports, and information on remuneration for the last three years were publicized as well as all the required information was submitted to the GCC in due time). The remaining SOEs, more or less, also publicize and submit the required data. The data of only 4 SOEs is not presented on their or institutions representing the state websites (3 of these enterprises are included in privatization list, one is under consideration to be liquidated). None of the SOEs failed to submit at least a major part of their annual data to the Governance Coordination Centre.

### Special Obligations

The disclosure of special obligations is conditioned by the Recommendation on Setting Special Obligations of State-Owned Enterprises and the Provision of Information prepared by the Ministry of Economy of the Republic of Lithuania. For the purpose of ensuring qualitative disclosure of the results of special obligations, SOEs should implement such accounting systems that would allow accounting for the results of such obligations as precisely as possible. SOEs or institutions representing the state also should validate a clear accounting system for such obligations. It is considered a good practice when an enterprise accounts for special obligations and discloses the related information following the 34th of BAS or 8th of IFRS standards. According to the current recommendations, SOEs account for and disclose special obligations with a high level of quality (A grade). Of the 75 SOEs (including 42 **forest enterprises** and 11 **road maintenance enterprises**) that perform non-commercial special obligations, 61 indicated, that account for such obligations is based on the documented accounting procedures. A larger proportion of the enterprises indicated that the applied accounting systems allow qualitative and precise calculation of operating results of special obligations as well as of assets and liabilities used in such activities. In general the quality of data on special obligations submitted to the GCC also, complies with the requirements and has been evaluated positively.

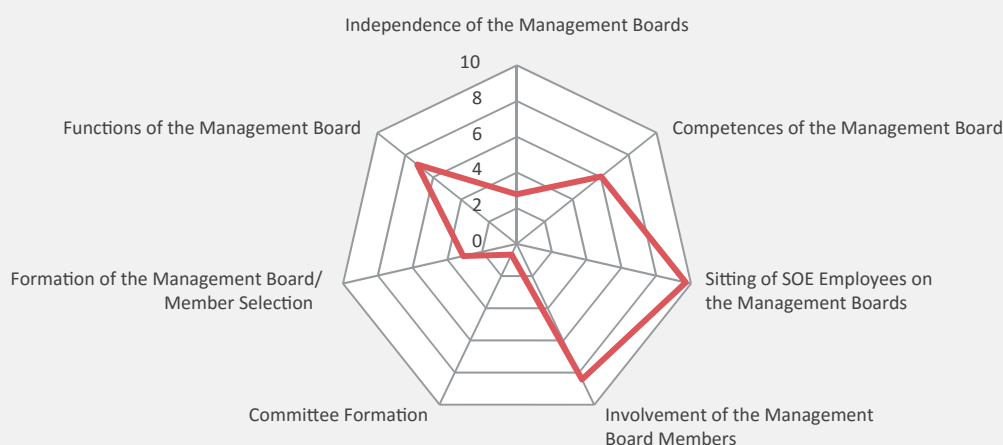
## Management boards

During 2015 several significant changes were introduced to SOE management boards: largest state enterprises were obliged to have independent members in their management boards and the rest of SE were allowed to have. Meanwhile, the management boards were removed from all 42 **forest enterprises** and, as a result, the number of SOEs that do not have management boards increased up to 52 (42 **forest enterprises**, **Energy Agency**, **Radioactive Waste Management Agency**, **State Forestry Inventory and Management Institute**, **Projektų ekspertizė**, **Building Production Certification Centre**, **Lietuvos Prabavimo Rūmai**, **Lietuvos Kinas**, **Kauno Petrašiūnų Darbo Rinkos Mokymo Centras**, **Mokslas Ir Technika**). Prior to the compilation of the 2015 Index, management boards were for

the first time formed in **Vilnius Metrology Centre, Lithuanian Oil Products Agency, Visagino Energija, and University Pharmacy**, supervisory board – in **EPSO-G**. The key changes related to the renewal of the Management Boards' Dimension are: the inclusion of a new criterion – Functions of the Management Boards, and the amendment of the criterion – Independence of the Management Boards. In cases when enterprise has a supervisory board, the supervisory board is assessed instead of management board. The criteria of the Management Board Dimension, that have been determined according to the provisions of the Ownership Guidelines, are the following:

Criterion	Description
Independence of the Management Boards	The assessment covers the participation of the independent members and policy-making members in the management board, and whether the chairman is an independent member.
Competences of the Management Board	The assessment covers the competences of the management board in the fields of strategic planning, finance and industry sector, within which the enterprise operates.
Sitting of SOE Employees on the Management Boards	The assessment examines whether employees are sitting on the management board, and whether CEO is the chairman of the management board.
Involvement of the Management Board Members	The assessment covers the frequency of management board meetings and the participation of the board members in other collegial bodies.
Committee Formation	The assessment examines whether SOEs of categories I-II have remuneration, audit and other committees.
Formation of the Management Board/Member Selection	It is assessed whether a management board carries out the self-evaluation of its activities, whether public tenders were announced for the selection of board members, and whether approval of the Selection committee committee was obtained.
Functions of the Management Board	It is assessed whether management boards carry out the main functions attributed to this body.

Management boards	C	A+	A	A-	B+	B	B-	C+	C	C-	D
Independence of Management Boards	C+	A+	A	A-	B+	B	B-	C+	C	C-	D
Competences of the Management Board	B+	A+	A	A-	B+	B	B-	C+	C	C-	D
Sitting of SOE Employees on the Management Boards	A+	A+	A	A-	B+	B	B-	C+	C	C-	D
Involvement of the Management Board Members	A	A+	A	A-	B+	B	B-	C+	C	C-	D
Committee Formation	D	A+	A	A-	B+	B	B-	C+	C	C-	D
Formation of the Management Board/Member Selection	C+	A+	A	A-	B+	B	B-	C+	C	C-	D
Functions of the Management Board	A-	A+	A	A-	B+	B	B-	C+	C	C-	D



### Independence of the Management Boards

The involvement of independent members in SOE management boards helps the boards to achieve a higher level of autonomy and expertise. The formation of independent collegial bodies is the universally recognized good practice, which currently gathers momentum among the Lithuanian SOEs as well. Following the amendment of the Law on State and Municipal

Enterprises of the Republic of Lithuania in 2015 and the permission for the enterprises with the legal status of SE to have independent members on their management boards, the independence of the management boards has improved. While at the time of compiling the 2014 Index, 11 SOEs had independent members on their boards, at the time of compiling this year's Index, 27 enterprises had such members on their management or supervisory boards. Independent board members constituted at least 1/3



of the members of the supreme collegial body in 19 of 24 SOEs attributed to the categories I-II (with the exception of 5 **road enterprises**, to which this provision is not obligatory) and in 8 smaller SOEs (**Ignalina Nuclear Power Plant** (less than 1/3), **Lietuvos Monetų Kalykla, Problematika** (less than 1/3), **Toksika, LITEXPO** and **Vilnius Metrology Centre**; also **Smiltynė Ferry Terminal** and **Investicijų Ir Verslo Garantijos**, which have at least one third of independent members in their management boards, but do not have such members in their supervisory boards that were assessed in the Index). Of all SOEs: **Klaipėdos Nafta, Lithuanian Radio and Television Centre** and **LITEXPO** can be distinguished, as independent members on their management boards or, if present, supervisory boards constitute more than a half of the board-members. Independent chairman of a collegial body was selected only in three SOEs: **Lietuvos Energija, EPSO-G**, and **LITEXPO**. Assessing the independence of SOE boards according to the involvement of collegial body members in policy-making for the economic sector, within which the enterprise operates, approximately half of the enterprises indicated that their collegial bodies have such members and in many cases, such members constitute more than half of the board. This shows that it is still difficult to separate the functions of enterprise ownership from the policy-making functions (sector regulation).

Despite rather significant changes, which had been introduced during the last year, the evaluation of management boards' independence was negative (**C+** grade). It was influenced by the fact, that in this year's Index the independence indicators have been enhanced – an independent chairman (only three SOEs accomplished) and more than a half independent members (only three SOE accomplished) – which have not yet adopted, but are submitted in the amendment proposals. Despite the above mentioned enhancements, the majority of SOEs still have no independent board members; also, almost half of the SOE collegial bodies still have policy-making members. It is noteworthy, that independence of the boards of the category I-II SOEs was evaluated as moderate, i.e. received **B+** grade.

### Competences of the Management Board

The Ownership Guidelines distinguish three key competences that should be possessed by all management boards – strategic planning, finance, and industry sector. They are intended to ensure that a collegial body has all the competencies necessary to perform the functions assigned to it. The competence is also assessed according to whether the indicated competencies are acquired in the private sector (considered as good practice) or the public sector. According to the data of the filled questionnaires, the competence of the boards has not changed significantly during the last year and was evaluated as moderate (**B+** grade). Only 10 SOEs indicated that their boards' competence was fully consistent with the requirements set by the Index. It is noteworthy, that more competent collegial bodies are the ones that have independent members, therefore, collegial bodies of category I-II SOEs received a significantly higher evaluation, which exceeded the overall average of all SOEs.

### Sitting of SOE Employees on the Management Boards

Enterprise employees should not sit on the collegial bodies. It is particularly important, that the Chair would be separate from CEO, who in such case, would be responsible for the supervision and assessment of his own, as enterprise head, work. This provision is followed by all SOEs and there were no cases identified when CEO is also the Chair. Likewise, SOE employees rarely sit on the management and supervisory boards that have been assessed in the Index. Of 69 SOEs that have collegial bodies, only in 8 enterprises employees were Management board members as well (in all cases, except **University Pharmacy**, only the CEOs). This number has notably decreased, as last year the number of such enterprises reached 17. Due to these reasons, the criterion was evaluated as particularly good (**A+** grade).

### Involvement of the Management Board Members

Based on international practice and to ensure effective work of the collegial bodies, it is recommended for a board member to avoid participation in more than four management or supervisory boards (if it is not his main duty), thereby ensuring the sufficient devotion of time to duly focus on the enterprise's activities and problems, and preventing from being just a formal board member. According to the data held by GCC, 27 SOEs have at

least one such member in their collegial bodies; 18 of such SOEs are under the management of the Ministry of Agriculture, 6 – under the Ministry of Transport and Communications. A slightly more significant decrease was noticed after the **road maintenance enterprises** had composed new management boards. Assessing the involvement of management board members according to the number of the meetings called, the majority of SOE management or supervisory boards have called at least 4 meetings per year. Only 4 SOEs called less than 4 meetings during 2015. Summarizing the results of this criterion, the involvement of the management and supervisory board members was evaluated as very high (**A** grade).

### Committee Formation

The formation of committees in the management or supervisory boards helps to enhance the competencies and support the board in performing its functions. The formation of committees is particularly relevant when tackling the issues related to remuneration or audit. In order to ensure that such issues are resolved competently, at least a part of the members of such bodies should be independent and suitably competent. The current Ownership Guidelines regulates establishment of specialized committees in the largest enterprises of categories I-II, and remuneration committees – in the largest SEs as well. However, the formation of committees is one of the most poorly implemented practices of good corporate governance, as audit committees are formed only in **Lietuvos Energija** (the committee has independent members) and in **Klaipėdos Nafta** (all committee members are independent), remuneration committees – only in **Lietuvos Energija** (the committee has independent members) and in the **Centre of Registers** (the committee has no independent members). The presence of other committees was also indicated only in **Lietuvos Energija**. As the rest of the 21 SOEs of categories I-II had no committees formed, the criterion was evaluated particularly poorly (**D** grade).

### Formation of the Management Board/Member Selection

Transparent and professional selection of management board members is especially important for the purpose of ensuring the formation of independent and competent boards. This criterion received a negative score (**C+** grade). During the last year, in dozen SOEs at least some new board-members were selected by announcing a public tender; consequently, the selection publicity indicator significantly increased. However, management and supervisory boards of the majority of SOEs are still selected non-publicly. Also, the collegial bodies of only two (**Lietuvos Energija** and **EPSO-G**) of six enterprises of categories I-II were approved by the Selection committee as is required by the Ownership Guidelines. In order to ensure regular evaluation of the collegial bodies' competence and, in case of need, addition of the missing competencies, SOE collegial bodies should carry out a regular evaluation to appraise their performance and efficiency. Currently, such self-assessments are obligatory only to enterprises of categories I-II, but would doubtlessly be useful to all SOEs. 21 SOE of 69 have indicated that they currently carry out such self-assessments, 18 of such enterprises belong to the Ministry of Agriculture. Following the approval of new legislation of the formation of a SOE collegial bodies, the selection and formation criterion should gradually increase, thus ensuring that the selection of at least independent members of collegial bodies is public and competent.

### Functions of the Management Boards

According to the OECD recommendations to state-owned enterprises, management boards of SOEs should carry out the key functions assigned to such bodies: appointment and dismissal of CEO and establishment of remuneration and other conditions of employment contract, approval of corporate strategy of an enterprise and supervision of its implementation. Without this authority board is unable to fully exercise its functions and assume responsibility for SOEs' performance. Currently, the legal form of SE limits the key functions of the management boards, including: appointment and dismissal of CEO, determination of remuneration, and approval of corporate strategy. Majority of state-owned enterprises (public and private limited liability companies) marked that their management boards have these functions. Meanwhile, the management boards of SE could at least be able to express its opinion or propose recommendations regarding the appointment and dismissal of a CEO and approval of corporate strategy.



However, in this year's Index, only 5 enterprises with the legal status of a SE have indicated that their management boards propose such opinion and recommendations (25 enterprises indicated, that their management board proposes recommendations only regarding the approval of corporate strategy). Meanwhile, 9 SEs have indicated that even supervision of strategy

implementation is not attributed to the functions of management board. Although the general evaluation of the functions of the SOE management boards was positive (**A-** grade), the functions of the management boards of the enterprises with the legal status of SE, due to the above mentioned reasons, were given only **C+** grade.

## Strategic planning and implementation

The dimension of Strategic Planning and Implementation of the Index has been supplemented with the criterion of Altman Z"-Score creditworthiness indicator. The criterion of strategy implementation supervision and internal control systems was distinguished into two separate criteria, each of which was significantly modified and expanded. In the Index, the dimension of Strategic Planning and Implementation is comprised of the following criteria:

Criterion	Description
Quality of Strategic Planning	The assessment covers quality of operational strategy of an enterprise (annual assessment carried out by GCC).
Strategy Implementation and Supervision	The assessment covers results of strategy implementation (annual assessment by GCC) and its supervision system.
Internal Control System and Internal Audits	The assessment covers organizational structure, accounting systems, staff and risk management, as well as internal audit of the SOEs of categories I-II.
Implementation of SOE goals (according to return-on-equity indicators)	The assessment covers annual normalised indicator of return on equity, excluding the forest enterprises.
Altman Z"-Score Creditworthiness Indicator	The assessment covers sustainability of enterprise's finances by attributing an S&P creditworthiness rate.

Strategic planning and implementation	A-	A+	A	A-	B+	B	B-	C+	C	C-	D
Quality of Strategic Planning	A	A+	A	A-	B+	B	B-	C+	C	C-	D
Strategy Implementation and Supervision	B+	A+	A	A-	B+	B	B-	C+	C	C-	D
Internal Control System and Internal Audits	A	A+	A	A-	B+	B	B-	C+	C	C-	D
Implementation of SOE goals	B+	A+	A	A-	B+	B	B-	C+	C	C-	D
Altman Z"-Score Creditworthiness Indicator	A+	A+	A	A-	B+	B	B-	C+	C	C-	D



### Quality of Strategic Planning

A strategic plan helps to ensure that the actions of enterprise employees and executives would be consistent with the expectations of shareholders, and provides an opportunity for the board and shareholders to assess operating results of the enterprise and make decisions on the company's financial goals, operating efficiency and governance quality. The Ownership Guidelines obligate all SOEs to annually prepare strategic plans. The

preparation of strategic plans has been continually improving during the period under observation and in this year's Index was given evaluation **A**. According to the data of the assessment of SOE strategic plans, performed by the Governance Coordination Centre at the end of 2015, as much as 76% of all strategic plans were evaluated as good (last year – 41%). Three strategic plans received negative evaluation and three enterprises had not prepared such plans. Improvement of the results is influenced by the fact that, following annual assessments of strategic plans, GCC presents and

comments findings to all SOEs on the parts of strategic plans that need correction, which are gradually uptaken and thus increasing the quality of the strategic plans.

### Strategy Implementation and Supervision

In order to ensure timely implementation of the goals raised in strategic plan, well-structured implementation and supervision system must be established, including supervision rules, procedures and sanctions for a failure to achieve the set goals. This year almost all SOEs have indicated that supervision of strategy implementation is being executed, of which 1/3 also indicated that the supervision of strategy implementation is documented in internal documents. Assessment of the implementation of SOE strategies revealed that, according to GCC assessment data, the majority of SOE achieved the raised non-financial indicators; however, achievement of the raised financial indicators was less successful. In 2015, only 37% of the raised financial goals were implemented, that is significantly less than in 2014 (63% of financial indicators had been implemented). 14% of the enterprises still have no profitability indicator raised, that is 10 percentage points less than in 2014. Taking into consideration the set procedures of supervision as well as the results of strategy implementation, the overall Strategy Implementation and Supervision criterion was evaluated as moderate (**B+** grade).

### Internal Control System and Internal Audit

An effective system of internal control helps to ensure the legitimacy, cost-effectiveness, efficiency, good results, transparency, implementation of strategy and operational plans, protection of assets, reliability and comprehensiveness of information and reports, compliance with contractual and other commitments to third persons, and management of all risk factors related to the above. Assessment of SOE internal control systems (by questionnaire) involves assessment of organizational structure, accounting systems, issues related to the staff, risk management and internal audit procedures. It is noteworthy, that lower requirements are applied to small enterprises (category V and partially IV) than to large SOEs. Internal control systems in general were evaluated highly (**A** grade). Questions related to organizational structure and accounting were evaluated particularly well. Meanwhile, questions regarding staff and risk management were evaluated worse. Assessing the staff, a substantial part of enterprises indicated that they are facing the shortage of highly qualified workers (slightly more than half of all SOEs indicated that they at least partially face it), also, a significant part of SOEs indicated that enterprise's staff policy had not been defined and consolidated (approximately half of all SOEs). Assessing risk management, it was most frequently reported that risk management is conducted to some extent, but rather rarely laid down in any internal documents, while setting the sanctions and risk tolerance levels to manage the risks (approximately 40% of SOEs indicated that

risk management is not documented). Assessing the indicator of internal audit of the largest enterprises, in most cases SOEs have an internal audit department or appropriate sole positions established. Their functions and mandate are related to strategy implementation and functioning of internal control, but only 2 of 6 enterprises indicated that audit department directly reports to the board of the enterprise or audit committee (OECD recommendation).

### Implementation of SOE goals

Implementation of SOE goals according to the rate of return is assessed based on the normalized return on equity indicator, which is set for a period of three years for all enterprises attributed to groups 1A and 1B. In 2015, the 5% target annual rate of return set by the Government for the period of 2013- 2015 was still valid. In the Index, the assessment of the achievement of the rate excludes the **forest enterprises**, to which a general gross profit target is set (an individual assessment of each forestry enterprise is impossible). In 2015, the set target was achieved by 15 of 37 enterprises attributed to groups 1A and 1B, which is more by one enterprise. The best results were shown by the enterprises of the energy sector (**Klaipėdos Nafta** achieved the highest rate of the normalised return on equity – 11.9%), the worst – by the transport and communications sector. Enterprises of group 1A struggle the most – only 7 of 21 enterprises achieved the required rate. Assessing the results of the enterprises attributed to group 2 (the set target is to operate profitably), 31 of the 43 assessed SOEs achieved positive return on equity. In principle, better fulfilment of the rates of return of the group 2 enterprises was determined by the lower targets set. However, the results of the enterprises attributed to groups 1A and 1B reveal the difficulties to achieve even the minimal required rate of return. Due to these reasons, the criterion of implementation of SOE goals was evaluated moderately (**B+** grade).

### Altman Z"-Score Creditworthiness Indicator

For the purpose of assessing the sustainability of SOE finances the good corporate governance index included the Altman Z-Score, which allows to assess the enterprise creditworthiness: the lesser the rate, the higher the probability that the company will experience financial difficulties. Currently, legislation does not provide for supervision of SOE creditworthiness, however, the sustainable corporate finances are as relevant to SOEs, as it is to private sector companies. SOE creditworthiness is determined according to S&P evaluation of creditworthiness, which is attributed to the value of the rate. At least two years in a row 5 SOEs experienced high risk of creditworthiness (S&P evaluation from B- to D), and 7 SOEs – at least once during the last two years. The general creditworthiness of SOEs was evaluated as very high, whereas only a small part of the enterprises faces the risk of high creditworthiness (**A+** grade).

## SOE good corporate governance index

The rate of SOE good corporate governance index of 2015 achieved **B** grade. 6 criteria, of 18, were evaluated negatively, 3 – moderately.

**Transparency** dimension was evaluated moderately (**B** grade), as three of the six criteria were evaluated negatively. For the purpose of increasing SOE transparency, enterprises should review and significantly improve the prepared annual activity reports and annual reports, as currently, the majority of the Annual Reports does not conform to the provisions of the Transparency Guidelines and other relevant documents. Also, attention should be drawn to the deployment and implementation of CSR policy. Substantial shortfall has been noticed of both – disclosure of information on social responsibility and defining the internal CSR policy of an enterprise and publicizing it. Another important factor – application of International Financial Reporting Standards (especially in the largest enterprises), the spread of which among SOEs is also very limited. Meanwhile, independent audit, dispersion of enterprise financial and non-financial data, and accounting for the special obligations, in general, satisfy the currently applied requirements.

Dimension of the **Management Boards** was evaluated negatively (**C** grade). The evaluation was highly influenced by the removal of management

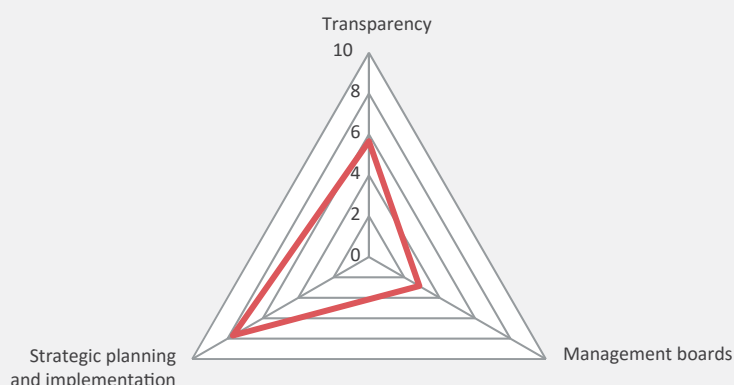
boards in 42 **forest enterprises**. It caused a significant increase in the number of SOEs that do not have collegial governing bodies. The remaining low level of management board independence and publicity of the conducted selections of new board-members also had negative impact on the evaluation of the management boards. These indicators are likely to increase after the approval of the adjusted Ownership Guidelines and new version of the description of the procedure for selecting candidates to the collegial governing bodies. Attention should be drawn to a particularly rare practice of committee formation, as only 3 large SOEs had such committees at the time this Index was compiled, also, to competencies held by the management boards, and to the enhancement of management board functions in enterprises with the legal status of a SE. Meanwhile, positive tendencies – particularly low number of enterprise employees (usually chief executives) sitting on management boards, and highly evaluated involvement of board-members in management board activities.

The dimension of **Strategic Planning and Implementation** was evaluated positively (**A-** grade). The quality of SOE strategic planning continues

to systematically grow and in the majority of cases is good. However, implementation of goals set in the strategic plans (especially financial goals) is not as acceptable. System of internal control was evaluated positively, however, the evaluation might have been influenced by the chosen method for data collection (questionnaire filled in by the enterprises). Currently, the increase of enterprises' rates of return should be of particular importance,

as new target prices of equity for all enterprises attributed to groups 1A and 1B (individual indicator for each enterprise) enter into force since 2016. In most cases the new target prices of equity are higher than those set for 2015, while the achieved results exposed that even the rate target of return of 2015 was difficult to achieve for more than half of the SOEs.

SOE good corporate governance index	B	A+	A	A-	B+	B	B-	C+	C	C-	D
Transparency	B	A+	A	A-	B+	B	B-	C+	C	C-	D
Management boards	C	A+	A	A-	B+	B	B-	C+	C	C-	D
Strategic planning and implementation	A-	A+	A	A-	B+	B	B-	C+	C	C-	D



## Best Evaluated State-Owned Enterprises

In this year's Index **Lietuvos Energija** and **Klaipėdos Nafta** best of all SOEs complied with the good governance principles. **Lietuvos Energija** applies the International Financial Reporting Standards and prepares separate CSR reports. It has independent members in its supervisory board, including independent chairman of the supervisory board; it also has audit, remuneration, and risk management committees. This enterprise achieved high rates of return. Due to these reasons all three dimensions received high grades. Meanwhile, **Klaipėdos Nafta** also applies IFRS, prepares separate CSR reports, its annual report was evaluated as one of the best among all SOEs. More than half of its supervisory board members are independent; also an audit committee is formed. In 2015 the enterprise achieved the highest normalized return on equity rate among all SOEs attributed to groups 1A and

1B. Enterprises **LITEXPO**, **Lietuvos Monetų Kalykla**, **Šiaulių Regiono Keliai**, **Kauno Regiono Keliai** and **Investicijų Ir Verslo Garantijos** were also evaluated well in the Index of 2015. These enterprises have independent members in their management boards (**LITEXPO** has more than half, **Investicijų Ir Verslo Garantijos** have independent members in its management board, but not in its supervisory board which was assessed), prepare qualitative strategic plans, and achieve the set rates of return on equity. **Investicijų Ir Verslo Garantijos** applies IFRS as well; **LITEXPO** is planning to switch to by 2017. It is likely that next year **EPSO-G** will join top SOEs, as currently, it is actively introducing many principles of good governance. The complete list of all state-owned enterprises is presented further in this section.

Enterprise	TR	MB	ST	GI
The Lietuvos Energija Group	A-	A	A+	A
Klaipėdos Nafta	A+	B+	A	A
Lithuanian Exhibition and Congress Center LITEXPO	B+	A-	A+	A-
Lietuvos Monetų Kalykla	B	A	A	A-
Šiaulių Regiono Keliai	B+	B+	A+	A-
Kauno Regiono Keliai	B	B+	A+	A-
Investicijų Ir Verslo Garantijos	A	B-	A	A-

### Abbreviations

TR – Transparency dimension

MB – Dimension of Management Boards

ST – Dimension of Strategic Planning and Implementation

GI – Good Corporate Governance Index

## List of SOEs of SOE Good Corporate Governance Index

Enterprise	GI		
<b>Lietuvos Energija, UAB Group</b>	<b>A</b>	<b>VĮ Visagino energija</b>	<b>B</b>
<b>AB Klaipėdos Nafta</b>	<b>A</b>	UAB Lietuvos žirgynas	B
UAB Lietuvos parodų ir kongresų centras LITEXPO	A-	UAB Šilutės polderiai	B
UAB Lietuvos monetų kalykla	A-	AB Giraitės ginkluotės gamykla	B
<b>VĮ Šiaulių regiono keliai</b>	<b>A-</b>	UAB Toksika	B
<b>VĮ Kauno regiono keliai</b>	<b>A-</b>	UAB Šilutės veislininkystė	B
UAB Investicijų ir verslo garantijos	A-	UAB Viešųjų investicijų plėtros agentūra	B
<b>VĮ Utenos regiono keliai</b>	<b>B+</b>	AB Lietuvos veislininkystė	B
<b>VĮ Automagistralė</b>	<b>B+</b>	UAB Panevėžio veislininkystė	B
<b>VĮ Panevėžio regiono keliai</b>	<b>B+</b>	UAB Aerogeodezijos institutas	B
UAB Gyvulių produktyvumo kontrolė	B+	UAB Dotnuvos eksperimentinis ūkis	B
<b>VĮ Vilniaus regiono keliai</b>	<b>B+</b>	UAB Valstybinė projektų ir sąmatų ekspertizė	B
<b>VĮ Klaipėdos valstybinio jūrų uosto direkcija</b>	<b>B+</b>	VĮ Mūsų amatai	B
AB Vilniaus metrologijos centras	B+	VĮ Mašinų bandymo stotis	B
<b>VĮ Oro navigacija</b>	<b>B+</b>	VĮ Turto bankas	B
AB Informacinio verslo paslaugų įmonė	B+	VĮ Lietuvos paminklai	B-
AB Detonas	B+	VĮ distancinių tyrimų ir geoinformatikos centras Gis-centras	B-
<b>AB Lietuvos radijo ir televizijos centras</b>	<b>B+</b>	VĮ Lietuvos žemės ūkio ir maisto produktų rinkos reguliavimo agentūra	B-
<b>UAB EPSO-G Group</b>	<b>B+</b>	VĮ Seimo leidykla Valstybės žinios	B-
VĮ Ignalinos atominė elektrinė	B+	VĮ Nemenčinės miškų urėdija	B-
VĮ Pieno tyrimai	B+	VĮ Vidaus vandens kelių direkcija	B-
<b>VĮ Marijampolės regiono keliai</b>	<b>B+</b>	VĮ Utenos miškų urėdija	B-
<b>VĮ Lietuvos oro uostai</b>	<b>B+</b>	UAB Klaipėdos žuvininkystės produktų aukcionas	B-
AB Problematika	B+	VĮ Ignalinos miškų urėdija	B-
<b>AB Lietuvos geležinkeliai Group</b>	<b>B+</b>	VĮ Zarasų miškų urėdija	B-
<b>VĮ Alytaus regiono keliai</b>	<b>B+</b>	VĮ Kazlų rūdų mokomoji miškų urėdija	B-
<b>VĮ Lietuvos naftos produktų agentūra</b>	<b>B+</b>	VĮ Anykščių miškų urėdija	B-
<b>VĮ Registrų centras</b>	<b>B+</b>	VĮ Infostruktūra	B-
UAB Žemės ūkio paskolų garantijų fondas	B+	VĮ Prienų miškų urėdija	B-
<b>AB Lietuvos paštas Group</b>	<b>B+</b>	VĮ Alytaus miškų urėdija	B-
UAB Šeduvos avininkystė	B+	VĮ Joniškio miškų urėdija	B-
<b>VĮ Regitra</b>	<b>B+</b>	VĮ Druskininkų miškų urėdija	B-
<b>VĮ Klaipėdos regiono keliai</b>	<b>B+</b>	VĮ Veisiejų miškų urėdija	B-
<b>VĮ Telšių regiono keliai</b>	<b>B+</b>	VĮ Švenčionių miškų urėdija	B-
AB Kiaulių veislininkystė	B+	VĮ Jurbarko miškų urėdija	B-
<b>VĮ Tauragės regiono keliai</b>	<b>B+</b>	VĮ Marijampolės miškų urėdija	B-
VĮ Valstybės žemės fondas	B+	VĮ Kupiškio miškų urėdija	B-
UAB Universiteto vaistinė	B	VĮ Rietavo miškų urėdija	B-
AB Jonavos grūdai	B	VĮ Kėdainių miškų urėdija	B-
UAB Upytės eksperimentinis ūkis	B	VĮ Radviliškio miškų urėdija	B-
VĮ Žemės ūkio informacijos ir kaimo verslo centras	B	VĮ Tauragės miškų urėdija	B-
AB Smiltynės perkėla	B	VĮ Tytuvėnų miškų urėdija	B-

VĮ Statybos produkcijos sertifikavimo centras	B-	VĮ Šiaulių miškų urėdija	B-
VĮ Pakruojo miškų urėdija	B-	VĮ Jonavos miškų urėdija	B-
VĮ Rokiškio miškų urėdija	B-	VĮ Telšių miškų urėdija	B-
VĮ Šilutės miškų urėdija	B-	VĮ Kuršėnų miškų urėdija	B-
VĮ Panevėžio miškų urėdija	B-	UAB Būsto paskolų draudimas	B-
VĮ Kaišiadorių miškų urėdija	B-	VĮ Kretingos miškų urėdija	B-
VĮ Valkininkų miškų urėdija	B-	UAB Geoterma	C+
VĮ Biržų miškų urėdija	B-	VĮ Valstybinis miškotvarkos institutas	C+
VĮ Kauno miškų urėdija	B-	VĮ Energetikos agentūra	C+
VĮ Mažeikių miškų urėdija	B-	UAB poilsio namai Baltija	C+
VĮ Vilniaus miškų urėdija	B-	VĮ Lietuvos prabavimo rūmai	C+
VĮ Šakių miškų urėdija	B-	UAB Kauno Petrašiūnų darbo rinkos mokymo centras	C+
VĮ Šalčininkų miškų urėdija	B-	UAB Projektų ekspertizė	C+
VĮ Dubravos eksperimentinė-mokomoji miškų urėdija	B-	VĮ Radioaktyviųjų atliekų tvarkymo agentūra	C+
AB Autoūkis	B-	UAB Respublikinė mokomoji sportinė bazė	C+
VĮ Trakų miškų urėdija	B-	AB Mintis	C+
VĮ Raseinių miškų urėdija	B-	UAB Lietuvos kinas	C
VĮ Ukmergės miškų urėdija	B-	UAB Mokslas ir technika	C-
VĮ Varėnos miškų urėdija	B-	VĮ Indėlių ir investicijų draudimas*	-

\*Dimension of Management boards is not evaluated for Indėlių ir investicijų draudimas because of formed council, which is the main collegial body whose structure and main functions must comply with the Law on Deposit Insurance and Insurance of Liabilities to Investors. Due to this reason Good Corporate Governance Index is not determined.

SOEs on category I-II are bolded on the list

GI – Good Corporate Governance Index

# Remuneration of Executives

To manage state-owned enterprises is not less challenging than managing private business, as enterprise executives have to successfully compete with the private sector as well as frequently exercise exceptional goals (non-commercial functions) set by a shareholder (owner). In order to properly reward executives for their work, the Government of the Republic of Lithuania adopted a resolution "On the Remuneration for Work of Executives, Their Deputies and Chief Accountants in State Enterprises and State-Controlled Limited Liability Companies" (hereinafter the Resolution), which regulates the remuneration of SOEs' executives, their deputies and chief accountants. This Resolution is obligatory to the enterprises with a legal form of state enterprise (SE), and recommended to public and private limited liability companies. The Resolution was valid until 2016; therefore, the remuneration to the executives of the state-owned enterprises of 2015 was set following this procedure.

According to the Resolution, monthly salary of the executives consists of fixed and variable parts. The fixed part of monthly salary is determined using the ratios of minimum monthly wage (MMW) and considering the category of the enterprise. The category of an enterprise is determined on the basis of indicators of previous year's sales revenue and average number of employees in the enterprise.

Considering the indicators, the enterprises are classified into categories I to IV. If an enterprise has the power to perform public administration functions provided for by the laws, it is attributed to a next higher category than it would have been according to indicators. The table below presents the indicators set according to the categories of companies.

Category	Sales revenue (EUR)	Average number of employees	Ratios (MMW)
I	≥57,924,004	≥1,000	7.6- 8.6
II	Revenues ≥57,924,004 or employees ≥1,000		6.4- 7.4
III	8,688,601- 57,924,004	<1,000	5- 6.2
IV	<8,688,601	<1,000	2.4- 4.9

The higher the category of an enterprise, the higher fixed rate of monthly salary of executive is.

the enterprise and employee salaries are mostly financed out of the European Union funds.

According to the Resolution, the variable part of executives' salary cannot exceed the set amount of the fixed part and is determined taking into consideration the assessment criteria of the last quarter's economic-financial performance. Specific performance assessment indicators and the variable part of the salary are determined by the institution implementing the rights and obligations of the company's owner. Also, at the end of the year for good performance results the executive may be paid a bonus from the profit of the enterprise, the amount of which may not exceed the fixed part of one monthly salary.

*On January 22, 2016, the Government of the Republic of Lithuania updated the Resolution. According to the new procedure, enterprise attribution to a category and the size of coefficients for setting the fixed part of a salary has changed.*

*The variable part of monthly salary, according to the new procedure, may not exceed 50% of the set amount of the salary's fixed part. According to the supplement, the set coefficient of the fixed part of a salary of an executive of a state enterprise having strategic significance to national safety could be increased up to 75%, in the case institution implementing the owner's rights and obligations of such state enterprise, under a reasoned decision, applies to the state enterprise **Turto bankas** and obtains its favourable opinion.*

Although the Resolution is obligatory to all state enterprises, it is not applicable to **SE Ignalina Nuclear Power Plant** considering the nature of the enterprise's activities and the fact that the activities of

Category	Sales Revenue (EUR)	Average number of employees or assets managed (EUR)	Ratios (MMW)
I	≥57,924,004	≥1,000 arba ≥150,000,000	19.2 - 21.8
II	Revenues ≥57,924,004 or employees ≥1,000 or assets managed ≥150,000,000		16.2 - 19.2
III	≥8,690,000	<1,000 ir <150,000,000	12.7 - 16.2
IV	<8,688,601	<1,000 ir <150,000,000	9.3 - 12.7

Presented below is the summary information on remuneration to SOEs' executives in 2015. The summary information includes data of 126 enterprises out of 128. Data on remuneration to the executives was not submitted by **UAB Mokslas ir Technika** and **UAB Sportininkų testavimo ir reabilitacijos centras**.

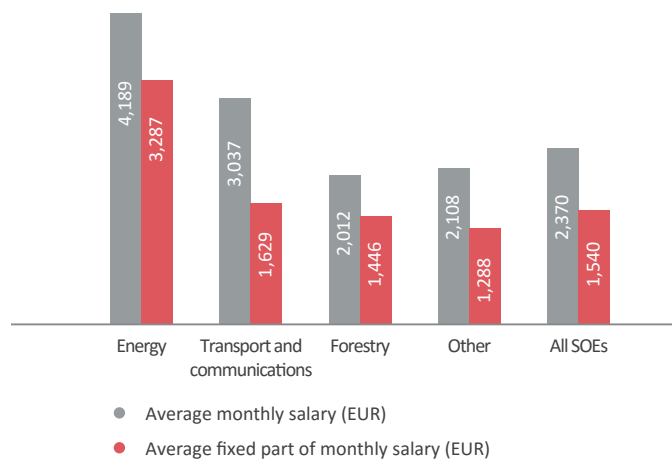
## Remuneration of executives by sectors

Based on the information received from 126 enterprises, the average monthly salary of an enterprise's executive, before tax, amounted to EUR 2,370 in 2015, and the fixed part of average monthly salary was EUR 1,540. In 2015, the highest salaries were received in the energy sector enterprises. The average salary exceeded EUR 4 thousand, and the fixed part of the salary was EUR 3.3 thousand. Significantly higher salaries in the energy sector are determined by the fact that enterprises attributed to this sector are one of the largest in SOE portfolio according to the revenue and number of employees; also, by the fact that the salary of the Chief Executive of Ignalina Nuclear Power Plant, which is

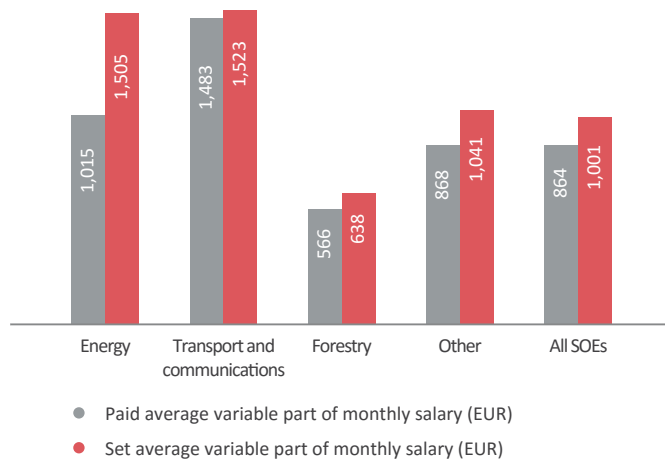


mostly financed out of the European Union funds, significantly increases the average of the sector. The average salary of an enterprise executive in the transport and communications sector amounted to over EUR 3 thousand and the fixed part of the salary was EUR 1.6 thousand.

Remuneration of executives by sectors



Variable part of remuneration of executives by sectors



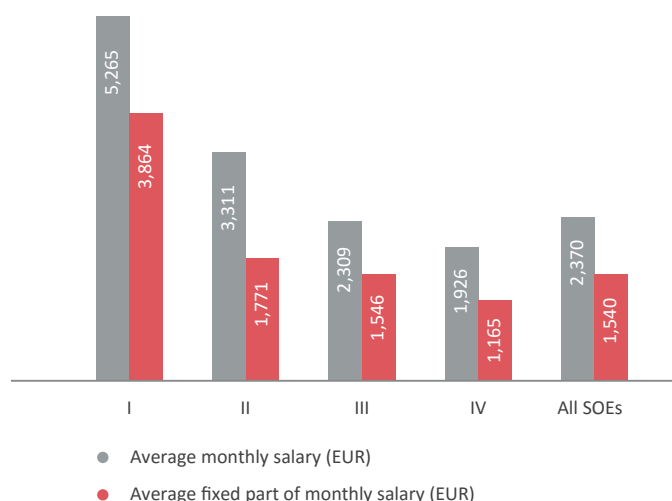
In 2015, not all enterprises' executives were paid variable part of the salary, therefore, the variable part of average monthly salary of SOEs' executives is provided only by the enterprises that had defined it. In 2015, the average paid variable part of a salary in state-owned enterprises amounted to EUR 864, while the established maximum average variable part of a salary was higher by EUR 137. The largest difference between the established and paid variable part was in the energy sector enterprises and amounted to 32.6% of the established variable part of an average salary, whereas the lowest (only 2.7%)

was in the transport and communications sector enterprises. It is worth noting that the average variable part of monthly salary paid to the executives of the transport and communications sector was the highest and almost amounted to the maximum allowable portion of the fixed part of average monthly salary (91%). The lowest variable part in 2015 was set and paid in the forestry sector. On average, the variable part of monthly salary paid to the executives of the **Lithuanian Forestry Inventory and Management Institute** and **forest enterprises** amounted to EUR 566.

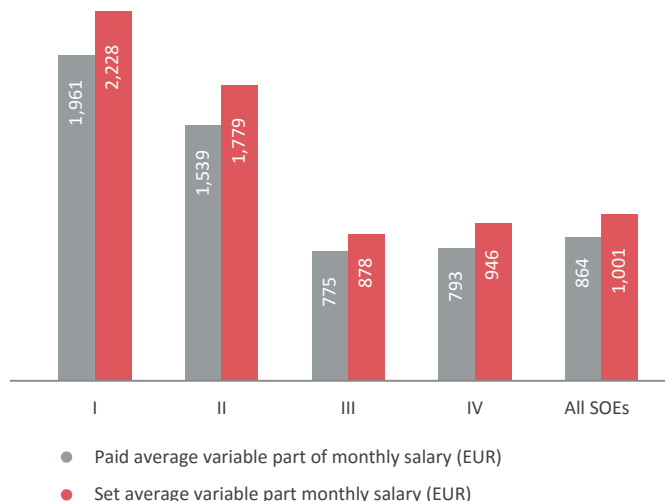
## Remuneration of SOEs' executives by categories

In 2015, the highest average monthly salary of executives and average fixed part of monthly salary, as required by the Resolution, was in the enterprises of category I – the average monthly salary of an executive amounted to EUR 5,265. Meanwhile, in the smallest enterprises, attributed to category IV, the average monthly salary amounted to EUR 1,926 and was two and a half times lower compared to the largest SOEs. Although under the Resolution the variable part of monthly salary may constitute 100% of the fixed part of monthly salary, in practice, variable part of monthly salary usually does not amount to the maximum value. In 2015, on average, the set average variable part of monthly salary amounted to 59% of the average fixed part of monthly salary. Also, it is worth noting that five enterprises paid their executives only the fixed part of monthly salary and did not set the variable part of the salary.

Remuneration of executives by categories

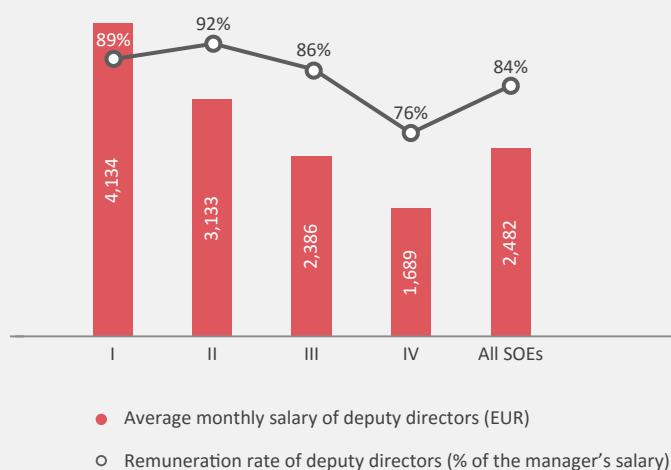
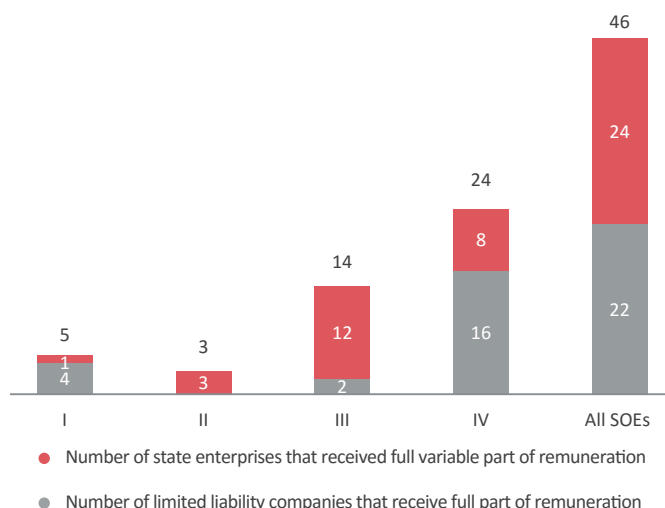
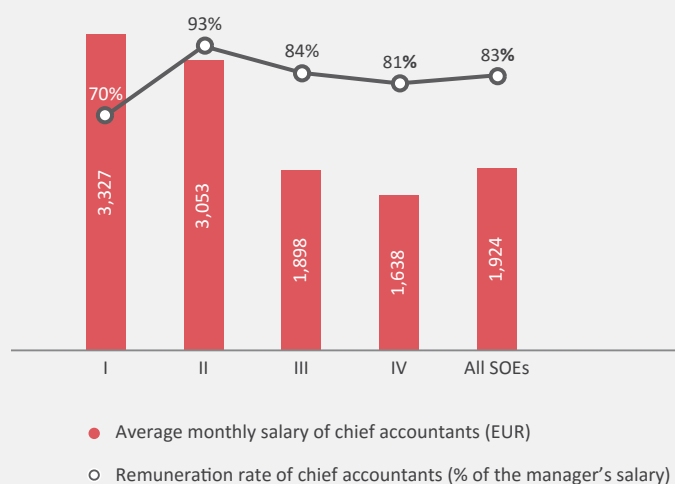


Variable part of remuneration of executives by categories



In 2015, out of 121 enterprises' executives, to whom institutions implementing the owner's rights and obligations had set the amounts and indicators of variable salary parts, the implementation of which entitles to the payment of the set variable part of monthly salary, 46 executives received the maximum variable part of monthly salary. Mainly the smallest enterprises (Category IV) implemented all the intended performance indicators. However, the executive of one public limited liability company did not receive the variable part of monthly salary, although it was intended, due to the failure to implement the set performance indicators.

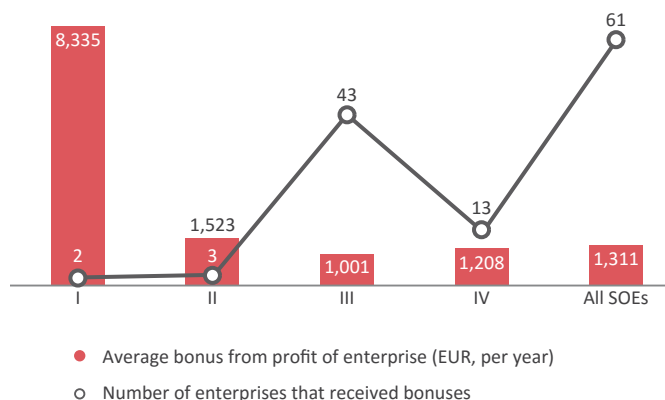
In 2015, the average monthly salary of a SOE chief accountant was EUR 1,924 and constituted 83% of the average monthly salary of an executive. Since the amount of average monthly salary of chief accountants directly depends on the average monthly salary of enterprises' executives, there is a tendency that the higher the category, to which an enterprise is attributed, the higher the average monthly salary of chief accountants. In 2015, the highest average monthly salary of chief accountants was in the enterprises of category I and amounted to EUR 3,327; however, comparing in terms of percentage of the average monthly salary of the executives, it was the lowest of all categories and reached 70%.



Based on the data provided by the enterprises, in 2015 deputy directors earned an average salary of EUR 2,482 or 84% of the average monthly salary of executives. The highest salaries to deputy directors, similarly to chief accountants, were paid in enterprises of the category I – EUR 4,134. It is worth noting that the average monthly salary of deputy directors of the category II enterprises was the highest, in terms of percentage and compared to the average salary of executives, and amounted to EUR 2,534. The lowest average monthly salary received deputy directors of the smallest enterprises (category IV). The average monthly salary of the latter amounted to EUR 1,689, or 76% of the average monthly salary of executives.

According to the Resolution, at the end of the year, for good performance results the executives may be paid a bonus from the profit of the enterprise, the amount of which may not exceed the fixed part of one monthly salary. Based on the collected data, in 2015, 61 enterprises allocated a bonus to their executives, the average of which amounted to EUR 1,311. The highest bonus paid amounted to EUR 13.8 thousand; it was paid to the chief executive of private limited liability company, i.e. according to the Resolution, bonus allocation is only a recommendation in such case. Also, a tendency is observed

that most of the bonuses were paid to the executives of the category III enterprises. The large number of the category III enterprises that have paid bonuses was determined by the fact that the majority of **forest enterprises** are attributed to category III. 36 of 42 forestry enterprises allocated bonuses to forest management officials in 2015.

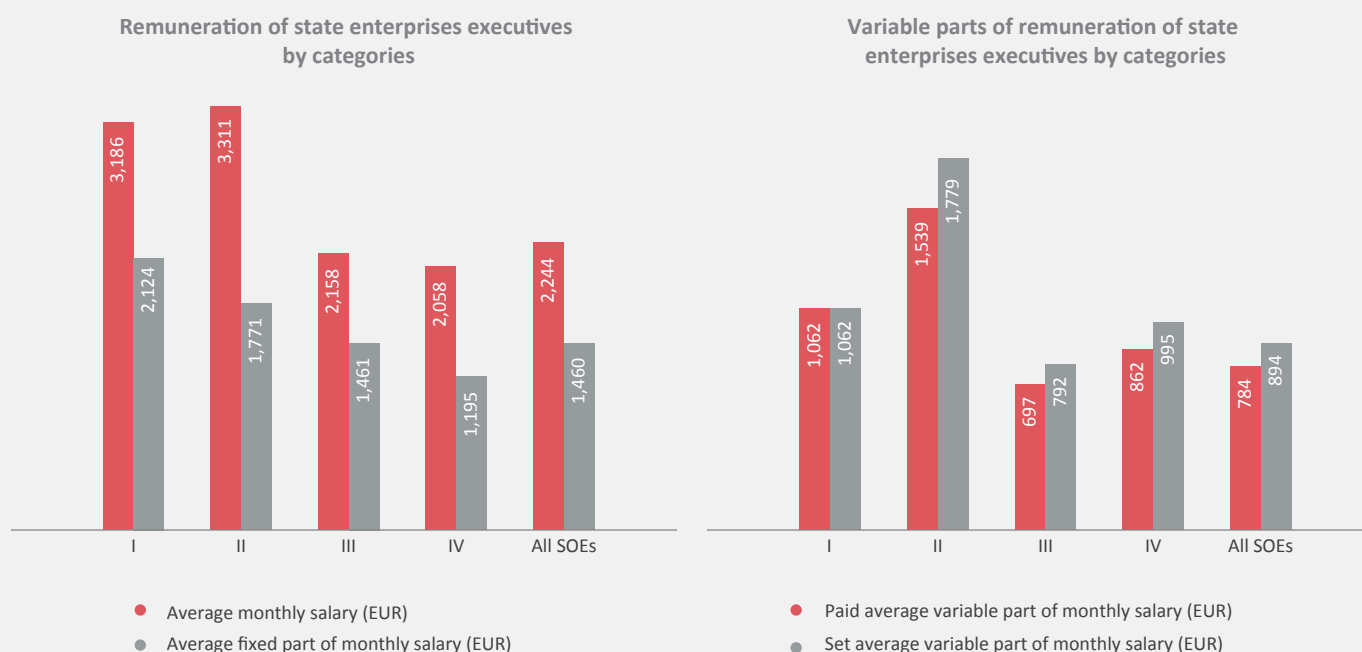


## Remuneration of state enterprises executives by categories

Hereinafter is presented the aggregate information exclusively on remuneration to state enterprise executives, since the Resolution of the Government is obligatory to these enterprises. Whereas the Resolution is not applicable to **Ignalina Nuclear Power Plant**, data about this enterprise is not included in the statistics of state enterprises.

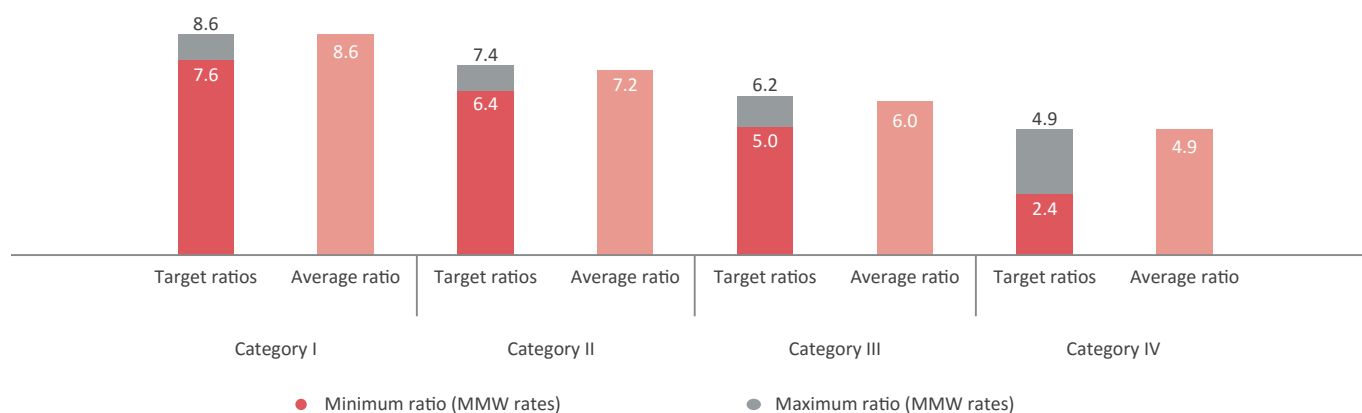
In 2015, the average monthly salary of SEs' executives amounted to EUR 2,244, and the average fixed part constituted EUR 1,460. The average monthly salary of executives in the largest enterprises (of category I) stood at EUR 3,186, while in the smallest enterprises (of category IV) executives earned an average of EUR 2,058. The set average variable part of monthly salary in state enterprises amounted to EUR 894, and the average paid monthly variable part amounted to

EUR 784. It should be noted that the amounts of both the set and the paid variable part coincided in enterprises of the category I, so the executives of these enterprises met all performance indicators that had been set. One-hundred-percent implementation of performance indicators may signify that the set indicators were not ambitious enough.



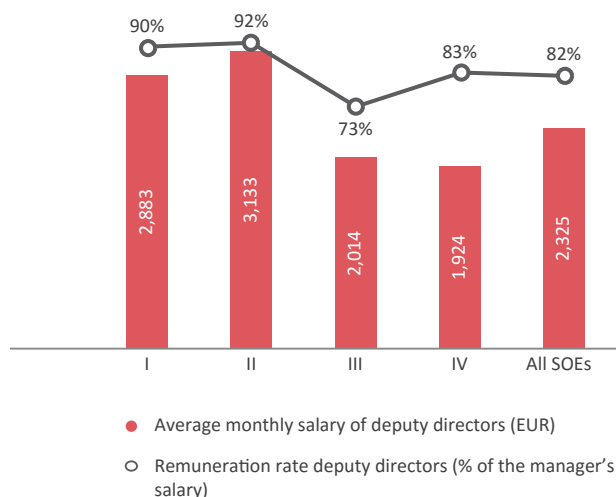
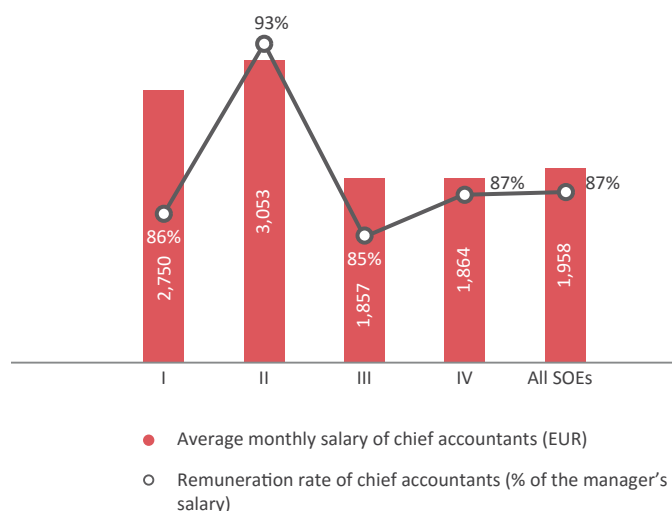
The graph presented below shows the minimum and maximum amounts of a potential fixed part of monthly salary set for each category of enterprises and what average amounts were set for the executives of the enterprises. The collected data reveals that almost all institutions implementing the owner's rights and obligations set

the maximum allowable fixed part of average monthly salary for the executives of subordinate enterprises. In 2015, the maximum fixed part of average monthly salary was set for the executives of enterprises of categories I and IV.



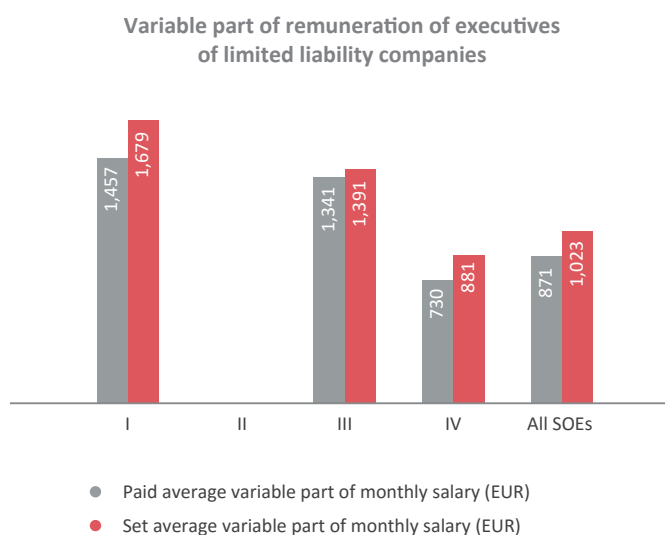
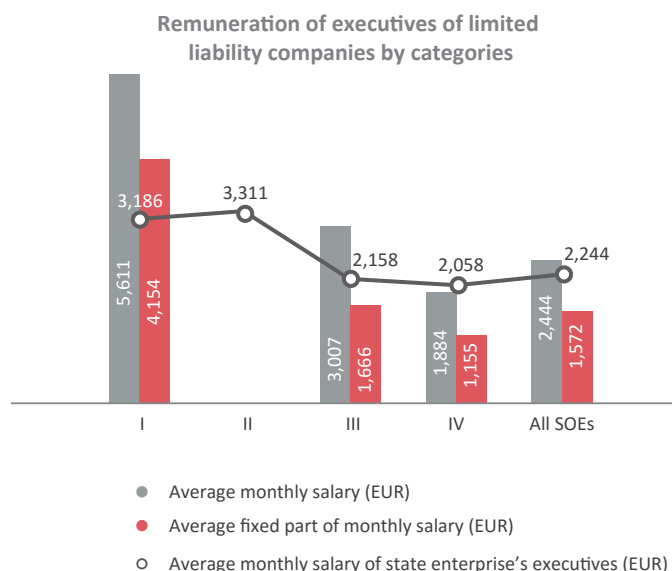
In 2015, the average monthly salary of a state enterprise chief accountant amounted to EUR 1,958 and constituted 87% of the average monthly salary of an executive. The highest average monthly salary of chief accountants in 2015 was in the enterprises of category II and amounted to EUR 3,053. Also, the average monthly salary of chief accountants in the enterprises of category II, in terms of percentage of the average monthly salary of executives, was significantly ahead of other companies and reached 93%.

In 2015, deputy directors of state enterprises earned an average of EUR 2,325 or 82% of the average monthly salary of an executive. Similarly to chief accountants, the highest salaries were received by deputy directors in enterprises of category II – EUR 3,133.



## Remuneration of limited liability companies' executives by categories

Although for the public and private limited liability companies the requirements of the Resolution are only recommendatory, a number of companies indicated their category when providing data on the company. To the companies that did not indicate their category, the Governance Coordination Centre attributed a suitable category based on the indicators specified in the Resolution. There are no public or private limited liability companies attributed to category II.



In 2015, the average monthly salary of companies' executives amounted to EUR 2,244 and was almost EUR 200 higher than the average monthly salary of state enterprises' executives. However, a more significant difference is noticed in the remuneration of executives of the largest enterprises (of category I). In 2015, the average monthly salary of executives in such companies amounted to EUR 5,611 and was almost EUR 2.5 thousand higher than the average monthly salary of executives in state enterprises of the same category. In limited

liability companies as well as in state enterprises, the remuneration to executives depends on the company size. The average monthly salary of executives in the smallest companies, of category IV, is almost three times lower than in companies of category I, and in 2015 amounted to EUR 1,884. In 2015, the average variable part of monthly salary paid to the executives of the companies amounted to EUR 871, while the set average variable part of monthly salary was higher by EUR 152.

## Summary

- In 2015, the average monthly salary of SOEs' executives amounted to EUR 2,370. Comparing by sectors, it ranged from EUR 4.2 thousand in the energy sector to EUR 2 thousand in the forestry sector.
- Comparing the fixed part limits of the salaries of SE's executives set by the Government with the fixed part that was actually allocated, reveals that in most cases the maximum allowable fixed part of monthly salary is set for the SE's executives.
- The average variable part of monthly salary paid to SEs' executives was only 12% lower than the average set amount, and 21 of 77 SEs' executives received the maximum variable part of monthly salary in 2015. The observed tendency enables to presume that the performance indicators intended for setting the variable part are not ambitious enough and do not motivate to improve performance results of an enterprise. In individual cases, it may be related to the fact that the remuneration limits defined by the Government Resolution did not meet the market conditions; therefore, it was difficult to attract and retain qualified executives of enterprises and, at the same time, to motivate them by setting ambitious goals.
- Although there is no significant difference between the average salary of SEs' executives and executives of public/private LLCs, a clear tendency is observed that the executives of the largest state enterprises (categories I-III), where remuneration limits are regulated by the Resolution of the Government, earn significantly less than the executives of public or private limited liability companies, to whom the conditions of the Resolution are only recommendatory. Only in individual cases this might be related to the above discussed remuneration limitations applied to SEs' executives.
- In 2015, only 61 enterprises awarded a bonus to their executives, the average of which amounted to EUR 1,311. The highest paid bonus amounted to EUR 13.5 thousand. The greatest proportion of the enterprises that paid bonuses was comprised of the forest enterprises. 36 of 42 **forest enterprises** allocated bonuses to forest management officials in 2015.

# Special Obligations of SOEs

Lithuanian state-owned enterprises, implementing state asset governance policy, 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 that 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 activities). 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 assessing SOEs and work of their managerial bodies as well as determining operational objectives and the required rates of return, it is important to duly separate and eliminate the effect of the special obligations on an enterprise's financial results.

This part of SOE activity report, revealing the aggregated information on non-commercial functions, allows an objective assessment of:

- influence of non-commercial functions assigned by the state on the profitability of the SOE portfolio and other financial indicators;
- The extent of the expenses related to the performance of non-commercial functions financed from the budget and not reflected in the profit (loss) statements.

The financial information on special obligations is presented in accordance with the data provided by enterprises and analysis of Governance Coordination Centre. It is noteworthy that the analysis excludes the functions assigned to state-owned enterprises, regulated pricing of which ensures reimbursement of costs from the consumers, i.e. special commercial obligations (for example, electricity generation, distribution, transmission and other related services). Also, the functions, which, taken individually, are not financially attractive, but are necessary in order to obtain financial benefits from other commercial functions (such as reforestation and enlargement of forest resources) are not included. It is expected that this analysis will help to increase

the efficiency of mechanisms of funding special obligations and ensuring their qualitative performance, and will enable the enterprises to set more accurate financial objectives in the future, taking into account their burden of performance of non-commercial functions placed on them.

## Financial Results of SOE Special Obligations

According to the information received from 128 SOEs, more than half of them perform special obligations. In 2015, special obligations were performed by 74 enterprises, but even 42 of them were **forestry enterprises** and 11 were **road maintenance companies**. Also, of the enterprises that perform special obligations, 17 enterprises that incurred expenses due to special obligations did not account for such expenses in part or in full in the profit (loss) statements, but were directly compensated from the state budget or other sources of funding, reducing the selling 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. Aggregated financial data does not correspond to the SOE portfolio data, because of different number of enterprises, which were included in the SO portfolio. Of 128 SOEs, the results of two enterprises – **Turto Bankas** and **Mašinų Bandymo Stotis** – are not reflected due to result incomparability: After the State Property Fund had been incorporated into **Turto Bankas** in 2014, it became impossible to distinguish the extent of special obligations performed in 2014; and **Mašinų Bandymo Stotis** was established only in October, 2015. As the amount of comparability data required is lesser, **Viešųjų Investicijų Plėtros Agentūra** and **holiday home Baltija** are included in the overview of the special obligations.

PROFIT (LOSS) STATEMENT (EUR '000)			2014			2015		
	Commercial functions	Special obligations	Total	Commercial functions	Special obligations	Total		
<b>Sales revenue</b>	<b>2,156,343</b>	<b>111,979</b>	<b>2,268,322</b>	<b>2,324,450</b>	<b>154,622</b>	<b>2,479,072</b>		
Cost of goods sold	1,307,873	134,130	1,442,003	1,491,654	173,820	1,665,474		
<b>Gross profit (loss)</b>	<b>848,470</b>	<b>-22,151</b>	<b>826,319</b>	<b>832,796</b>	<b>-19,198</b>	<b>813,598</b>		
Operating expenses	1,241,280	26,050	1,267,329	641,234	31,041	672,275		
<b>Operating profit (loss)</b>	<b>-392,810</b>	<b>-48,201</b>	<b>-441,010</b>	<b>191,562</b>	<b>-50,239</b>	<b>141,323</b>		
Grants related to revenue	2,502	3,655	6,157	3,303	3,635	6,938		
Other activities	108,092	-1,767	106,324	13,546	-1,210	12,336		
Financial and investment activities	40,220	128	40,348	-14,536	134	-14,402		
<b>Profit (loss) before tax</b>	<b>-241,996</b>	<b>-46,185</b>	<b>-288,181</b>	<b>193,875</b>	<b>-47,680</b>	<b>146,195</b>		
<b>Normalised profit (loss) before tax</b>	<b>206,013</b>	<b>-47,987</b>	<b>161,630</b>	<b>266,449</b>	<b>-47,680</b>	<b>218,769</b>		

BALANCE SHEET (EUR '000)			31 DEC 2014			31 DEC 2015		
<b>Total assets</b>	<b>6,875,936</b>	<b>930,071</b>	<b>8,758,277</b>	<b>7,135,836</b>	<b>957,766</b>	<b>9,096,566</b>		



## Sales Revenue and Profit

In 2015, the total sales revenue of the portfolio amounted to EUR 2.5 billion. The majority of this amount (93.8%) was generated from commercial activities. In order to disclose pre-tax profit (loss) of special obligations more accurately, in 2014 the asset depreciation deductions were eliminated from the operating expenses of the **Ignalina Nuclear Power Plant** in order to calculate the normalized net profit (loss) before taxes. The results of the **Lietuvos Energija Group** and the **EPSO-G Group** were normalized as well.

In 2015, SOEs earned EUR 154.6 million of sales revenue from the performance of special obligations operations, but the cost of sales and operating expenses exceeded the revenue significantly, which resulted in EUR 47.7 million losses before taxes from special obligations. Meanwhile, the normalized profit before taxes generated from the commercial activities amounted to as many as EUR 266.4 million. In 2015, the normalized operating profit from commercial activities before taxes was 29.3% higher than in 2014, when it

amounted to EUR 206 million. The main reason for this is considered to be the growth of the normalized net profit (before taxes) of the **Lietuvos Energija Group** from EUR 73.5 million in 2014 up to EUR 136.8 million in 2015.

## Assets

In 2015, the assets of enterprises included in the portfolio amounted to EUR 9.1 billion, 10.5% (EUR 1 billion) of which were directly assigned to the functions of special obligations. In 2015, the assets allocated to the implementation of the functions of special obligations were EUR 27.7 million or 3% higher. In 2015, the greatest share of assets from special obligations was accounted by the **Ignalina Nuclear Power Plant** – EUR 571.3 million.

## Special Obligations Generating Highest Expenses

Below presented is the information on special obligations, the performance of which results in the highest expenses incurred by SOEs.

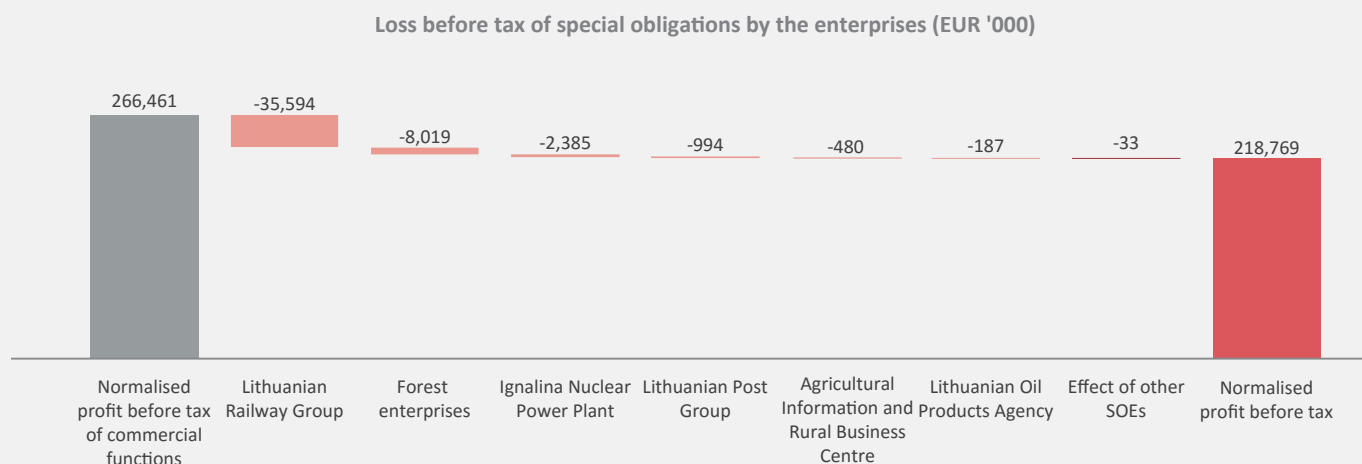
Enterprise	Special obligations	Revenue of special obligations (EUR '000)	Costs of special obligations (EUR '000)	Costs excluded from profit (loss) statement (EUR '000)	Loss of enterprises not covered from external sources (EUR '000)
Road maintenance enterprises	Maintenance of roads of national importance and implementation of traffic safety measures on such roads	64,608.2	64,498.2	0.0	110.0
Lithuanian Railways Group	Public services of passenger transport by rail on local routes	10,601.4	46,195.5	0.0	-35,594.1
Lithuanian Oil Products Agency	Purchase, sale and renewal (replacement) of the national oil product stock	66,447.4	67,445.0	810.9	-186.7
Lithuanian Post Group	Sum of special obligations	8,108.0	13,893.9	4,792.3	-993.6
	Ensuring the provision of universal postal services throughout the territory of the Republic of Lithuania at least 5 working days a week	4,942.1	5,935.7	0.0	-993.6
	Delivery of periodicals to subscribers in rural areas	3,165.9	7,958.2	4,792.3	0.0
Forest enterprises	Development of forest selection, conservation of genetic resources of forest, afforestation, protection of forests (fire prevention, sanitary protection) and forests adaptation to scientific and public needs	0.0	8,206.2	187.5	-8,018.7
	<b>Other special obligations:</b>	<b>8,635.1</b>	<b>26,031.1</b>	<b>14,408.7</b>	<b>-2,987.3</b>
	<b>Total special obligations:</b>	<b>158,390.7</b>	<b>226,269.9</b>	<b>20,199.4</b>	<b>-47,679.8</b>

The state incurs the greatest expenses from the maintenance of roads of national importance and the implementation of traffic security. Eleven enterprises engaged in these activities incurred expenses of EUR 64.5 million in 2015. Although these activities are funded from the state budget, in 2015 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 EUR 46.2 million were spent in order to ensure passenger transportation by rail on local routes. From carrying out these activities, **Lithuanian Railways** earned only EUR 10.6 million of revenue, while the remaining expenses were covered with profit from commercial activities – freight transportation. **Lithuanian Railways**, as well as most of the other enterprises, cover losses incurred from performing special obligations with profit from commercial operations.

## Special Obligations with the Greatest Impact on Portfolio Profitability

Presented below is the information on profit before taxes of special obligations in the SOE portfolio by the enterprises which perform special obligations.



In 2015, SOEs' normalized net profit before taxes from commercial activities amounted to EUR 266.5 million. However, due to the losses incurred during the implementation of special obligations, the normalized net profit before taxes of the SOE portfolio constituted EUR 218.8 million, that is EUR 47.7 million less.

The greatest loss from the performance of special obligations was incurred by **Lithuanian Railways**. In 2015, the enterprise incurred EUR 35.6 million of net loss before taxes from passenger transportation on local routes. The losses were compensated with the profit from commercial activities (mostly from freight transportation). In 2015, the passenger transportation by rail on local routes cost to the state EUR 38.1 million in total, both directly and indirectly. In 2015 the state compensated only EUR 336.2 thousand of the loss incurred by **Lithuanian Railways** and covered the expense from discounts on tickets for passengers transported on concessionary terms that constituted EUR 2.2 million.

42 **forest enterprises** incurred loss of EUR 8 million from their special obligations. **Forest enterprises** are responsible for the development of forest selection, preservation of the genetic resources of forests, afforestation, forest protection (sanitary and fire prevention), and the adaptation of forests to scientific and public needs. In order to fulfil this special obligation, the forest enterprises used grants amounting to EUR 187.5 thousand, which are not reflected in the financial statements of the enterprises. The accounted losses were covered with profit from the commercial activities by **forest enterprises**.

In 2015, the **Ignalina Nuclear Power Plant** recorded a loss of EUR 2.4 million from the decommissioning of the Ignalina Nuclear Power Plant, and management, storage and disposal of nuclear and radioactive materials and waste.

**Lithuanian Post** is obliged to ensure the delivery of periodicals to the residents in rural areas and provision of universal postal services in rural areas at least 5 working days a week. In 2015, the company incurred loss of EUR 1 million from the performance of special obligations. Losses generated from the provision of universal postal services in rural areas, as expense from the delivery of periodicals is fully reimbursed by the state.

In 2015 the **Agricultural Information and Rural Business Centre**

incurred loss of EUR 479.8 thousand from the performance of special obligations. All activities pursued by Agricultural Information and Rural Business Centre are considered as special obligations. Also, the company was compensated for the expense of slightly more than EUR 5 million; this expense is not included in the financial statements. Main activities of the company are administration, management and development of various agricultural information systems on the basis of special obligations.

Special obligations performed by **Lithuanian Oil Products Agency** – the implementation of the programme on the accumulation and management of the state reserve of oil products as well as purchase, sale or renewal (replacement) of the state reserve of oil products – resulted in loss of EUR 0.2 million in 2015. All losses were incurred while implementing the programme on the accumulation and management of the state reserve of oil products, as during 2015 the company sold and purchase oil products for almost identical amount, but commercial activities, which generated EUR 0.4 million profit before taxes, let the company to achieve profitable activities. Also, in the process of implementation of the programme on the accumulation and management of the state reserve of oil products, 810.9 thousand EUR expenses were directly compensated and the expenses incurred by the company were reduced by this amount. The annual audited financial statements show the already reduced expenses.

The **road maintenance enterprises**, while performing their special obligations (maintenance of roads of national importance and implementation of traffic safety measures on such roads), accounted EUR 0.1 million profit before taxes in 2015. Compared to 2014, the result of the enterprises increased by EUR 565.3 thousand (in 2014 – EUR 455.3 thousand loss). Only 4 out of 11 **road maintenance enterprises** recorded net profit before taxes from the special obligations in 2015, but this was enough to attain a positive collective result. Losses from special obligations incurred by loss-making enterprises ranged between EUR 8 and 8.6 thousand.

The result of the remaining 14 enterprises performing special obligations, together with 11 road maintenance companies, reduced SEO portfolio profit (increased loss) before taxes by EUR 33 thousand. Of 25 such enterprises, 11 enterprises incurred loss from the performance of special obligations, for the rest – revenue matched the expenses, or brought some profit.

## Disclosure of Special Obligations by the Sectors

Below is the financial information on special obligations split by the four sectors. In providing the financial information on special obligations by the sectors, the incurred costs and their compensations, that are not reflected in the enterprises' profit (loss) statements, are added to the cost of sales, operating expenses and grants related to revenue. The final result, profit (loss) before taxes, remain unchanged.

Profit (loss) statement (eur '000)	Energy		Transport and communications		Forestry		Other	
	2014	2015	2014	2015	2014	2015	2014	2015
Sales revenue	32,552	66,630	74,336	82,666	0	0	5,061	5,326
Cost of goods sold	32,400	65,803	97,351	103,455	0	0	4,475	4,658
Gross profit (loss)	152	827	-22,985	-20,789	0	0	586	668
Operating expenses	1,899	3,881	18,959	23,003	8,930	8,206	11,670	16,055
Operating profit (loss)	-1,747	-3,054	-41,944	-43,792	-8,930	-8,206	-11,084	-15,387
Grants related to revenue	1,524	1,567	6,731	7,314	149	188	10,756	14,766
Other activities	-1,788	-1,231	0	0	0	0	21	21
Financial and investment activities	132	146	1	0	0	0	-5	-12
Profit (loss) before tax	-1,880	-2,571	-35,212	-36,478	-8,782	-8,019	-312	-612
Normalised profit (loss) before tax	-3,682	-2,571	-35,212	-36,478	-8,782	-8,019	-312	-612

BALANCE SHEET (EUR '000)	31 DEC 2014	31 DEC 2015	31 DEC 2014	31 DEC 2015	31 DEC 2014	31 DEC 2015	31 DEC 2014	31 DEC 2015
Total assets	670,653	666,229	234,701	255,372	4,600	3,965	18,668	30,708

In 2015, the greatest sales revenue – EUR 82.7 million or as much as 53.5% of the total revenue of the portfolio – from special obligations was generated by the enterprises of transport and communications sector. The largest revenue (EUR 64.6 million) was earned by 11 **road maintenance enterprises**. **Lithuanian Railways** also earned EUR 8.1 million. Even though enterprises of the transport and communications sector earned the greatest sales revenue, the cost of sales and operating expenses were also the highest, therefore, the sector's loss before taxes amounted to EUR 36.5 million in 2015. The greatest loss was incurred by **Lithuanian Railways** – EUR 35.6 million. Loss of **Lithuanian Post** from special obligations amounted to almost EUR 1 million in 2015.

Enterprises of the forestry sector did not generate sales revenue from special obligations and only incurred operating expenses. In 2015, operating expenses of 42 **forest enterprises** (forestry sector) reached EUR 8.2 million, and loss before taxes, due to the reduction of expenses (grants received) by EUR 187.5 thousand, was EUR 8 million.

In the energy sector almost all sales revenue from special obligations (84.5% or EUR 32.4 million) was earned by **Lithuanian Oil Products Agency** (EUR 66.4 million of EUR 66.6 million). The biggest loss before taxes was incurred by the **Ignalina Nuclear Power Plant** – in 2015 losses before taxes amounted to EUR 2.4 million, and loss of **Lithuanian Oil Products Agency** – EUR 0.2 million.

Enterprises not classified within any of the three sectors discussed

above in 2015 earned revenue of EUR 5.3 million from the activities of special obligations. Cost of sales and operating expenses together amounted to EUR 20.7 million, but the sector of other enterprises incurred relatively insignificant loss before taxes – EUR 612 thousand, since EUR 13.7 million of cost of sales and operating expenses were excluded from the profit (loss) statement and were directly compensated from the state budget or other funding sources. In 2015, operating expenses of **State Land Fund** were reduced by EUR 6.1 million, of **Žemės ūkio Informacijos ir Kaimo Verslo Centras** – by EUR 5.4 million, of **Lithuanian Agricultural and Food Market Regulation Agency** – by EUR 1 million, and of **Remote Sensing and Geoinformatics Centre Gis-Centras** – by EUR 0.8 million.

The largest assets assigned to the activities of special obligations were accounted by enterprises of the energy sector enterprises: in 2015, the value of these assets amounted to EUR 666 million, of which as many as EUR 571.3 million were managed by the **Ignalina Nuclear Power Plant**. Enterprises of the transport and communications sector's in 2015 disposed of assets worth EUR 255.4 million while implementing special obligations. The major part of this, EUR 111.9 million, constituted assets assigned to the special obligations of **Lithuanian Railways**. The assets of special obligations in the sector of other enterprises constituted EUR 30.7 million. Enterprises of the forestry sector in 2014 controlled assets related to special obligations worth EUR 4 million. The value of Lithuania's commercial state forests (EUR 1,003 million) is attributed to the commercial activities carried out by the forestry 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 (62) are assigned to Group 1B. The objective of the enterprises of this group is business value growth and a yield from dividends or profit contributions, as well as the safeguarding of national strategic interests. Of the said 62 enterprises, even 47 enterprises perform special obligations, and the losses incurred by them constitute the major share of total losses from

special obligations. In both 2015 and 2014, enterprises of the Group 1B incurred losses before taxes from performance of special obligations, in 2015 its amount reached EUR 44.6 million, and in 2014 – EUR 43.6 million. The greatest losses were accounted by **Lithuanian Railways** and 42 **forest enterprises**, EUR 35.6 and EUR 8 million, respectively.

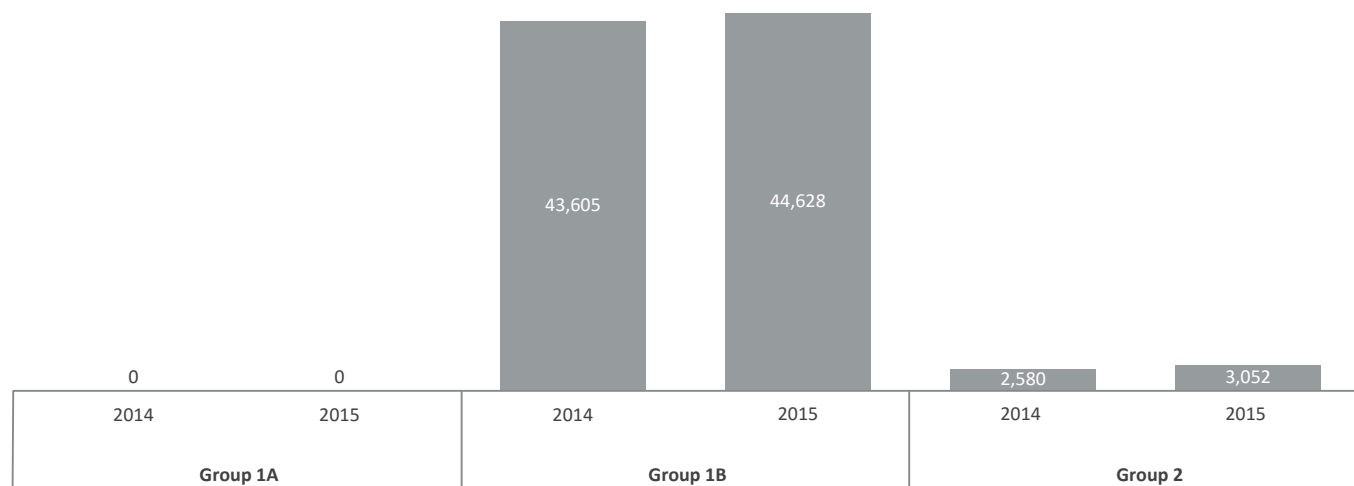
Of the 40 enterprises assigned to Group 2 (companies that should

be engaged in non-commercial activities), 14 enterprises did not performed special obligations during the reference period, and 26 companies performing such obligations incurred EUR 3.1 million losses before taxes in 2015. The major share of loss - even EUR 2.4 million - was incurred by the **Ignalina Nuclear Power Plant**. Of the 14 enterprises that did not perform special obligations (non-commercial special obligations), even six enterprises, **Būsto Paskolų Draudimas, Oro Navigacija, Lietuvos Paminklai, Sportininkų Testavimo Ir Reabilitacijos Centras, Seimas Publishing House Valstybės Žinios** and **Kaunas Petrašiūnai Job Market Training Centre**, have indicated their engagement in purely commercial activities, although Group 2 enterprises are supposed to carry out non-commercial activities, i.e. the activities that would not be performed by profit-making entities or would be carried out by them for a higher price.

The portfolio of special obligations also includes 22 enterprises attributed to Group 1A – the group of enterprises that seek business value growth and a yield from dividends or profit contributions. All enterprises of this group did not performed special obligations, and all of their activities are considered to be commercial. This number does not include **Mokslas Ir Technika**, which is not attributed to any of the groups and the activities of which are considered to be commercial.

The aggregate data by category does not include **Viešųjų Investicijų Plėtros Agentūra**, since the company is not assigned to any group. In 2015, the expenses from special obligations performed by **Viešųjų Investicijų Plėtros Agentūra** were compensated and excluded from financial statements; expenses amounted to EUR 208 thousand. Also, due to the shortage of comparable data **Turto Bankas** and **Mašinų Bandymo Stotis** were excluded.

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



## Conclusions

More than half of SOEs – 74 out of 128 – perform special obligations. Six enterprises attributed to Group 2, i.e. enterprises that should be engaged mostly in non-commercial activities, have disclosed that they do not carry out any non-commercial functions. Institutions implementing the owner's rights with respect to these enterprises should reconsider the objectives set for them.

In 2015, the total expenses of non-commercial functions amounted to EUR 225 million. This amount includes the expenses incurred by 15 enterprises (EUR 20.2 million) that are not accounted for in the profit (loss) statements (they are compensated with cost reducing grants). In 2015, SOEs incurred a loss of EUR 47.7 million from the performance of special obligations, which was covered mostly with profit from commercial activities. The greatest losses were incurred by **Lithuanian Railways** and the **forest enterprises** – EUR 35.6 and EUR 8 million, respectively. Meanwhile, the normalized profit before taxes from commercial activities of all SOEs amounted to EUR 266.4 million. If special obligations were compensated in full and the enterprises did not need to cover losses with profit from commercial activities, SOEs' profit before taxes would increase by 21.8%.

In order 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 expenses 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 the performance of special obligations will allow assessing 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-subsidization should be eventually abandoned and non-commercial functions should rather be financed through the state procurement of services from enterprises at a reasonable price.

# Overview of SOE portfolio results

At the end of 2015, the calculated market value of stated-owned enterprises accounted for EUR 5.5 billion. The portfolio earned a 4.4% return on equity for the state, and the total value added created by all SOEs during the year reached EUR 1.1 billion, i.e. 3% of the gross domestic product.

## The number of SOE has decreased during the year – the state owns 128 enterprises

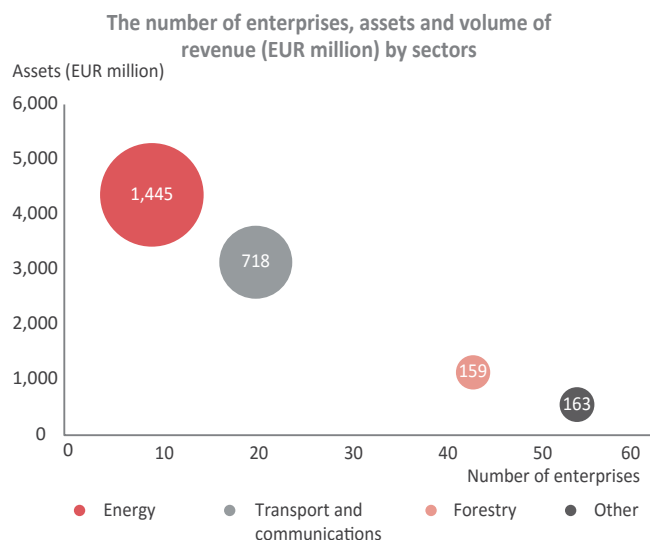
On December 31st, 2015 the state owned 128 enterprises, when a year ago – 131. The number of state-owned enterprises decreased because after the first quarter of 2015 **Baldžio Šilas** discontinued its activities as a separate entity and on March 31st it was reorganized by merging it into **Senevita** that was involved in the reorganization; on July 15, 2015 **Pušyno Kelias** was reorganized into a public institution; **Vilniaus Pilių Direkcija**, to which liquidator was assigned on August 14th, 2015, discontinued its activities in the third quarter. Also, on September 23rd, 2015, shares of **Lithuanian Shipping Company** owned by the state were transferred to **Lithuanian Railways**. It is noted that on December 14, 2015 bankruptcy proceedings were initiated for **Lithuanian Shipping Company**. The number of state-owned enterprises increased due to the addition of **Mašinų Bandyimo Stotis**, established on October 1st, 2015.

In total, the overview of SOE portfolio results includes the financial results of 125 SOEs. Due to the lack of comparable data, three SOEs were not included in the portfolio: **Viešųjų Investicijų Plėtros Agentūra (VIPA)**, holiday home **Baltija**, and **Mašinų Bandyimo Stotis**.

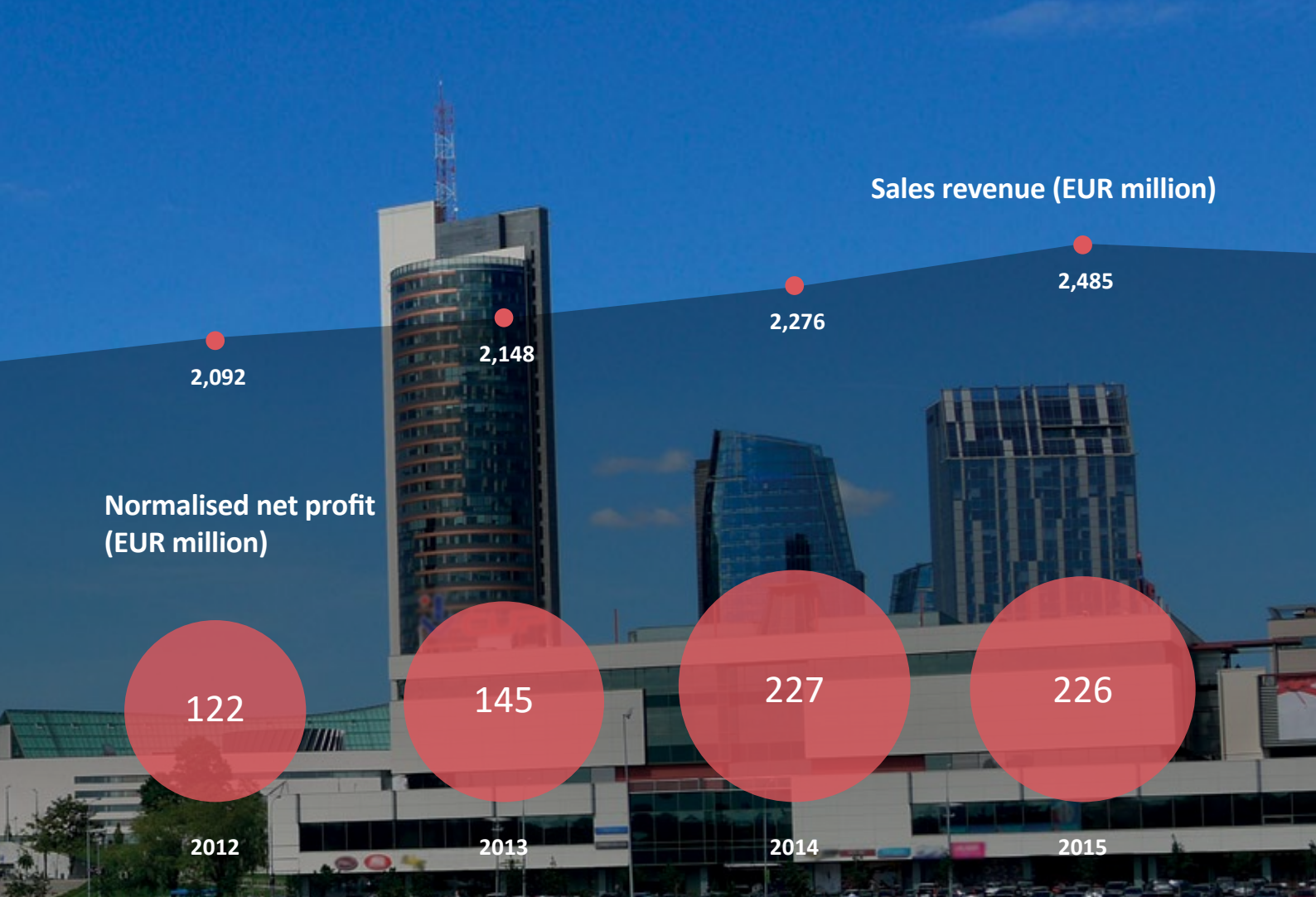
All SOEs are divided into four sectors: transport and communications, energy, forestry, and other enterprises. The latter sector includes enterprises not attributed to any of the first three sectors. The energy sector consists of nine SOEs that own the largest share of the portfolio assets – 48.4% (EUR 4.5 billion). The sales revenue of this sector in 2015 constituted of 58.1 % (EUR 1.4 billion) of the total revenue of the portfolio. The transport and communications sector consists of 20 enterprises which generate 28.9% (EUR 717.9 million) of portfolio revenue while managing 33.6% (EUR 3.1 billion) of portfolio assets. The forestry sector consists of **42 forest enterprises** and **Forest Inventory and Management Institute**. The assets of these enterprises

constitute of 12.9% (EUR 1.2 billion, including the commercial forests assessed by the Governance Coordination Centre) of the analyzed SOEs' assets, and generated revenue is 6.4% (EUR 158.7 million) of total portfolio turnover. The sector of other enterprises comprises of 55 enterprises, but their collective sales revenue constitutes only of 6.6% (EUR 163.3 million) of the total portfolio revenue, and combined assets are 5.1% (EUR 474.2 million) of the total portfolio assets.

The chart below compares the numbers of enterprises comprising sectors, volumes of disposable assets and revenue. Size of a circle corresponds to the size of sales revenue inscribed in the circle.







### Revaluation of assets and other one-off events resulted in significant changes of SOE portfolio results

In 2015, **Lietuvos Energija**, accounted loss incurred due to impairment decrease in value of assets, and in 2014 **Lietuvos Energija** and **EPSO-G** accounted asset revaluation losses, which significantly distorted performance results of these enterprises and had a significant impact on the results of SOE portfolio.

In 2015, **Lietuvos Energijos Gamyba**, a subsidiary of **Lietuvos Energija**, reduced the fixed tangible assets. This company included EUR 30.1 million losses in operating expenses incurred due to the decrease in value of fixed assets. This caused **Lietuvos Energijos Gamyba** to account EUR 0.2 million net losses. In comparison, at the end of 2014 the net result amounted to EUR 3.4 million. The results of 2015 of **Lietuvos Energija** were significantly influenced by the Group's discount on the gas price applied to household and non-household consumers (negative impact of EUR 42.5 million) as well as asset revaluation and transferred expenses from previous periods (negative impact of EUR 4.5 million). In 2015, **Lietuvos Energija** Group accounted for EUR 55.3 million net profits. After the elimination of one-off events (decrease in value of assets, discount on gas price, expenses of previous periods) the net result of the Group amounted to EUR 127.9 million.

In 2014, **LESTO**, a subsidiary of **Lietuvos Energija**, revaluated its fixed tangible assets (On January 1, 2016 the companies **LESTO** and **Lietuvos Dujos** were reorganized by merging and establishing **Energijos Skirstymo Operatorius**). The revaluation of fixed tangible assets in 2014 raised the operating expense of **LESTO** by EUR 219.9 million, therefore, in 2014 the Company accounted net loss of EUR 164.6 million. After eliminating the effect of asset revaluation, at the end of 2014 the net result amounted to EUR 22.4 million. In total, the asset revaluation of **LESTO** had a negative impact of EUR 406.8 million on

the net result of 2014 of **Lietuvos Energija** Group. In 2014, the results of **Lietuvos Energija** were significantly influenced by the acquisition of **Lietuvos Dujos**, due to which the net result of the Group increased by EUR 59.5 million. It is noted that comparing Group's net result of 2014 to the net result of 2015 it is important to assess the impact of decline in depreciation and amortization expenses (EUR 50.8 million), after accounting revaluation of **LESTO** assets at the end of 2014. In total **Lietuvos Energija** Group accounted for EUR 280 million of net loss in 2014, but after the elimination of the said one-off factors (**LESTO** asset revaluation, acquisition of **Lietuvos Dujos** and the levelling effect of decreased depreciation), Group's net result (the normalized net profit) for the year 2014 amounted to EUR 118.2 million. In 2014, the revaluation of asset value was also executed by a company of **EPSO-G** Group. **Litgrid** included EUR 123.2 million of asset revaluation losses in the operating expenses, therefore, the net result of 2014 amounted to EUR 111.6 million. This was the major factor that determined the EUR 13.5 million net losses of **EPSO-G** Group. In 2014, the results of **EPSO-G** Group were also significantly affected by the acquisition of **Amber Grid** (calculation of the enterprise goodwill and resulting tax expenses), which had a positive impact of EUR 90.5 on the net result of the Group. Comparing Group's net result of 2014 to the result of 2015 the change in depreciation and amortization expenses, resulted from the revaluation of **Litgrid** assets at the end of 2014, must be assessed as well. In 2014, **EPSO-G** Group accounted for EUR 13.3 million net losses, but after the elimination of **Litgrid** asset revaluation and the resulted change in the depreciation and amortization expenses, as well as the impact of the acquisition of **Amber Grid**, the normalized net profit of the Group amounted to EUR 10.3 million.

Taking into consideration the extent of the impact the previously mentioned one-off factors had on the results, the normalized net



result is calculated further in the overview of SOE portfolio results. The normalized net profit/loss is calculated by eliminating the effect of atypical taxes to the state and bank bankruptcies, as well as deducting asset revaluation losses of **Lietuvos Energija** and **EPSO-G** and the results of one-off atypical factors of **Lietuvos Energija** and **EPSO-G**.

Also, attention is drawn to the fact that the results of 2014 of **Lietuvos**

**Energija** Group and **EPSO-G** Group were influenced respectively by the financial results of **Lietuvos Dujos** and **Amber Grid** that are included in the Groups' consolidated results only from the second half of 2014. The Governance Coordination Centre did not have enough data to eliminate the financial results of **Lietuvos Dujos** and **Amber Grid** for a more accurate comparability of the data.

### The three enterprises employed 57.6% of all SOE employees

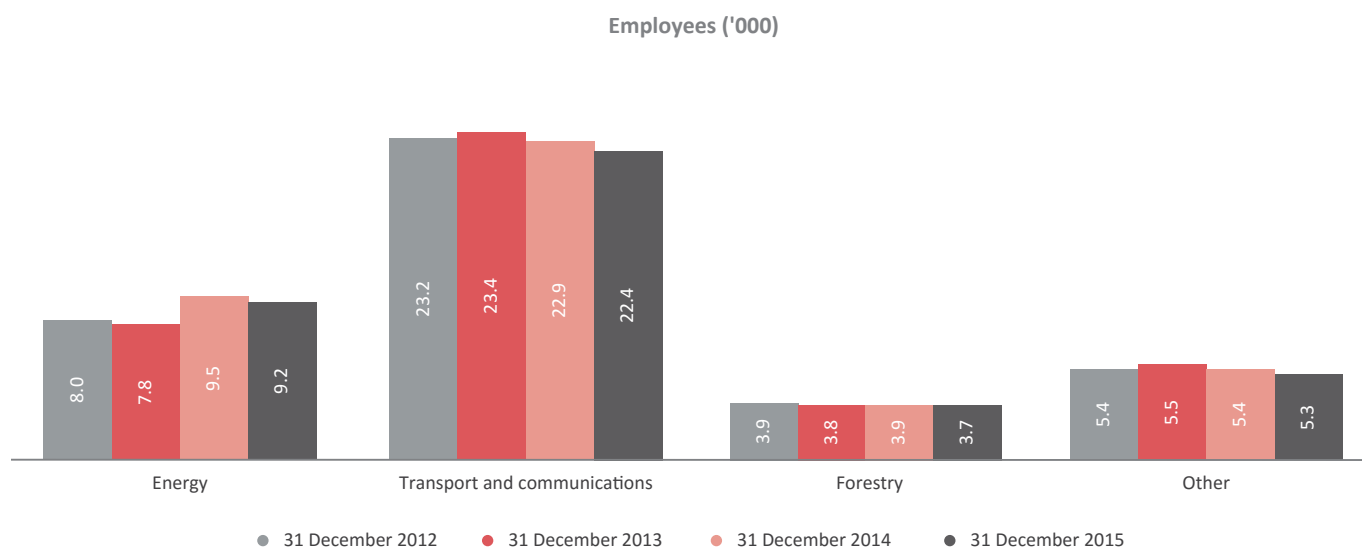
At the end of 2015, 40,600 employees worked in SOEs – 1,033 employees less than a year ago. More than a half (55.2%) of employees worked in transport and communications sector, and the largest three employers – company groups **Lithuanian Railways**, **Lithuanian Post**, and **Lietuvos Energija** – collectively employed 57.6% of all SOE employees.

At the end of 2015, enterprises of the energy sector employed 9,165 employees – this number decreased by 3.1% compared to 2014. The number of employees mostly decreased in **Lietuvos Energija** Group and in **EPSO-G** Group.

At the end of 2015, enterprises of the transport and communications

sector employed 2.1% less employees (22,415) than a year ago. The number of employees in this sector decreased mostly due to restrictions imposed by **Lithuanian Railways** to admissions of new employees to vacant positions caused by natural employee turnover. Therefore, at the end of 2015, 12,256 employees worked in **Lithuanian Railways**, i.e. 278 employees less than a year ago. The second biggest employer of the sector **Lithuanian Post** employed 5,766 people, 272 less than in 2014.

The number of forestry sector employees decreased by 2.9%. At the end of 2015, 3,739 employees were employed in this sector. The number of employees of the sector of other enterprises shrank by 2.7%, down to 5,281 employees.



## Market value of SOE portfolio

### The market value of SOE portfolio increased by 4.9%

At the end of 2015 market value of SOE portfolio amounted to EUR 5.5 billion and, compared to 2014, increased by 4.9%. The book value of equity amounted to EUR 2.7 billion and, compared to 2014, increased by 8.2%. The growth of the portfolio value was mostly driven by the 32.3% increase of the book value of energy sector, to EUR 0.4 billion. The market value of the energy sector on the stock exchange market did not change significantly, the total market value of this sector increased by 4.9%, up to EUR 2.2 billion. The total market value of transport communication sector grew by 6.4%, to EUR 1.9 billion. The market value of the other two sectors changed as well: the market value of forestry sector increased by 4.6%, to EUR 1.2 billion, and the market value of other companies decreased by 6.4%, to EUR 0.2 billion.

SOE portfolio value as of 31 Dec 2015 (EUR '000)	Market value	Cash flow method	Book value	Total
Energy	1,794,566	0	425,163	<b>2,219,729</b>
Change from 31 Dec 2014	+0.0%		+32.3%	+4.9%
Transport and communications	0	0	1,917,563	<b>1,917,563</b>
Change from 31 Dec 2014			+6.4%	+6.4%
Forestry	0	1,002,964	154,740	<b>1,157,704</b>
Change from 31 Dec 2014		+5.3%	+0.4%	+4.6%
Other	0	0	204,279	<b>204,279</b>
Change from 31 Dec 2014			-6.4%	-6.4%
<b>Total</b>	<b>1,794,566</b>	<b>1,002,964</b>	<b>2,701,746</b>	<b>5,499,275</b>
Change from 31 Dec 2014	+0.0%	+5.3%	+8.2%	+4.9%

## SOE Market Value on NASDAQ OMX Vilnius stock exchange

### The market value of the listed SOE did not change significantly

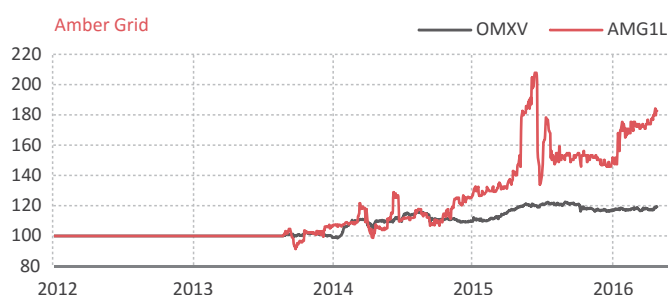
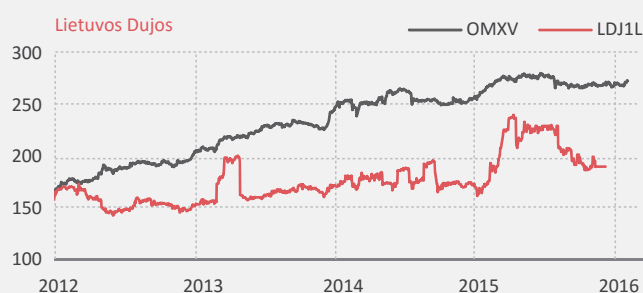
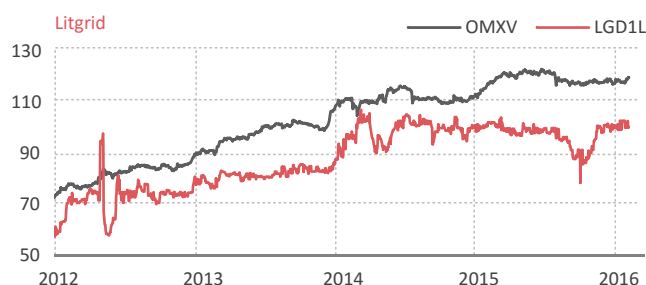
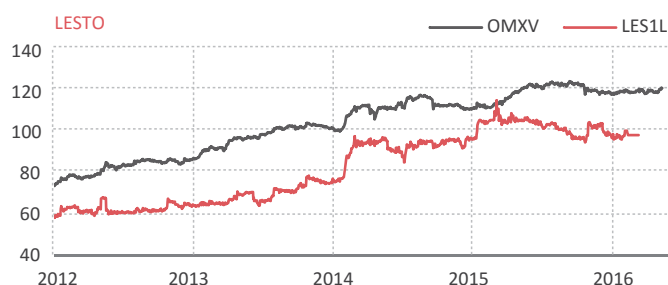
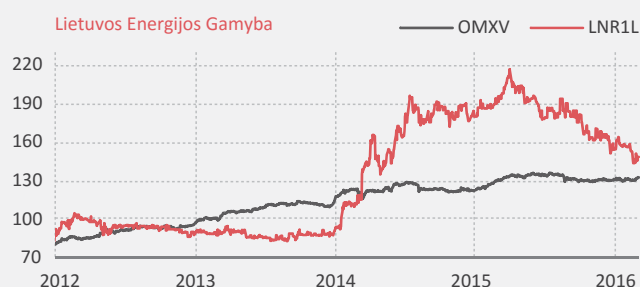
In 2015, six state-owned companies and their subsidiaries were included in the NASDAQ OMX Vilnius stock trade list. At the end of 2015 the market value of all these companies, belonging to the state, amounted to EUR 1,794.6 million and remained the same as at the end of 2014.

31 Dec 2015	Share value (EUR '000)	State-owned interest		Value of the state-owned interest 31 Dec 2015		Change of the share value from	Change of the state-owned interest from
		31 Dec 2014	31 Dec 2015	(EUR '000)	Percentage in the total value	31 Dec 2014	
LESTO	561,668	94.39%	94.39%	530,162	29.5%	-6.8%	-6.8%
Litgrid Group	357,067	97.50%	97.50%	348,149	19.4%	6.6%	6.6%
Lietuvos Energijos Gamyba	426,141	96.13%	96.13%	409,656	22.8%	-14.0%	-14.0%
Klaipėdos Nafta	140,444	72.32%	72.32%	101,564	5.7%	18.6%	18.6%
Lietuvos Dujos	206,968	96.64%	96.64%	200,022	11.1%	9.5%	9.5%
Amber Grid	212,275	96.58%	96.58%	205,012	11.4%	32.5%	32.5%
<b>SOE index:</b>	<b>1,904,563</b>	-	-	<b>1,794,566</b>	<b>100%</b>	<b>0.2%</b>	<b>0.0%</b>
OMXV index of all shares:							<b>7.4%</b>

In 2015, for the largest portion (29.5%) of the market value of SOE shares held by the state accounted **LESTO** (EUR 530 million), and for the smallest – **Klaipėdos Nafta** (EUR 101.6 million). During 2015 **LESTO** share price, due to the fall in revenue, decreased by 6.8% compared to the end of 2014, to EUR 561.7 million. During the accounting period the share price of **Lietuvos Energijos Gamyba** dropped by 14% due to the changes in regulatory activities and assets revaluation effect. **Litgrid** share price increased by 6.6%, up to EUR 357.1 million. As a result of revenue increase and expense decrease during the analyzed period, the share price of **Lietuvos Dujos** and **Amber Grid** increased by 9.5% (to EUR 207 million) and 32.5% (to EUR 212.3 million) respectively. During the accounting period the share value of **Klaipėdos Nafta** increased by 18.6% (up to EUR 140.4 million) due to the start of LNG terminal operation and the increased

transshipment volumes. On January 1, 2016 the companies **LESTO** and **Lietuvos Dujos** were reorganized by merging and establishing **Energijos Skirstymo Operatorius**. On December 14, 2015 bankruptcy proceedings to **Lithuanian Shipping Company** have been initiated, consequently, this company was not included in the analysis of the listed SOE in 2015 and this company is not included in the SOE share index.

The index comprised of state-owned SOE shares shows the changes in the value of the state-owned asset quoted on the exchange market since the end of 2014. SOE index did not change from the end of 2014 until the end of 2015. During this period the value of NASDAQ OMX Vilnius share index increased by 7.4%.



## P/E ratio

### Shares of the majority of listed SOEs are relatively cheaper than the sector averages

In order to determine the share value of listed Lithuanian SOEs, the price-to-earnings (P/E) ratio was estimated. This market capitalization to earned profit ratio reflects investor expectations and viability assessment of a company. However, it is rather an indicative ratio and is meaningful only when its value is compared within a time perspective and in the context of similar companies. For the purpose of comparative analysis the P/E ratios of the companies of developing countries operating in the corresponding sectors were used.

The P/E ratios of listed Lithuanian SOEs, attributed to the same sectors, are notably different, reflecting fundamental aspects of the enterprises' operations. The P/E ratio of the shares of **LESTO** which operated in the energy sector was valued at 7.7 and is five times lower than the average of foreign enterprises of the energy sector (37.8), thus, **LESTO** shares could be valued as cheap. Shares of **Litgrid**, operating in the same sector, are valued as expensive, whereas the enterprise P/E value amounted to 194.6 and surpassed the average of foreign enterprises by 5.1 times.

The P/E ratios of **Klaipėdos Nafta**, **Lietuvos Dujos** and **Amber Grid** which belong to the oil and gas distribution sector were 6.4, 16.0 and 13.3 respectively. Compared to the average of foreign companies operating in this sector (66.3), the shares of **Lietuvos Dujos** and **Amber Grid** are valued 4 and 5 times cheaper, while shares of **Klaipėdos Nafta** are even 10 times cheaper.

Listed Lithuanian SOEs	2013	P/E 2014	2015	Comparable foreign sectors*	P/E 2015
LESTO	37.5	-	7.7	Energy	37.8
Litgrid Group	40.7	-	194.6	Energy	37.8
Lietuvos Energijos Gamyba	8.0	14.8	-	Energy	37.8
Klaipėdos Nafta	10.8	12.8	6.4	Oil and gas distribution	66.3
Lietuvos Dujos	-	32.2	16.0	Oil and gas distribution	66.3
Amber Grid	88.5	-	13.3	Oil and gas distribution	66.3

\* For comparison purposes, the averages of the sectors, which Lithuanian listed SOEs are assigned to, enterprises in developing countries located in regions such as Eastern Europe, Asia, Latin America, are used.

**LESTO**, **Litgrid** and **Amber Grid** incurred losses at the end of 2014, therefore, their P/E ratios for the year could not be calculated. **Lietuvos Energijos Gamyba** ended the year 2015 at a loss, thus the enterprise P/E ratio for 2015 was not calculated.

## Aggregated SOE Financial Information

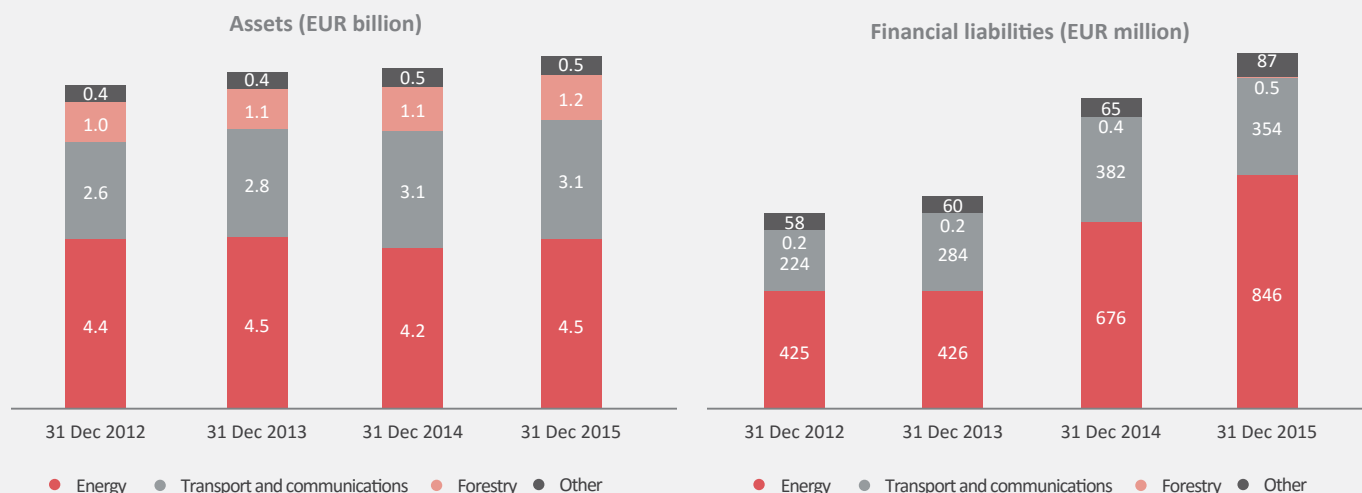
The following tables contain summarised financial information of all SOEs based on the audited financial statements for 2015.

<b>Profit and loss statement (EUR '000)</b>	<b>2014</b>	<b>2015</b>
<b>Sales revenue</b>	<b>2,275,703</b>	<b>2,484,514</b>
Cost of goods sold	1,440,865	1,666,755
<b>Gross profit (loss)</b>	<b>834,838</b>	<b>817,760</b>
Operating expenses	1,268,372	670,729
Profit (loss) from other activities	106,893	11,614
<b>Operating profit (loss)</b>	<b>-326,641</b>	<b>158,645</b>
<i>Operating profit margin</i>	<i>-14.4%</i>	<i>6.4%</i>
<b>EBITDA</b>	<b>541,048</b>	<b>555,564</b>
<i>EBITDA margin</i>	<i>23.8%</i>	<i>22.4%</i>
Financial and investment activities	40,776	-14,279
<b>Profit (loss) before taxes</b>	<b>-285,864</b>	<b>144,366</b>
Profit tax	-63,758	15,360
<b>Net profit (loss)</b>	<b>-222,106</b>	<b>129,006</b>
Minority interest	-18,432	13,024
<b>Normalised net profit (loss)</b>	<b>227,274</b>	<b>226,073</b>
<i>Normalised net profit margin</i>	<i>10.0%</i>	<i>9.1%</i>
<b>Balance sheet (EUR '000)</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>
Intangible assets	51,017	56,355
Tangible assets	5,917,185	6,242,920
Financial assets	138,413	129,763
Other non-current assets	341,970	339,008
Biological assets	954,763	1,005,389
<b>Non-current assets</b>	<b>7,403,349</b>	<b>7,773,435</b>
Inventories, prepayments and contracts in progress	372,556	389,579
Amounts receivable within one year	526,151	501,363
Other current assets	114,959	120,540
Cash and cash equivalents	475,971	425,621
<b>Current assets</b>	<b>1,489,636</b>	<b>1,437,103</b>
<b>Total assets</b>	<b>8,892,985</b>	<b>9,210,538</b>
<b>Total equity</b>	<b>5,034,989</b>	<b>5,216,913</b>
Minority shareholder equity	115,062	121,317
<b>Grants and subsidies</b>	<b>1,633,816</b>	<b>1,701,187</b>
Non-current liabilities	1,249,276	1,399,138
Current liabilities	974,905	893,300
<b>Liabilities</b>	<b>2,224,181</b>	<b>2,292,438</b>
Of which financial liabilities	1,123,446	1,287,224
<b>Total equity and liabilities</b>	<b>8,892,986</b>	<b>9,210,538</b>
<b>Ratios</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>
Normalised ROA	2.6%	2.5%
Normalised ROE	4.4%	4.4%
D/E	22.3%	24.7%
<b>Return to the state (EUR '000)</b>	<b>2014</b>	<b>2015</b>
Assigned dividends (share of the state)	66,578	104,721
Assigned profit contributions	7,593	6,641
<b>Dividends and profit contributions to the state:</b>	<b>74,172</b>	<b>111,363</b>
Property tax	6,850	7,047
Raw material tax	22,911	21,628
<b>Total:</b>	<b>103,933</b>	<b>140,037</b>
<b>Employee information</b>	<b>2014</b>	<b>2015</b>
Number of employees	41,633	40,600
Number of executives	477	474

## Assets and Investments

At the end of 2015, the total book value of SOEs assets amounted to EUR 9.2 billion – 3.6% more than at the end of 2014. The book value of assets of energy sector enterprises increased by 5.4%, up to EUR 4.5 billion and constituted slightly less than a half of the total value of SOEs assets. The book value of assets of the transport and communications sector increased by 1.4% or EUR 41.9 million, asset value of forestry sector increased by 4.6% and amounted to almost EUR 1.2 billion.

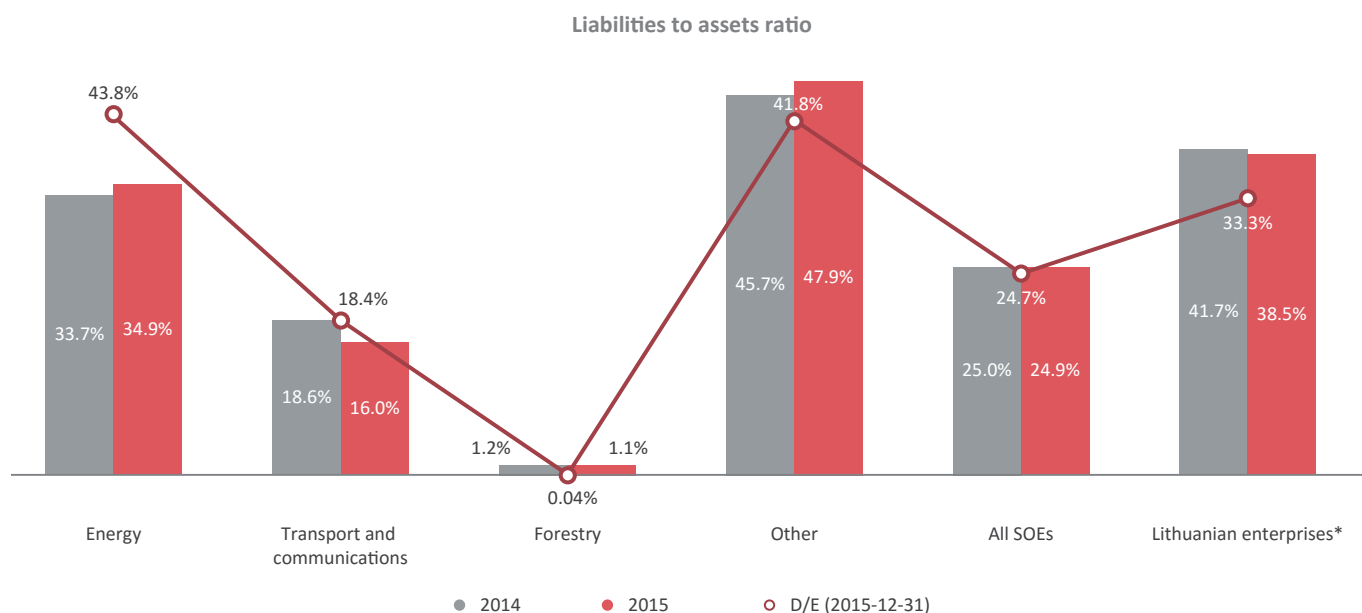
### Financial liabilities of SOEs increased



During 2015 the amount of financial liabilities of SOE portfolio increased by 14.6%, up to EUR 287.2 million. This change was determined by 25.2% increase in financial liabilities of the energy sector, which at the end of the reference period amounted to EUR 846.4 million. The increase of energy sector's financial liabilities was mostly influenced by the **EPSO-G Group** which experienced a growth of financial liabilities aimed at the implementation of the strategic energy projects. Financial liabilities changed in other sectors as well. In transport and communications sector, financial liabilities decreased by 7.4%, in forestry sector – increased by 13.9%. However, the financial liabilities of the forestry sector are very low and at the end of 2015 amounted only to EUR 0.5 million. Financial liabilities of the

sector of other enterprises increased by 32.7% to EUR 86.8 million.

The liabilities to assets ratio of SOEs at the end of the reference period amounted to 24.9% and, compared to the financial indicators of all Lithuanian enterprises, was 13.6 percentage points lower (data of Statistics Lithuania). The sector of other enterprises accounted for the largest share of liabilities to assets – the ratio exceeded the average of Lithuania. This sector includes financial services providing and loss-making enterprises, which determined the high level of liabilities' ratio. Liabilities to assets ratio of transport and communications sector is twice lower than the Lithuanian average, while 97.8% of forestry assets are covered by equity.



\*Source: Statistics Lithuania



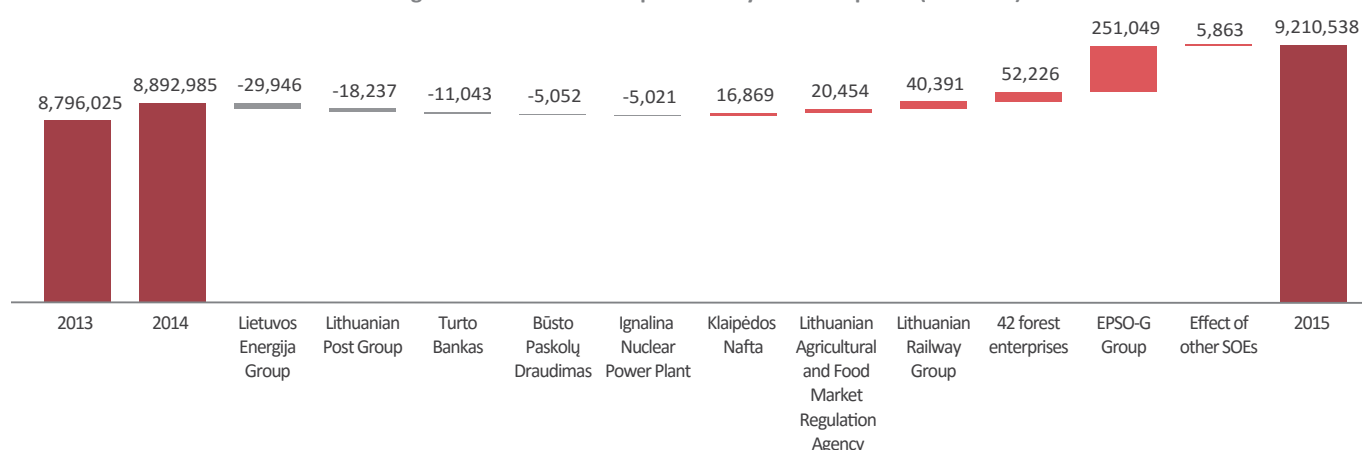
During 2015 the book value of equity of SOE portfolio increased by 3.6% to EUR 5,216.9 million. The value of equity increased mostly in the sector of transport and communications; the increase amounted to 6.3% or EUR 113.6 million. The equity value of the energy sector increased by 1.4%; in the forestry sector it grew 4.6%; whereas the equity value of other enterprises' sector decreased by 4.2%. The amount of grants and subsidies in SOE portfolio increased by 4.1% up to EUR 1,701.2 million. The largest share went to the energy sector where grants and subsidies increased by 7.7%, up to EUR 966.2 million due to the significant increase in grants in the **EPSO-G Group**.

At the end of 2015, the financial liabilities to equity ratio of SOE portfolio reached 24.7% and, compared to 2014, increased by 2.4

percentage points. Nevertheless, SOE level of indebtedness still remains conservative – compared to the average of all Lithuanian enterprises, it was 8.6 percentage points lower at the end of 2015 (data of Statistics Lithuania). The highest debt-to-equity ratio at the end of 2015 was recorded in the energy sector – 43.8%, while the debt-to-equity ratio of the forestry sector enterprises, which are mostly financed from equity, further remains close to zero (including the estimated commercial forest value enhancing the equity).

Hereafter is presented the information on the changes in the book value of SOE portfolio assets according to the enterprises that had the greatest effect on the results of the entire portfolio.

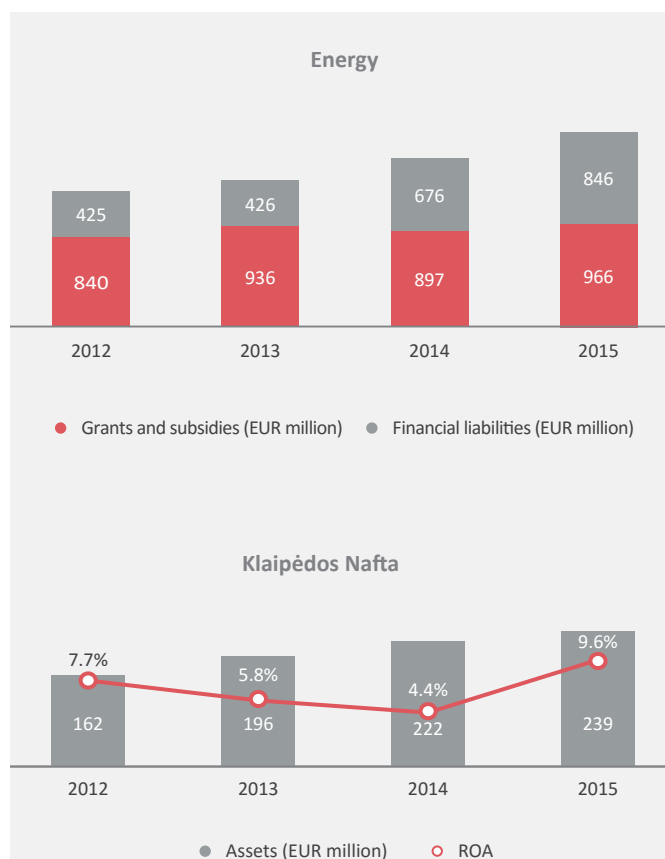
Change in assets of the SOE portfolio by the enterprises (EUR '000)



↑ **EPSO-G Group's** assets grew by EUR 251 million and at the end of 2015 amounted to EUR 1.2 billion. The change in assets was determined by the implementation of strategic projects. In 2015 Group's financial liabilities increased by 57% or EUR 142.2 million due to EUR 208 million investments of subsidiary Litgrid in the implementation of strategic electricity projects and the reconstruction and development of the country's transmission network, as well as due to the construction of gas pipeline Klaipėda–Kursėnai, executed by Amber Grid in 2015. It is noted that during 2015 Group's grants increased from EUR 108.1 million to EUR 190.6 million due to the implementation of the above mentioned strategic projects.

↑ **Forest enterprises'** assets increased by 4.6%, EUR up to 1.2 billion. This increase was determined by the increased forest value calculated under the discounted cash flow method, which, according to the assessment of Governance Coordination Center performed at the beginning of 2016, amounted to EUR 1,003 million and, compared to 2014, was 5.3% higher. The increase in value of forests owned by forest enterprises was determined by the rising average price of round wood, which is calculated within a 5 year period. Increasing quality of the forests also contributed to the growth of forest value.

↑ **Lithuanian Railways Group's** assets during 2015 increased by 2% or EUR 40.4 million. The increase of assets was determined by a significant growth in Group's equity, from EUR 1,015 million to EUR 1,099.4 million. Equity of the Group grew due to the increase in authorised capital, which since the end of 2014 increased by EUR 116.8 million.



↑ **Lithuanian Agricultural and Food Market Regulation Agency's** assets at the end of 2015 amounted to EUR 24.6 million and, compared to 2014, increased 6 times. This change was influenced by the short-term liabilities of the company, which increased by EUR 20.5 million due to the EUR 13.6 million increase in financial debts from credit institutions, EUR 4.4 million increase in debts to the suppliers, and accounted EUR 5 million worth of advance payments received. Since July 2015 the Agency has started intervention buying of skimmed milk powder, due to which Company's inventories increased by EUR 13.4 million.

↑ **Klaipėdos Nafta's** assets amounted to EUR 238.8 million – that was 7.6% more than at the end of 2014. This change was mostly influenced by 79.6%, up to EUR 58.7 million, increase in current assets. The increase in current assets was determined by the growth of cash and cash equivalents, which reached almost 2.2 times. A significant increase in receivables, from EUR 10.5 million to EUR 28.7 million, also had some influence. The increase in receivables was determined by the increase in security component receivables of LNG terminal operations.

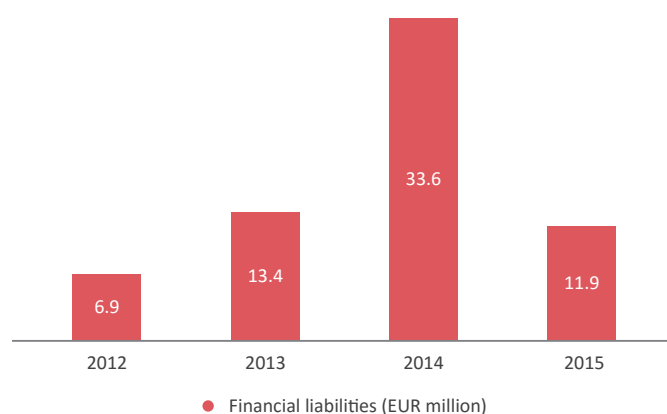
↓ **Lietuvos Energija Group's** assets amounted to EUR 2,339.2 million and, compared to 2014, declined by EUR 29.9 million. Group's assets were reduced by current assets declined by 11.5% during 2015 and the main reason for this – a more efficient management of current assets; inventories decreased by 24.5% or EUR 13 million, while trade and other receivables decreased by EUR 24.1 million.

↓ **Lithuanian Post Group's** assets amounted to EUR 70.6 million and was 20.5% or EUR 18.2 million lower than in 2014. The Group was mandated to exchange litas to euros for the period of 60 days after the introduction of the euro. For the provision of this service a EUR 57.9 million loan was granted, which was repaid by the Group by March 4th, 2015.

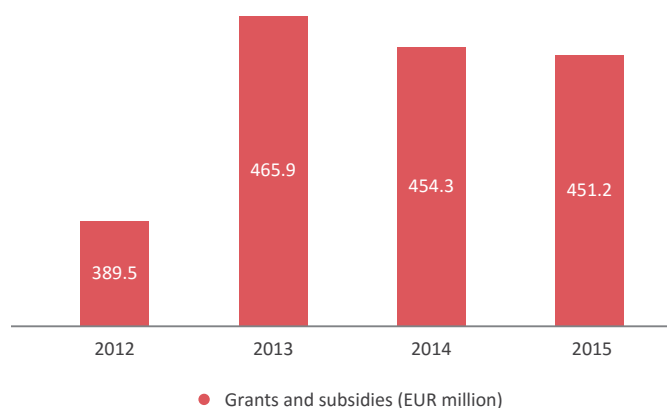
↓ **Turto bankas's** assets at the end of the reference period amounted to EUR 160.9 million and, compared to the end of 2014, decreased by 6.4% or EUR 11 million. This was determined by a decrease in investment property and unfinished contracts, as these assets were valued at market value. Due to this the investment property during 2015 decreased by 16.1%, down to EUR 36.6 million. A significant influence to the decrease of Company assets was also caused by unfinished contracts, which decreased 3 times, down to EUR 5.4 million. Whereas the built objects of renovation projects were transferred, the number of clauses of unfinished contracts decreased.

↓ **Būsto paskolų draudimas** asset value at the end of 2015 amounted to EUR 23.8 million and, compared to 2014, was 17.5% or EUR 5.1 million lower. The decrease was mostly influenced by EUR 2.5 million decrease in technical provisions, of

Lithuanian Post Group



Ignalina Nuclear Power Plant



which the amount of technical provisions for claims outstanding decreased the most, the decline reached 28.3% or EUR 2.2 million.

↓ **Ignalina Nuclear Power Plant** assets decreased by EUR 5 million and at the end of 2015 amounted to EUR 571.3 million. It was determined by the decreased equity and lower amount of grants. Company's equity value declined by EUR 2.4 million due to the retained loss of the same amount. The amount of grants and subsidies, compared to the end of 2014, was EUR 3.1 million lower.

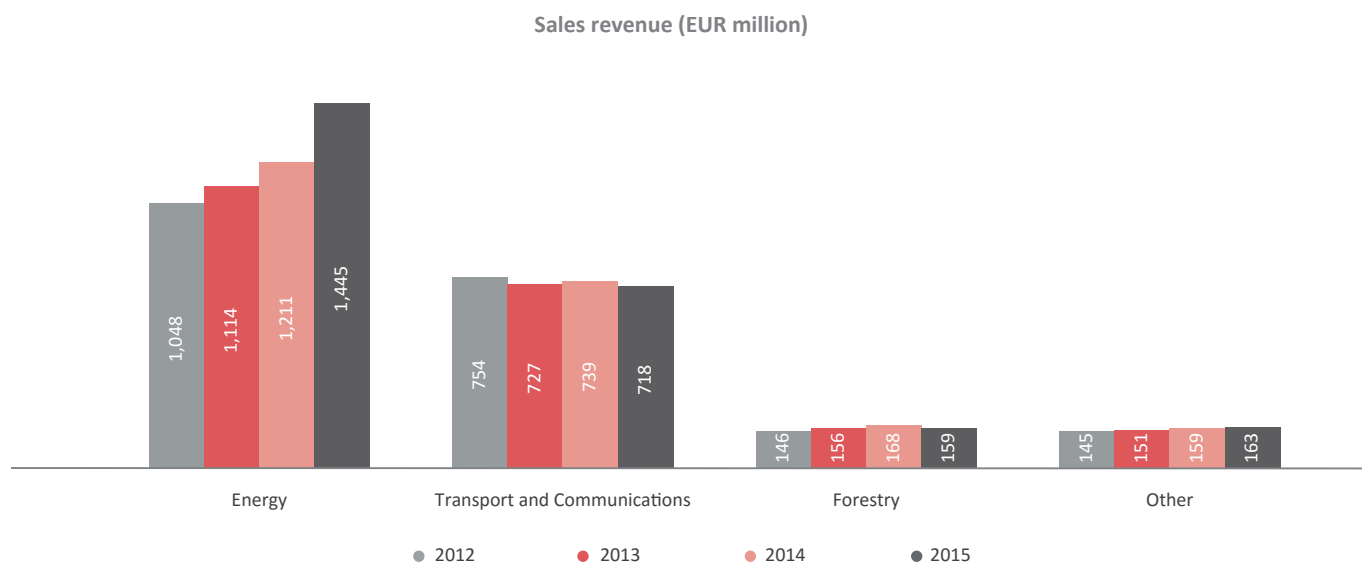
↑ **Other SOEs'** assets increased by EUR 5.9 million and contributed to the overall increase of SOE portfolio assets. Out of 74 enterprises, which changes in assets were not described in detail, assets of 38 enterprises decreased, and assets of 36 enterprises increased.

## Sales revenue

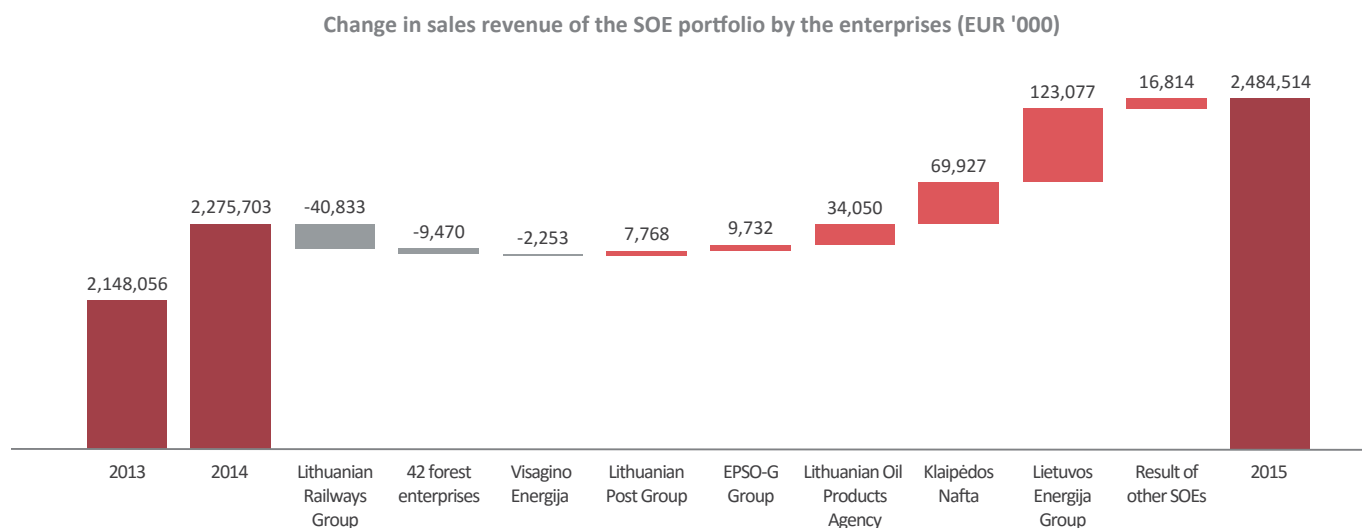
### SOE revenue increased by 9.2%

Sales revenue of SOE portfolio amounted to EUR 2.5 billion at the end of 2015 and, compared to the results of 2014, increased by 9.2%. The overall growth of portfolio revenue was determined by 19.3% increase in revenue of the largest SOE sector – energy, which increased from EUR 1.2 to 1.4 billion. **Lietuvos Dujos** and **Amber Grid** had a major influence on this growth, as their revenues only for incomplete period were included in SOE's aggregate results of 2014 because the controlling interest of these enterprises were acquired by the State only in the second quarter of 2014. Results of LNG

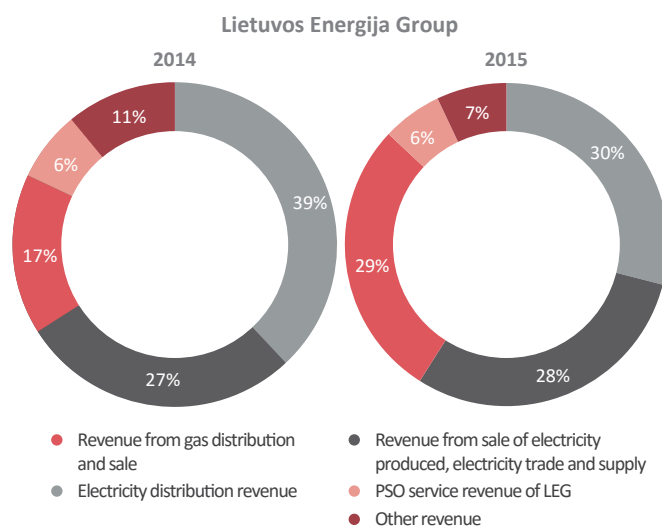
terminal of **Klaipėdos Nafta**, launched on November 27th, 2014, also contributed to the growth of revenue of energy sector. Revenue of the sector of other enterprises grew as well by 2.9%, up to EUR 163.3 million. However, revenue of transport and communications sector and of forestry sector decreased during 2015. Revenue of transport and communications sector amounted to EUR 717.9 million and was 2.8% lower than in 2014; revenue of forestry sector amounted to EUR 158.7 million, 5.4% less than in 2014.



Hereafter is presented the information on the changes in the sales revenue of the SOE portfolio by the enterprises that had the greatest effect on the results of the entire portfolio.



**Lietuvos Energija Group** earned EUR 1.1 billion of revenue in 2015, i.e. 12.7% or EUR 123.1 million more than in 2014. The largest share of Group's revenue was derived from electricity distribution service – EUR 325.9 million or 30% of total revenue. Also an important share in the structure of Group's revenue constitutes revenue from gas distribution and sale, which in 2015 amounted to EUR 315.2 million, 85.4% more than in 2014. Meanwhile, revenue from the sale of electricity produced, electricity trade and supply, which constitute 28% of total revenue, increased by 19.3% due to increasing sales of electricity in the free market. However, due to significant decrease in revenue from electricity distribution service, revenue of Lietuvos Energija Group in 2015, compared to 2014, decreased by 2.8%, excluding revenue of Lietuvos Dujos.



↑ **Klaipėdos Nafta** revenue in 2015 amounted to EUR 109.7 million and was 2.8 times higher than in 2014. The main reason for the increase of Company's revenue – the launch of LNG terminal. In total, EUR 69.9 million revenue from LNG terminal activity was recognized during 2015. Sales revenue of oil terminal grew as well by 17.1% or EUR 5.4 million. The growth was determined by the transshipment increase of Orlen Lietuva and the increased flow of transit cargo from Belarus and Russia plants.

↑ **The Lithuanian Oil Products Agency** recorded EUR 66.9 million of revenue in 2015, which compared to 2014, increased twice from EUR 32.9 million. This change was determined by 116% increase in revenue from diesel sale (from EUR 29.3 million to EUR 63.4 million). Meanwhile, at the end of 2015 revenue from fuel oil sale amounted to EUR 3 million, while in 2014 there was no revenue from fuel oil sale.

↑ **EPSO-G Group** earned EUR 156.8 million of revenue in 2015, 6.6%, or EUR 9.7 million more than during 2014. The growth was influenced by Amber Grid revenue from natural gas transmission and related services, which at the end of 2015 amounted to EUR 55.2 million and was by EUR 28.4 million or 2 times higher than in 2014. This change was mostly influenced by the fact that in 2014 Amber Grid revenue was included in the Group's results only since July, when the controlling Interest had been acquired. Meanwhile, Group's revenue from electricity and related services decreased by 20.3% (EUR 21.3 million), down to EUR 83.5 million.

↑ **Lithuanian Post Group**, in 2015 earned EUR 72.2 million of revenue, i.e. 12% or EUR 7.8 million more than in 2014. The growth of Group's revenue was determined by 11.4% increase in revenue from the provision of postal services, which constitute 53.8% (EUR 38.8 million) of the total sales revenue of the Group. The growth was determined by the increase in revenue from international postal consignments.

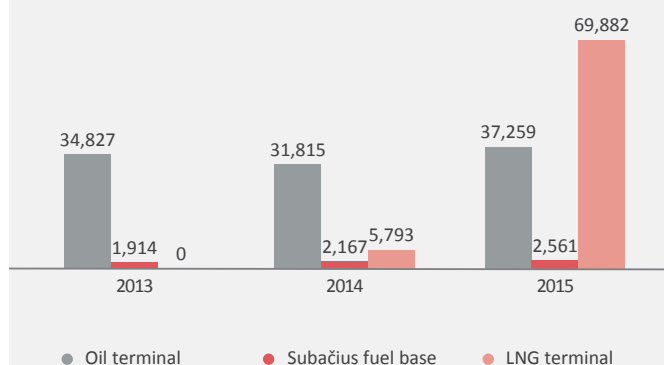
↓ **Lithuanian Railways Group** revenue fell by 8.7%, down to EUR 429.5 million. The decrease of revenue was mostly influenced by 1.9% lower amount of transported freight (the diminished transit freight towards the direction of Kaliningrad made the biggest impact) and 7.7% drop in the amount of transported passengers. Furthermore, in 2015 Group's revenue from other additional services decreased significantly as well, from EUR 58.5 million to EUR 36.4 million. The revenue decreased due to significant fall in volume of freight wagon rental and repair, as well as due to the decreased demand for scrap metal.

↓ **42 forest enterprises** in 2015 received EUR 156.2 million of revenue – that was 5.7% or EUR 9.5 million less than in 2014. Revenue decrease was determined by the dropped selling price of round wood. The average price per cubic meter of sold round wood decreased by 11.9%, from EUR 43.8 in 2014 to EUR 38.6. In 2015 revenue from round wood sale constituted 91.7% of the total sales revenue generated by the forest enterprises.

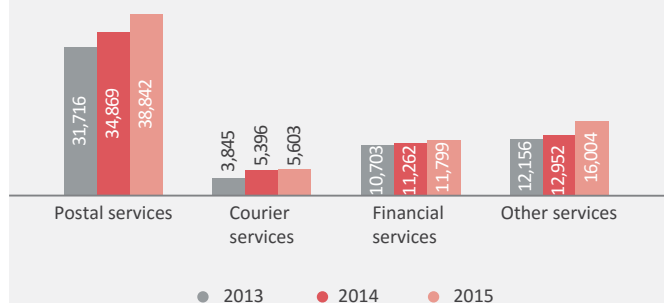
↓ In 2015, **Visagino Energija** earned EUR 13.9 million of revenue, 13.9% less than at the end of 2014. The base revenue of the Company, which constitutes 88.7% of total sales revenue, is generated from heat energy and hot water supply to external customers. In 2015 this revenue was 15.2% lower than at the end of 2014. Warmer weather conditions and lower price of heat energy due to the decreased fuel prices had a major impact on such results.

↑ **Other SOEs'** revenue in 2015 was EUR 16.8 million higher than in 2014 and contributed to the increase of sales revenue of SOE portfolio. Of 76 enterprises, of which no detailed explanations of changes in their sales revenue were provided, 47 enterprises experienced revenue increase, 28 enterprises – decline, and Energetikos Agentūra, whose activities are funded by direct state grants and subsidies, as in 2014, did not account revenue at all.

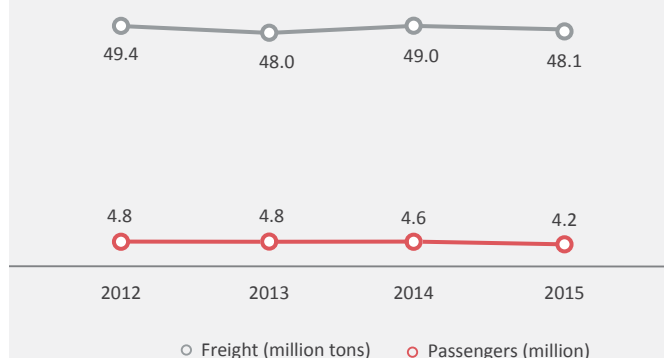
Revenue structure of Klaipėdos Nafta (EUR '000)



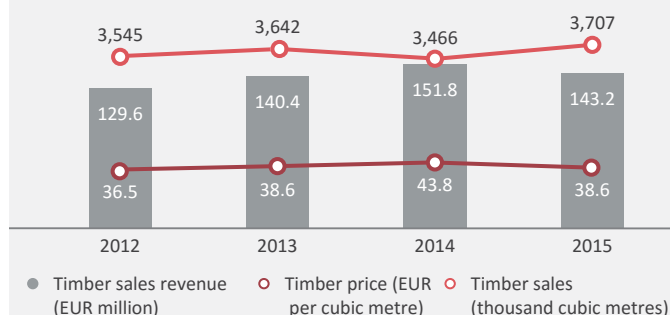
Revenue structure of Lithuanian Post Group (EUR '000)



Lithuanian Railways



Timber sales of forest enterprises



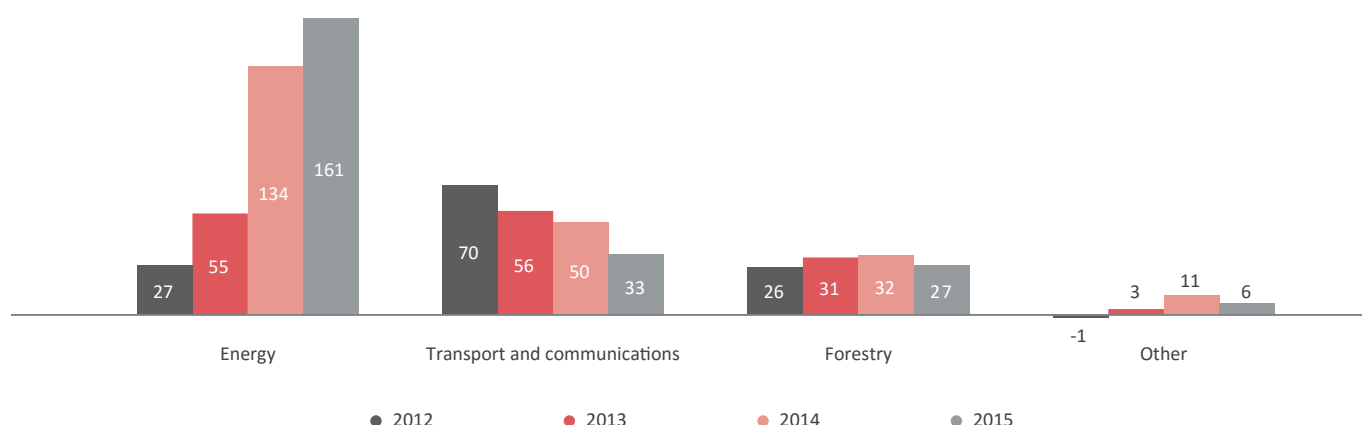
## Normalised net profit

### Normalised net profit decreased by 0.5%

During 2015 State-owned enterprises earned EUR 226.1 million of normalised net profit – that is 0.5% less than in 2014. The decrease of the normalised net profit was mostly influenced by the 34.4% decrease to EUR 32.7 million, in the normalised net profit of the enterprises of transport and communications sector. The normalised net profit of forestry sector and the sector of other enterprises significantly decreased as well. During 2015 forestry sector earned

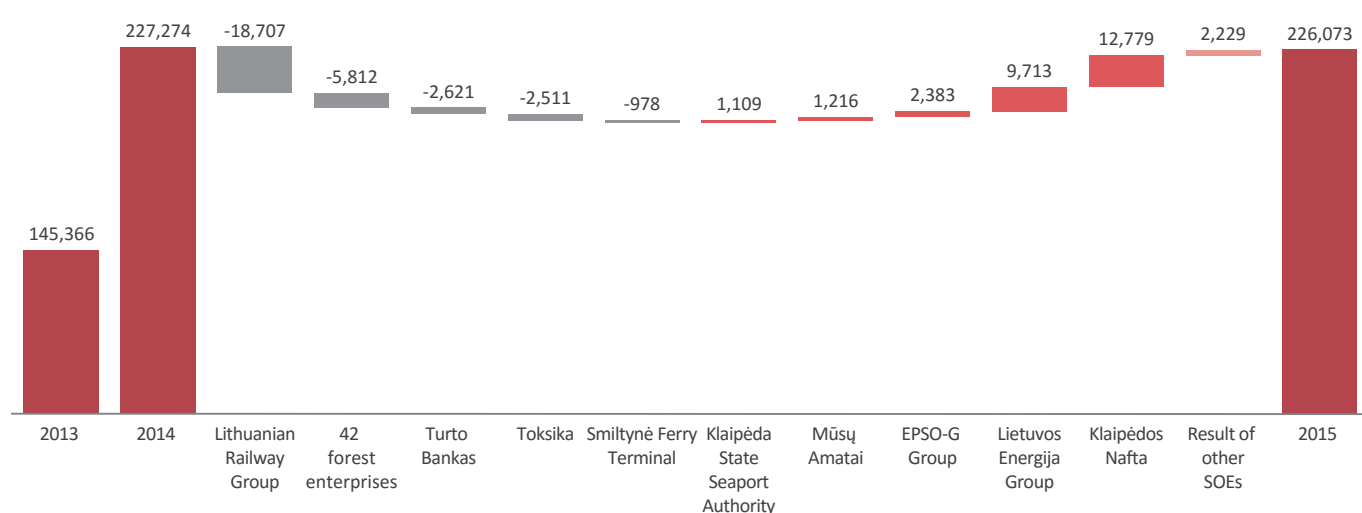
EUR 26.6 million, 17.8% less than during 2014. The normalised net profit of other enterprises' sector decreased by EUR 4.3 million, down to EUR 6.3 million. However, the normalised net profit of the energy enterprises in 2015 was 19.4% higher and amounted to EUR 160.5 million. This sector earns the largest share of the normalised net profit of the entire SOE portfolio. At the end of 2015 energy sector earned 71% of the total normalised net profit of SOE portfolio.

Normalised net profit/loss (EUR million)



Hereafter is presented the information on the changes in the normalized net profit of the SOE portfolio by the enterprises that had the greatest effect on the results of the entire portfolio.

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



**Klaipėdos Nafta** earned EUR 22 million net profit, which was 2.4 times or EUR 12.8 million higher than in 2014. The enterprise's profit growth was stimulated by 15.6% increase in transshipment of oil products and LNG terminal, which launched its activities in November, 2014. The LNG terminal losses, incurred during the period of project implementation, in 2015 were replaced with the operating profit, which raised the enterprise's net result of 2015 by EUR 7 million.

**The Lietuvos Energija Group** earned EUR 127.9 million of normalised net profit in 2015, 8.2% more than during the same period on previous year. The growth of net profit was significantly influenced by the increased sales revenue, which increased by 12.7% and at the end of 2015 amounted to EUR 1,095.8 million. This increase was determined by the revenue derived from gas distribution and sale, which was related to the acquisition of the controlling block of shares of Lietuvos Dujos in June 2014. It should be noted, that due to the increased consumption the amounts of electricity generated and distributed by the Group grown by 9.3% and 1.6% respectively.

↑ In 2015, the **EPSO-G Group's** normalised net profit was EUR 2.4 million higher than a year ago and increased from EUR 10.3 million up to EUR 12.6 million. The decisive influence originated from the financial results of gas transmission activities carried out by Amber Grid, which were included into the Group since the second half of 2014, after the acquisition of company's controlling block of shares. It is noteworthy that the normalised net profit of the other subsidiary of the EPSO-G Group- Litgrid- decreased by EUR 5.5 million in 2015, compared to the results of 2014.

↑ **Mūsų Amatai** in 2015 earned EUR 94.7 thousand of normalised net profit and the net result was EUR 1.2 million higher than in 2014, when the company had incurred EUR 1.1 million loss. The Company's normalised net result of 2015 was mostly determined by the 15.3% or almost EUR 1 million increase in sales revenue. The sales revenue increased in Pravieniškiai and Alytus branches, but decreased in Marijampolė branch. The normalised net profit was also influenced by EUR 0.5 million decrease in operating expense. The operating expense decline was determined by the decrease in other expense (irrecoverable debts, vacation accruals, depreciation of reserves, etc.), which decreased by 77% or by EUR 583.6 thousand.

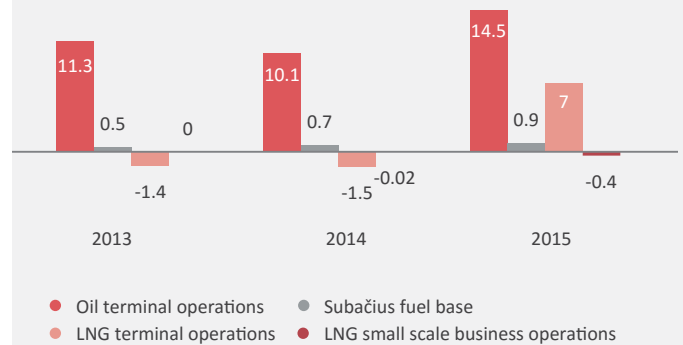
↑ **Klaipėda State Seaport Authority's** normalised net profit grew by 4.8% (EUR 1.1 million) and at the end of 2015 amounted to EUR 24.2 million. The increase of the normalised net profit was mainly caused by the record handling of marine cargo in Klaipėda port. During 2015, 5.8% more cargo was handled in the port than in 2014. Consequently, the toll revenue, which accounted for the largest share of port's operating income, increased by almost 10% and determined a significant increase in Company's sales revenue.

↓ **The Lithuanian Railways Group's** net result amounted to EUR 0.7 million, 96.5% less than in 2014. Worse results of the Group were determined by the revenue decrease and operating expense increase; it should be noted, that Lithuanian Railways included EUR 7.7 million decrease in receivable revenue into operating costs considering the risk of judicial proceedings with ORLEN Lietuva and accounted for an additional EUR 1.2 million increase in the provision for risk assessment due to the notice submitted by the European Commission. In 2015 two (out of six) subsidiaries incurred losses; collective result of the companies was positive – EUR 1.2 million.

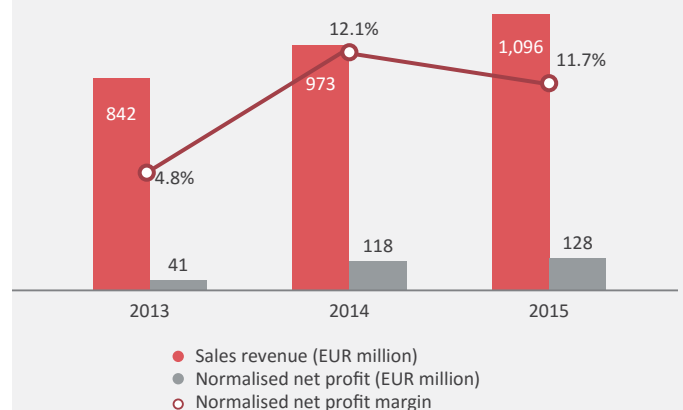
↓ **42 forest enterprises'** net results reduced the normalised net profit of SOE portfolio by EUR 5.8 million. Due to 5.7% decline in sales revenue of the forestry enterprises, the net profit decreased from EUR 10.9 million in 2014 to EUR 6.1 million in 2015. Assessing the influence of atypical taxes to the state, in 2015 forestry enterprises earned EUR 26.4 million of normalised net profit, 18% less than a year ago.

↓ **Turto Bankas** normalised net profit of 2015 was EUR 2.6 million lower than in 2014. In 2015, a loss of EUR 1 million was incurred. The main reason for this was decline in sales revenue due to Valstybės Turto Fondas merger into Turto Bankas: Sales revenue of 2015 decreased by 44.6% and was mostly influenced by the prolonged financing of reorganization processes (remuneration for the performed functions) and adoption of other legislation. The results were also influenced by the non-compensation expenses for the non-commercial functions that were assigned via the adopted law of Centralized Asset Manager.

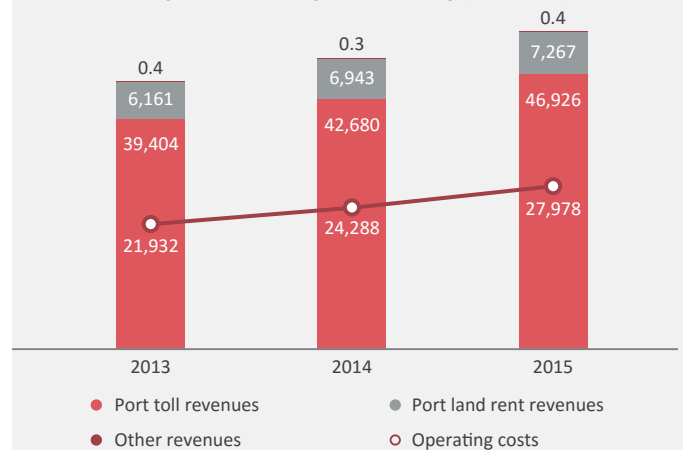
Klaipėdos Nafta net profit (EUR million)



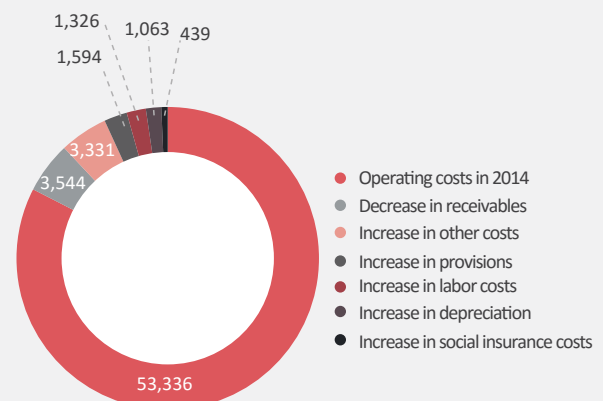
Lietuvos Energija Group



Klaipėda State Seaport Authority (EUR '000)



Changes in Lithuanian Railways operating costs (EUR '000)



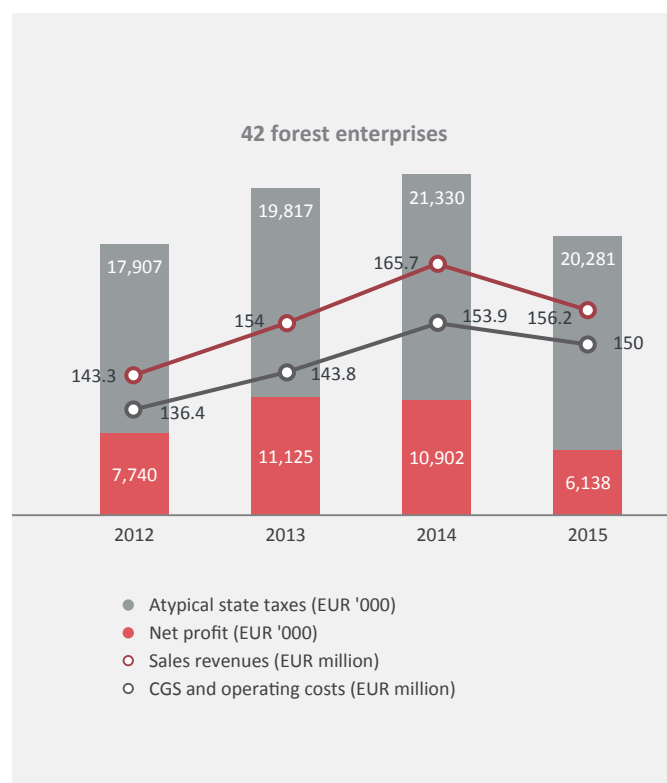
N.B: Company results of 2014 and 2015 are compared



↓ **Toksika** at the end of 2015 incurred a EUR 0.5 million loss, while in 2014 earned EUR 2 million net profit. The change of Company's net profit was determined by the received interest of EUR 2.5 million in 2014, which accrued in accordance to the contract regarding the construction of facility for hazardous waste incineration signed in 2008. The contractor failed to fulfil its obligations, delayed the construction of the facility for more than three years. In 2014 this amount was accounted for as revenue from financial activities, consequently, the net result of the Company was significantly increased in 2014.

↓ **In 2015, Smiltynė Ferry Terminal** earned EUR 163.3 thousand of net profit, 85.7% less than in 2014, when the net result of the Company amounted to EUR 1.1 million. The lower result of the Company was mostly determined by the decline in Company's revenue from other activities. At the beginning of 2014 the Company had sold unexploited passenger pavilions, sales revenue for which amounted to EUR 0.6 million and raised Company's total revenue. Also, revenue from ferry rent to transfer heavy machinery for the construction of LNG terminal quay decreased by 76.1% or EUR 0.2 million.

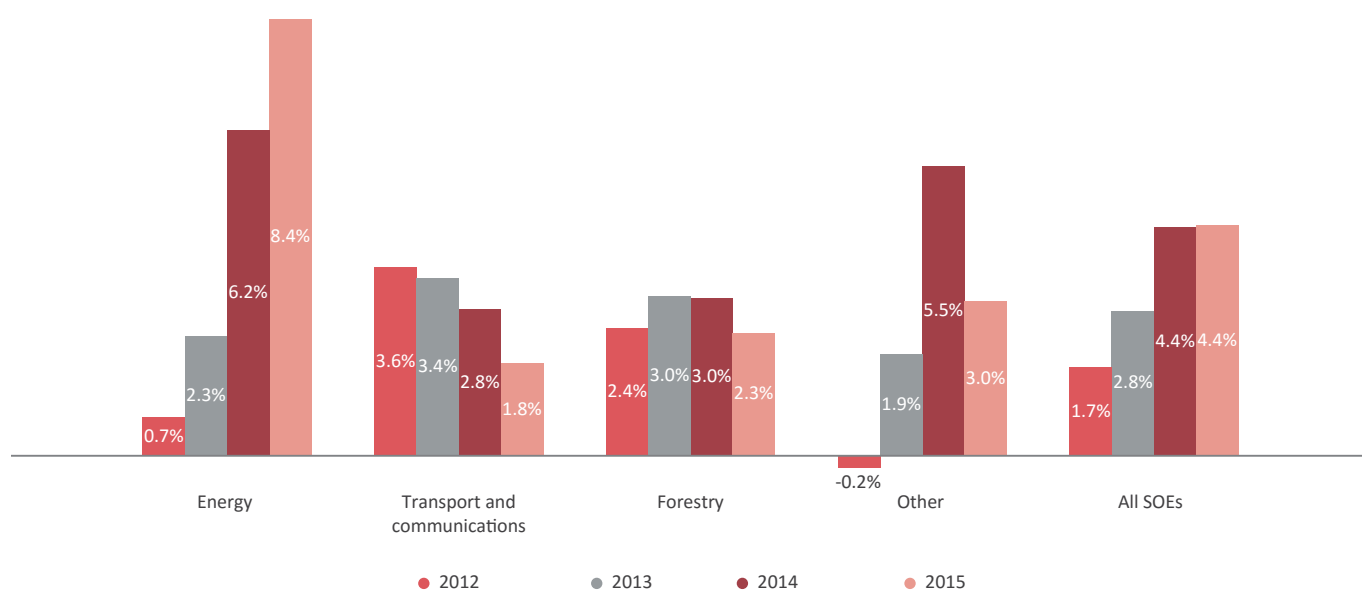
↑ **Other SOEs'** normalised net profit increased by EUR 2.2 million and by this amount raised the normalised net profit of the total SOE portfolio. Out of 74 enterprises, which net result changes were not described in detail, the normalised net profit increased in 41 enterprise, and decreased in 33 enterprises.



The normalised return on equity of SOE portfolio at the end of 2015 reached 4.4% and, compared to 2014, remained unchanged. During the reference period the normalised return on equity grew only in energy sector companies, from 6.2% to 8.4%, mainly due to **Lietuvos Energija Group** increasing performance and development each year. In 2015, this sector had the highest ratio value compared to other SOE sectors. The normalised return on equity of all sectors decreased

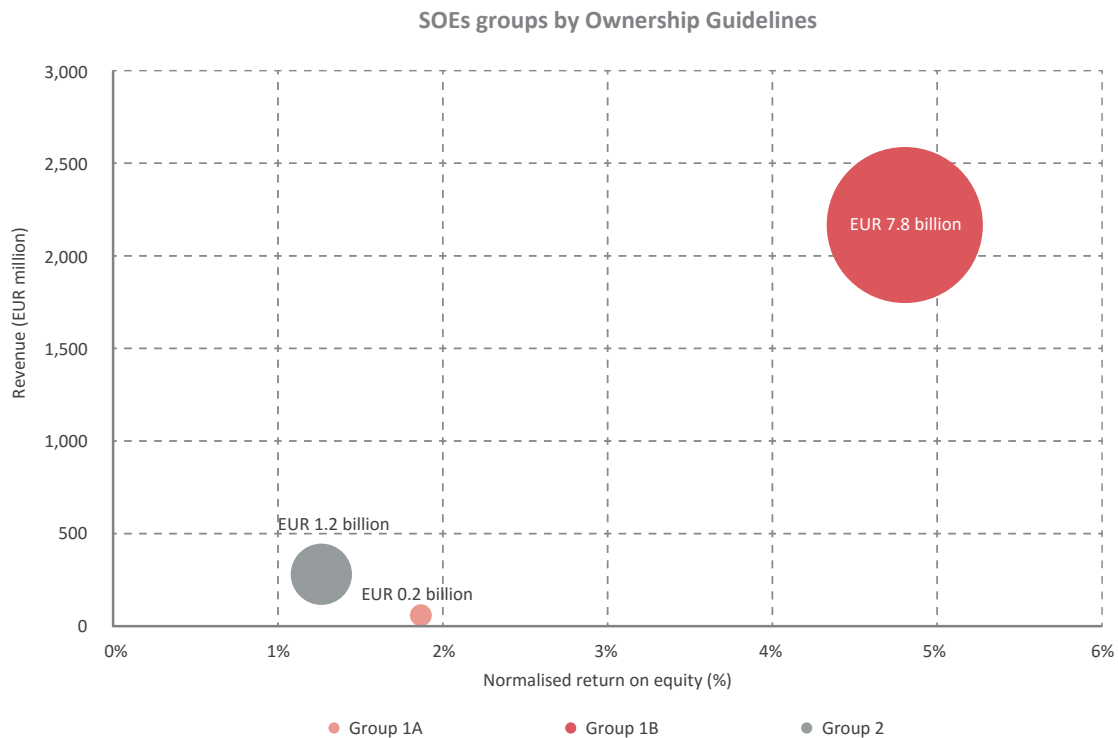
in 2015. The most significant decrease was observed in the sector of other enterprises where the normalised return on equity declined by 2.5 percentage points, from 5.5% down to 3.0%. The normalised return on equity of the transport and communications sector shrank from 2.8% to 1.8%. Forestry sector's normalised return on equity changed the least, by 0.7 percentage point, to 2.3%.

Normalised return on equity



## Implementation of State Objectives

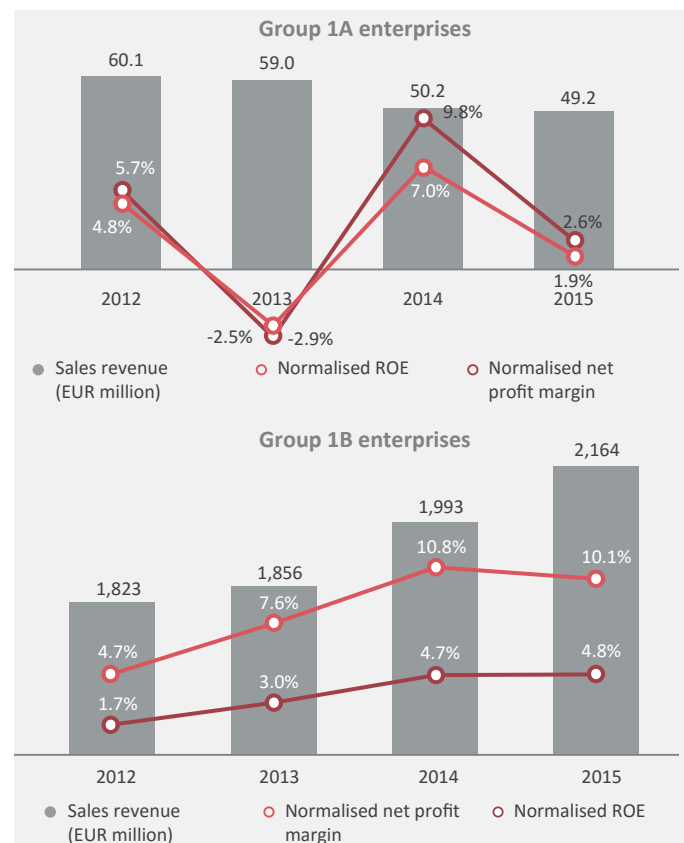
The Ownership Guidelines approved by the Government divide all SOEs into three groups: 1A, 1B, and 2. Group 1A enterprises are engaged in exclusively commercial activities and the state expects them to increase the value of business as well as pay larger dividends and profit contributions to the state 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. Group 2 enterprises first of all must strive to implement social and political objectives of the state and engage in non-commercial activities. However, with a view to ensuring the continuity of activities, they should not be loss-making.



Group 1A consists of 21 enterprises which are included in the portfolio, the largest being **Visagino Energija**, **Toksika** and **Giraitės Ginkluotės Gamykla**. This group is the smallest in terms of the value of assets and profit: in 2015, the value of group 1A enterprises' was EUR 154.5 million, revenue was EUR 49.2 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 failed to meet these expectations: in 2015 normalised ROE reached 1.9%. In 2015 **Lithuanian Exhibition and Congress Centre LITEXPO** (EUR 0.7 million) and **Visagino Energija** (EUR 0.5 million) earned the most normalised net profit. The normalised return on equity of **Lithuanian Exhibition and Congress Centre LITEXPO** was 6.2% while normalised ROE of **Visagino energija** reached only 1.2%.

In terms of revenue and assets, Group 1B is the largest. 62 SOEs which are included in the portfolio are attributed to this group; while the aggregate book value of its assets constituted EUR 7.8 billion in 2015 (85.2% of the SOE portfolio value) and revenue reached EUR 2.2 billion (87.5% of the SOE portfolio profit). This group is comprised of the most important SOEs in energy, and transport and communications sectors – the **Lietuvos Energija Group**, the **Lithuanian Railways Group**, **Klaipėda State Seaport Authority**, the **Lithuanian Post**, **Klaipėdos Nafta**, and **Lithuanian Airports**. This group 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, the group's return on equity gradually grew during the last four years and reached 4.8% in 2015.



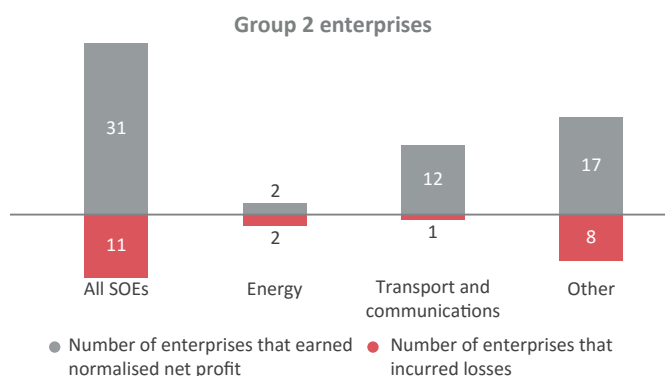
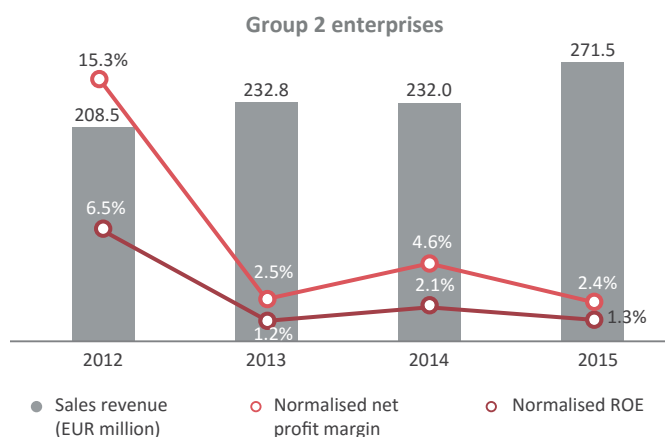
In 2015, Group 1B earned an aggregate net profit of EUR 218,2 million (after eliminating one-off revaluation losses, the effect of non-standard taxes to the state and losses sustained due to the banks' bankruptcies) – that is 1.2% more than in 2014. High performance of **Klaipėdos Nafta** had the biggest influence on the group's profitability. The good results of **Klaipėdos Nafta** resulted from the significant growth in load volumes and the LNG Terminal exploitation. Net profit of this enterprise during the accounting period amounted to EUR 22 million, which was 138% more than in 2014.

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 2016, commercial worth of the forest reached EUR 1,003 million in 2015 and represented 86.7% of the total value of equity of the forest enterprises at the end of 2015. The return on equity, calculated with the forest value included, was 2.3% in 2015. 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.

Out of the largest group 1B enterprises, the best profitability ratios were achieved by **Klaipėdos Nafta** (11.9% ROE in 2015) and the **Lietuvos Energija Group** (normalised ROE reached 9.8%). The largest loss-making enterprise of this group in 2015 was **the Lithuanian Post Group**, which experienced EUR 0.3 million of normalised net loss.

Group 2 consists of 42 SOEs which are included in the portfolio. The book value of this group's assets constituted EUR 1.2 billion in 2015, the profit – EUR 271.5 million. The largest enterprises assigned to this group are **Lithuanian Oil Products Agency**, **11 Road Maintenance Enterprises**, **Oro Navigacija**, **Centre of Registers** and **Regitra**.

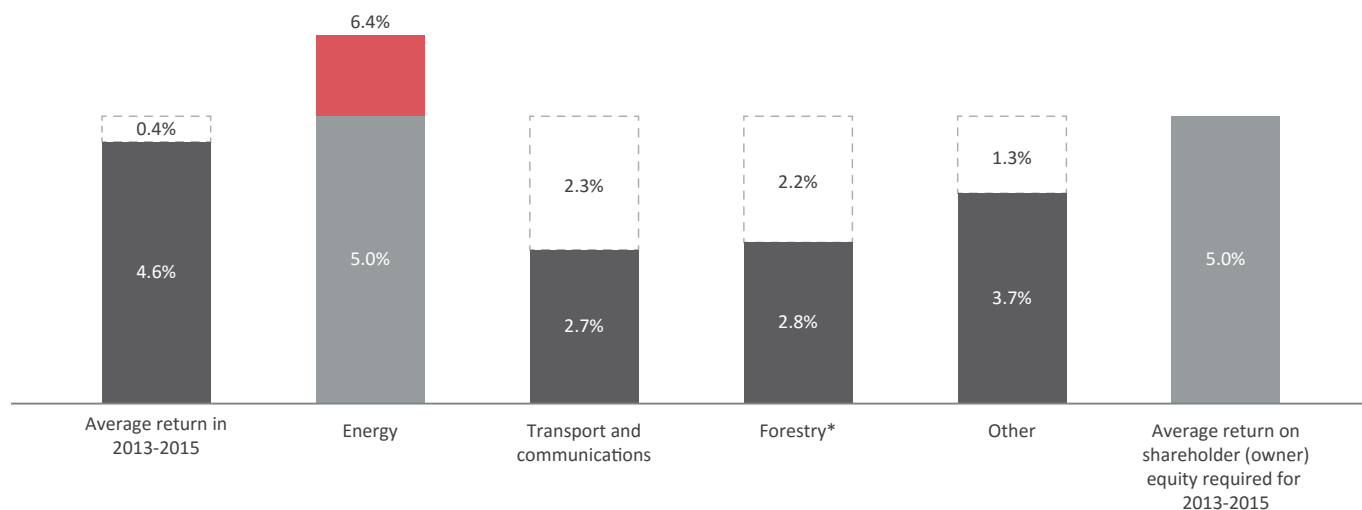
It should be noted that the normalised return on equity of this group's enterprises reached 1.2% in 2015. Such ratio complies with the objectives set by the state for this group (to be profitable).



**Regitra** and **Oro Navigacija** accounted for the largest profits in the Group 2 by earning EUR 2.4 million and EUR 1.4 million of normalised net profit, respectively, and resulting in normalised ROE of 13.9% and 3.5%. In 2015 eleven enterprises of this group featured losses, **Ignalina Nuclear Power Plant** experiencing the largest loss (EUR 2.4 million).

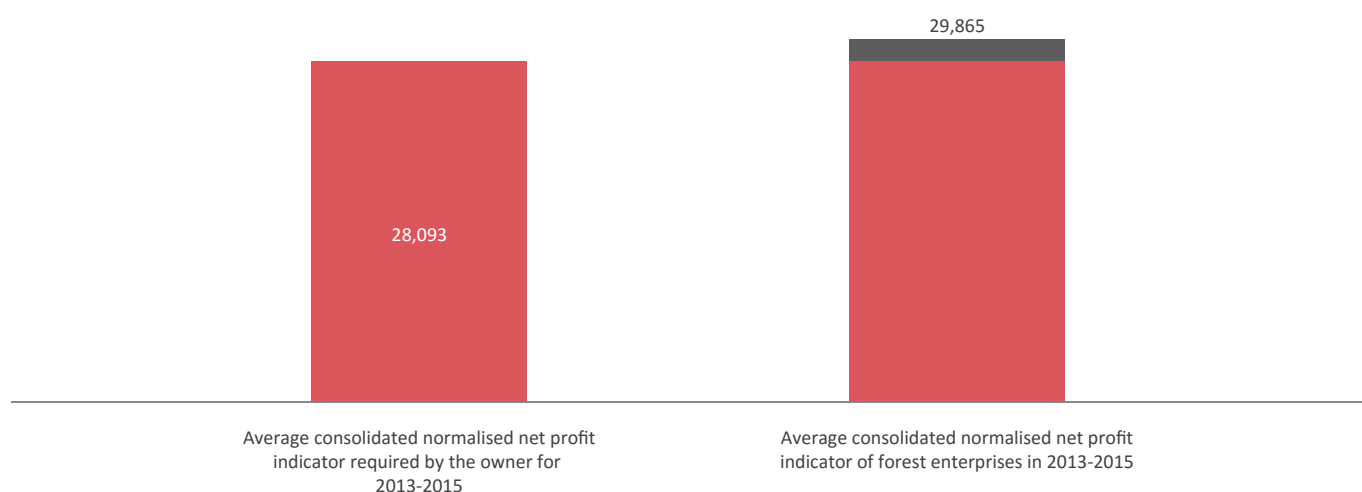
## Implementation of Objectives Set by the Government

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 EUR 28.1 million on average during the same period (after deducting property and raw material taxes to the state from operating expenses).



\*As forest enterprises are not subject to the return on equity requirement, their results were not included in the average 2013-2015 return.

## Implementation of requirements for forest enterprises set by Government (EUR '000)



In 2013-2015, the average annual return on equity of Group 1A and 1B enterprises amounted to 4.6% or 0.4 percentage points less than the requirement set by the Government. The ratio determined by the Government was achieved by 8 of 22 Group 1A enterprises and 8 of 20 Group 1B enterprises (this does not include 42 forest enterprises because they are determined by the consolidated net profit ratio requirement). During the 2013-2015 period, the return on equity in the transport and communications sector enterprises was the smallest with the 2.7% ROE; the sector of other enterprises featured slightly larger ROE of 3.7%; while the energy sector ROE was the highest, reaching 6.4%, which was 1.4 percentage points higher than the requirement set by the state.

**Forest enterprises** 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 EUR 28.1 million on average in 2013-2015. These enterprises reached an annual average consolidated net profit of EUR 29.9 million, 6.3% more than the required amount. During this period, the average annual return on equity of the forestry sector was 2.8%.

Further presented is the individual return on equity ratios of enterprises during the 2013-2015 period.

Enterprise	Group	Normalised ROE in 2013	Normalised ROE in 2014	Normalised ROE in 2015	Average ROE in 2013-2015	Average normalised ROE in 2013-2015	Average shareholder (owner) required ROE for 2013-2015	Average shareholder (owner) required ROE for 2016-2018
Lietuvos Energija Group	1B	2.3%	7.7%	9.8%	-3.9%	6.6%	5%	5.7%
EPSO-G Group	1B	1.8%	4.9%	6.4%	0.6%	4.4%	5%	8.8%
Klaipėdos Nafta	1B	6.4%	5.4%	11.9%	7.9%	7.9%	5%	5.9%
Visagino Energija	1A	6.9%	2.1%	2.1%	1.9%	3.7%	5%	5.2%
Geoterma <sup>1</sup>	1A	-29.8%	-	-	-	-	5%	5.8%
Lithuanian Railways Group	1B	3.4%	1.9%	0.1%	1.8%	1.8%	5%	5.5%
Lithuanian Post Group	1B	1.5%	-1.8%	-1.0%	-0.4%	-0.4%	5%	7.3%
Smiltynė Ferry Terminal	1B	12.7%	17.3%	2.4%	10.8%	10.8%	5%	6.0%
Klaipėda State Seaport Authority	1B	6.0%	5.5%	5.4%	5.5%	5.7%	5%	7.5%
Lithuanian Airports	1B	0.4%	1.3%	2.2%	1.1%	1.3%	5%	5.7%
Lithuanian Radio and Television Centre	1B	-5.7%	0.2%	0.5%	-1.7%	-1.7%	5%	5.9%
Autoūkis	1A	-54.9%	0.0%	0.4%	-18.3%	-18.2%	5%	7.8%
Valstybinis Miškotvarkos Institutas	1A	7.7%	9.2%	11.6%	8.8%	9.5%	5%	5.5%
Projektų Ekspertizė	1A	9.1%	5.9%	7.5%	7.5%	7.5%	5%	5.6%
Statybos Produkcijos Sertifikavimo Centras	1B	33.8%	10.2%	9.7%	17.2%	17.9%	5%	6.6%
Mūsų Amatai	1B	-4.7%	-18.8%	1.7%	-7.4%	-7.3%	5%	6.2%
Lietuvos Kinas	1A	-2.9%	-62.4%	-5.0%	-23.4%	-23.4%	5%	5.9%
Respublikinė Mokomoji Sportinė Bazė <sup>2</sup>	1A	-	-	-	-	-	5%	5.7%
Lietuvos Monetų Kalykla	1B	0.9%	17.3%	9.1%	9.1%	9.1%	5%	5.5%
Informacinio Verslo Paslaugų Įmonė	1A	11.6%	13.1%	11.7%	12.0%	12.1%	5%	6.6%
Detonas	1B	5.2%	3.2%	3.2%	3.9%	3.9%	5%	5.6%
Problematika	1A	10.5%	3.3%	6.3%	6.7%	6.7%	5%	5.6%
Universiteto Vaistinė	1A	5.5%	6.0%	5.1%	5.5%	5.5%	5%	7.4%
Mintis	1A	-10.8%	-79.7%	-25.5%	-38.7%	-38.7%	5%	6.9%
Giraitės ginkluotės gamykla	1A	15.0%	15.0%	7.1%	12.4%	12.4%	5%	6.6%
Toksika	1A	-15.4%	37.4%	-8.5%	4.5%	4.5%	5%	6.3%
Lithuanian Exhibition and Congress Centre LITEXPO	1A	9.7%	5.2%	6.2%	7.0%	7.0%	5%	5.7%
Holiday Home Baltija	1A	-56.7%	-18.8%	0.6%	-26.7%	-24.9%	5%	6.4%
Klaipėdos Metrologijos Centras*	1B	2.3%	0.5%	1.1%	1.3%	1.3%	5%	-
Šiaulių Metrologijos Centras*	1B	-2.9%	2.0%	3.9%	1.0%	1.0%	5%	-
Vilniaus Metrologijos Centras	1B	4.7%	5.4%	6.7%	5.6%	5.6%	5%	6.6%
Kauno Metrologijos Centras*	1B	5.2%	4.6%	2.8%	4.2%	4.2%	5%	-
Panevėžio Metrologijos Centras*	1B	9.3%	4.6%	-10.8%	-0.4%	1.1%	5%	-
Senevita*	1A	-5.1%	-3.0%	-7.4%	-5.3%	-5.2%	5%	-
Infrastruktūra	1B	3.6%	5.1%	4.5%	2.8%	4.4%	5%	6.6%
Jonavos Grūdai	1B	5.4%	6.7%	7.7%	6.6%	6.6%	5%	7.0%
Panevėžio Veislininkystė	1A	-21.6%	-30.6%	3.2%	-16.3%	-16.3%	5%	4.6%
Šilutės Polderiai	1A	7.3%	8.8%	4.7%	6.9%	6.9%	5%	5.9%
Valstybinė Projektų Ir Sąmatų Ekspertizė	1A	-18.3%	3.9%	0.9%	-4.5%	-4.5%	5%	5.6%
Aerogeodezijos Institutas	1A	0.6%	-16.3%	0.6%	-5.0%	-5.0%	5%	5.6%
Dotnuvos Eksperimentinis Ūkis	1A	2.3%	1.9%	-13.2%	-3.0%	-3.0%	5%	5.1%
Upytės Eksperimentinis Ūkis	1A	10.3%	-1.0%	4.7%	4.6%	4.6%	5%	4.3%

1-Geoterma had a negative equity in 2014 and 2015; consequently the return on equity was not provided for these time periods.

2-Respublikinė Mokomoji Sportinė Bazė had a negative equity in 2013, 2014 and 2015; consequently return on equity was not provided for these time periods.

\*Klaipėda Metrology Centre, Šiauliai Metrology Centre, Kaunas Metrology Centre, Panevėžys Metrology Centre and Senevita do not have a set ROE requirement for 2016-2018 time period due to the metrology centres being reorganised into Vilnius Metrology Centre on January 1st 2016 and Senevita having been re-registered into a public agency since January 4th 2016.

## Return from SOEs to the State

SOE return to the state (the dividends, profit contributions and atypical taxes) should reach EUR 140 million for 2015 – it is 34.7% more than for 2014. Of this amount, the state designated dividends and profit contributions amount to EUR 111.4 million, and, compared to 2014, are 50.1% larger. The part of atypical taxes to the state decreased by 3.7% and amounted to EUR 28.7 million in 2015.

Enterprises of the energy sector allocated EUR 99.2 million of dividends to the state for the reporting cycle. The major part comprised of the dividends designated by **Lietuvos Energija**, the amount of which reached EUR 86 million, EUR 33.3 million more than for 2014. Dividends designated by **Klaipėdos Nafta** also comprised a significant part, which reached EUR 12.7 million. **EPSO-G** allocated EUR 425 thousand of dividends for 2015: the reduction to 0.5% of distributable net profit payable as dividends was allowed, since the company is involved in the implementation of the Polish-Lithuanian gas pipeline project.

Transport sector companies should contribute EUR 3.8 million of dividends and profit contributions to the state budget for 2015 – EUR 5.6 million less than for 2014. **Lithuanian Railways** allocated to pay EUR 0.85 million of dividends and, compared to 2014, this amount decreased by EUR 7.4 million, which resulted from the Government decision to allocate 20% of **Lithuanian Railways** distributable profit for dividends. The reduced amount of dividends (as a proportion of the profit) was allowed due to the fact that the company implements the economic projects important for the State (Rail Baltica, Lithuanian part of the East-West transport corridor project). **Lithuanian Post** designated dividends for 2015 amount to EUR 0.7 million. **Lithuanian Airports** will pay EUR 1.1 million of profit contributions to the state budget for 2015. Companies of regional road maintenance will add EUR

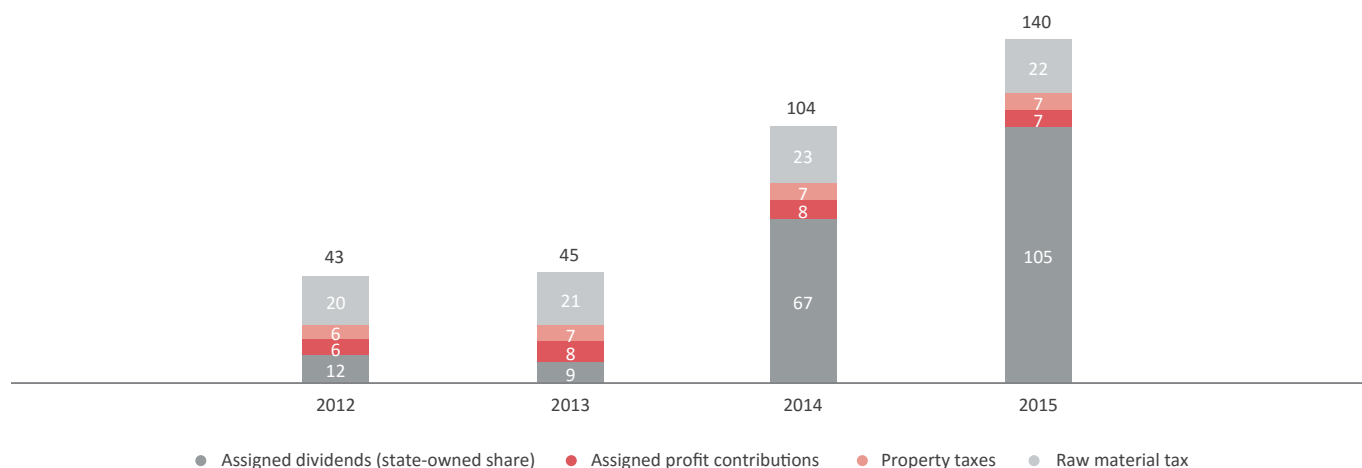
0.9 million of profit contributions to the state budget, it is 2.1 times higher amount than for the previous reporting cycle. **Klaipėda State Seaport Authority**, which earned EUR 24.2 million of net profit in 2015, was exempted from the profit contributions.

**The Forest Enterprises** and **the National Institute of Forest Management** will add EUR 3.2 million of profit contributions to the state budget for the performance in 2015 – it is EUR 2.3 million less than for 2014.

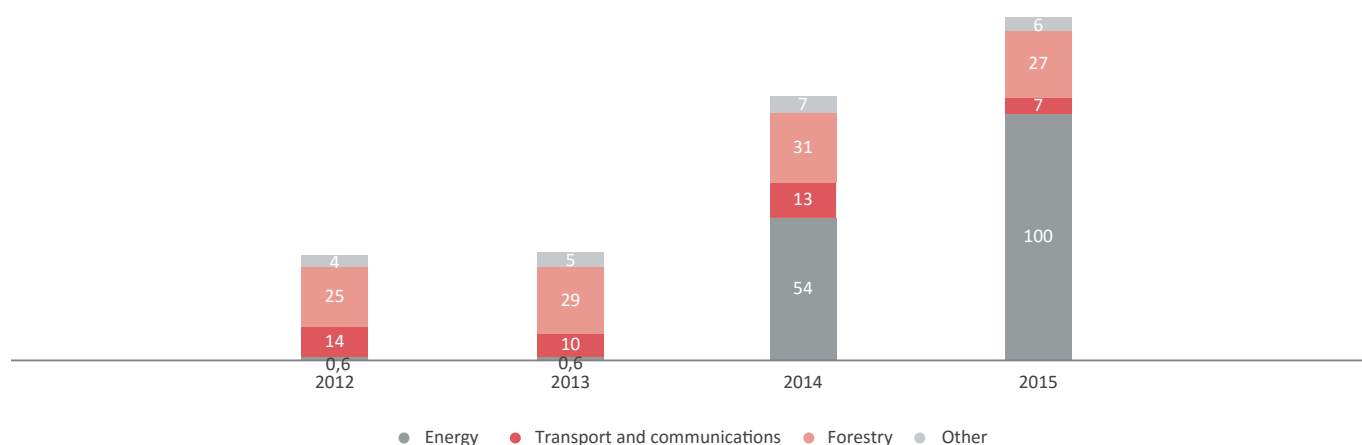
In the sector of other enterprises, dividends and profit contributions should amount to EUR 5.2 million or 12.2% less than for 2014. For the major part of dividends and profit contributions allocated by this sector accounted the profit contribution by **Regitra**, which should reach EUR 1.1 million for 2015. **Investicijų Ir Verslo Garantijos** allocated a significant contribution to the state budget for 2015 – EUR 0.6 million; the dividends of **Lietuvos Monety Kalykla** amount to EUR 0.7 million.

Atypical taxes paid by the SOE in 2015 were lower by EUR 1.1 million and amounted to EUR 28.7 million. The major part of atypical taxes was paid by Forest enterprises: EUR 21.6 million of raw materials tax and EUR 2.2 million of property tax. Most of the property taxes were paid by the transport sector companies (EUR 3.5 million).

Return from SOEs to the State (EUR million)



Return from SOEs to the State (EUR million)





## Value added of SOEs

### SOEs have created 5.4% more value added for the state in 2015.

Value added (VA) indicates how much value is created by mutual effort of the owners of the company capital, leadership and staff. This part reveals the direct contributions of the companies to the state budget; also it is evaluated how added value is divided between the stakeholders: shareholders (owner), creditors, employees and the state which gets the corporate taxes. PV evaluation is particularly relevant to SOEs, since a large part of them have to balance the goal of profit with implementation of assigned special obligations and fulfillment of public interests. In addition, SOEs provide a financial return to the shareholder not only in the form of the net profit, but also in the form of taxes paid to the budget, and, therefore, PV analysis helps to assess the overall value created by these enterprises for the state.

Value added of the companies included in the SOE portfolio is calculated on the basis of audited annual financial reports of SOEs for 2015 and information provided by the enterprises on employee remuneration funds, paid taxes and interest costs. Calculating the

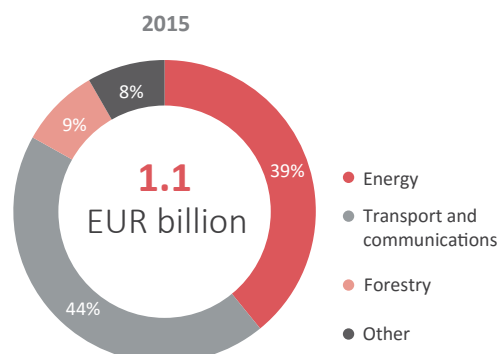
value added of SOEs, effect of assets' revaluation and one-off events were eliminated. These events influenced the financial results of enterprises and are described at the beginning of the statement of SOE portfolio.

Value added (EUR millions)	2013	2014	2015
Operating revenue	2,147	2,276	2,485
Other revenue	19	24	17
Product and service acquisition costs	1,138	1,219	1,367
<b>Value added before the financial activity</b>	<b>1,029</b>	<b>1,081</b>	<b>1,134</b>
Financial results	10	-1	3
<b>Distributable value added</b>	<b>1,039</b>	<b>1,079</b>	<b>1,138</b>

Value Added Distribution (EUR millions)	2013	2014	2015
<b>For the capital owners</b>	<b>35</b>	<b>95</b>	<b>134</b>
Dividends and profit fee paid to the state	17	74	111
Dividends paid to minority shareholders	0	0	5
Interest paid to creditors	18	20	17
<b>For the employees</b>	<b>526</b>	<b>566</b>	<b>599</b>
Salaries	336	360	384
Social security taxes	146	158	168
Employee retention costs, reimbursed from the state budget, structural EU and other funds.	45	47	47
<b>EU Funds and funds of the budget of the Republic of Lithuanian, which reimburse employee retention costs</b>	<b>-45</b>	<b>-47</b>	<b>-47</b>
<b>Taxes paid to the state</b>	<b>60</b>	<b>64</b>	<b>60</b>
<b>Funds for the company investments</b>	<b>467</b>	<b>402</b>	<b>392</b>
Deterioration	358	277	307
Net profit	109	125	85
<b>Value added</b>	<b>1,043</b>	<b>1,079</b>	<b>1,138</b>

In 2015 added value of all SOEs reached EUR 1.1 billion and was 5.4% higher than a year ago. Operating revenue increased by 9.2% (or by EUR 209 million), and costs of added value increased by 12.2% (or by EUR 148.2 million). The financial results from EUR 1.1 million loss in 2014 have changed to EUR 3.1 million profit in 2015.

Analyzing individual SOE sectors, value added of transport companies has slightly decreased and reached EUR 500.7 million in 2015 (EUR 4.2 million less than in 2014). The contribution of energy sector to the country's economy increased the most: at the end of 2015 it reached EUR 444.9 million (17.7% more than in 2014). Forestry and other companies have created value added of EUR 97.4 million (5.2% less) and EUR 94.6 million (1% more) respectively.

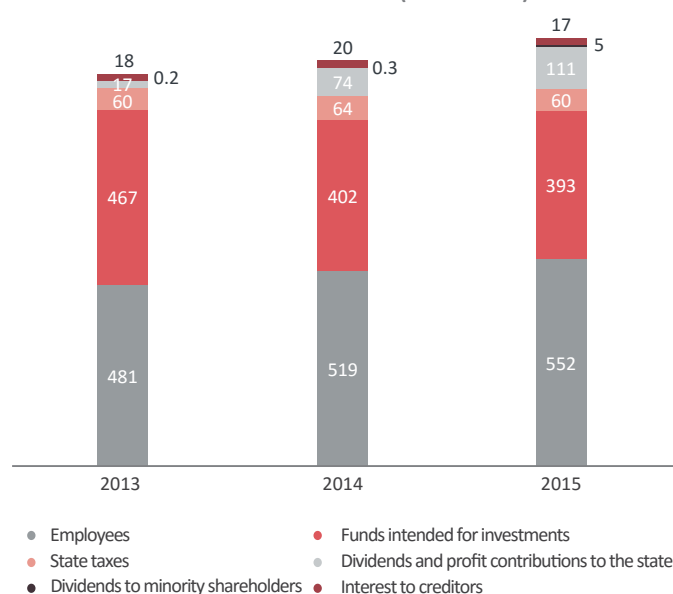


A comparison of value added generated by SOEs against Lithuania's gross domestic product (GDP), it is estimated that in 2015 SOE contribution to the state economy was 3.1%, i.e. 0.16 percentage points more than in 2014. The most significant part of the value added is created by few largest SOEs: Value added of the **Lithuanian Railways** Group amounted about EUR 313.2 million, joint value added of **Lietuvos Energija** and **EPSO-G** Groups reached EUR 393.5 million. The total contribution to the country's GDP of these three groups of companies was 1.9% in 2015.

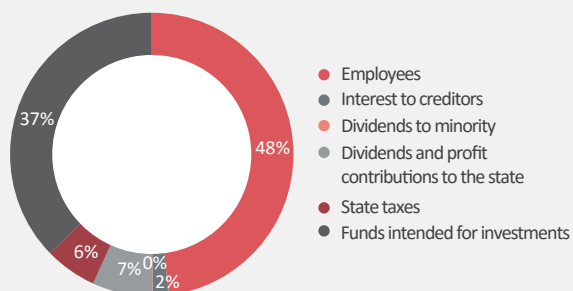
48.5% of total value added in 2015 has been designated for employee remuneration: salaries for employees, social security taxes and other payments. This number does not include EUR 47.5 million (4.2% of total value added) for employee remuneration costs reimbursed by the state budget or EU funds, which are not reflected in the corporate profit (loss) statements. These costs are only a redistribution of funds between the various stakeholders (national and supranational institutions and SOEs employees) and have no effect on the amount of value added for allocation.

11.7% in total, or EUR 133.2 million, of added value were allocated for

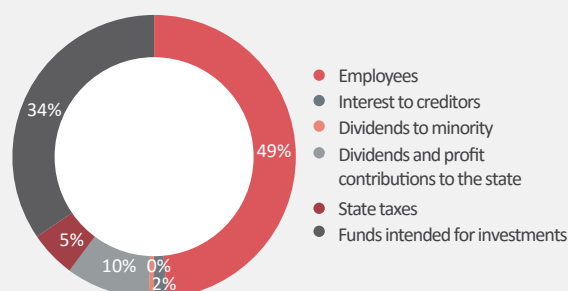
Generated value added (EUR million)



2014



2015

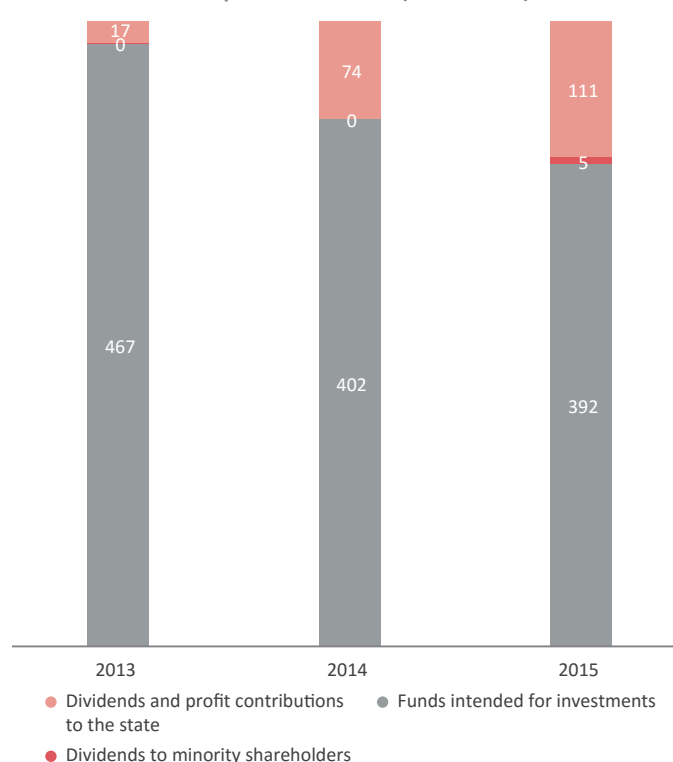


capital owners (the state, minority shareholders and creditors). SOE dividends and profit contributions for 2015 amounted to EUR 110.5 million (9.7% of the total value added). Creditors will receive EUR 17.4 million in the form of interest.

The state also receives value added in the form of collected taxes. This part decreased from 5.9% to 5.3% of total value added in 2015 and constituted EUR 60 million. Part of the overall taxes paid to the state is composed of atypical taxes (raw materials and property). Atypical taxes of SOEs paid to the state in 2015 amounted to EUR 28.7 million, EUR 1.1 million less than in 2014. Most of them were paid by the forestry sector companies – EUR 23.9 million, of which the majority (EUR 21.6 million) consists of raw material tax paid by the **forest enterprises**. Most of the property taxes were paid by the transport sector companies – EUR 3.5 million. Energy enterprises paid EUR 0.5 million of property tax and the sector of other enterprises – EUR 0.7 million.

After allocating the added value for all stakeholders, about 34.5% of the added value created in 2015 (nearly EUR 392.2 million) could be kept by the enterprises. These are the funds intended for development, investments for the impairment of assets, loan repayment, financing of the working capital and other corporate purposes. Compared with 2014, this amount decreased by 2.4%.

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

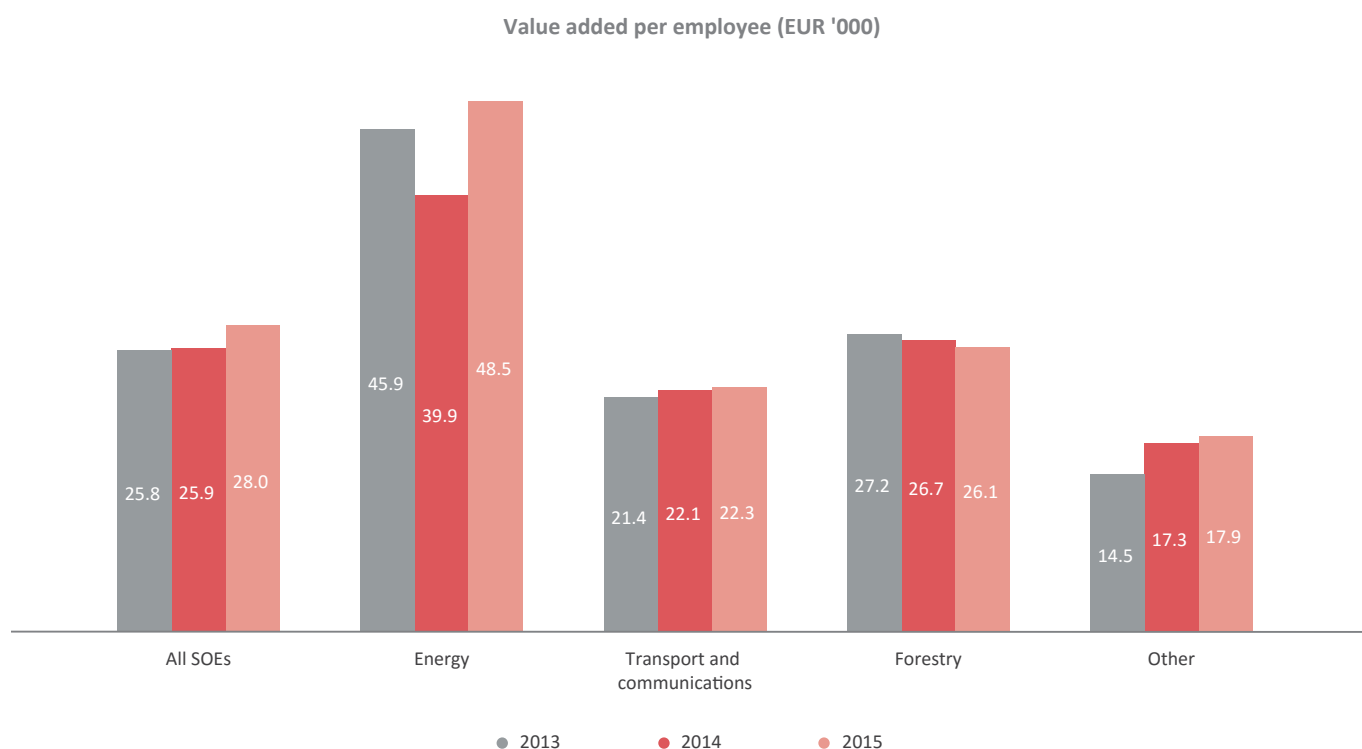


## Operating efficiency

In this part of SOE portfolio overview, the efficiency of enterprises is assessed by estimating SOE generated value added per employee. This enables to conduct a much broader evaluation of the operating efficiency of the enterprises – not only estimating revenue or profit earned by enterprises, but also including value added per employee.

As the absolute value added increased and the number of employees decreased, value added per employee generated by SOEs in 2015, compared to 2014, increased by 8.1% and constituted EUR 28 thousand. According to SOE sectors, the highest value added per employee (EUR 48.5 thousand – 21.6% more than a year ago) is observed at energy enterprises, which have relatively greater demand for tangible capital and lower demand for human resources. In the

sector of other enterprises, value added per employee increased by 3.5%, but it remained the lowest – EUR 17.9 thousand. In the forestry sector, value added per employee decreased; in 2015 it amounted to EUR 26.1 thousand, 2.2% less than in 2014. In the transport and communications sector, value added per employee slightly increased, from EUR 22.1 thousand in 2014 to EUR 22.3 thousand in 2015.



## Return on Equity According to DuPont Analysis

### Return on equity of the SOE portfolio did not change

At the end of 2015 the normalised return on equity of the SOE portfolio amounted to 4.4% and, compared to the financial results of 2014, remained the same. The increase of sales revenue and decrease of normalised net profit determined 0.9 percentage points lower normalised net profit margin of SOEs, which at the end of 2015 amounted to 9.1%. Due to the fact that portfolio revenue increased more than assets, asset turnover slightly increased (from 0.26 to 0.27). An increase in proportion of external financing for asset acquisition led to an increase of financial leverage from 1.70 to 1.77.

The most significant effect on the portfolio results had energy sector and transport and communications sector, which encompass the largest SOEs. The aggregated assets of the enterprises of these sectors constituted 85.5%, the normalised net profit – 85.5%, sales revenue – 87%, and equity – 73.8% of the respective items of the total SOE portfolio.

### DuPont Analysis

DuPont analysis is a recognised and widely used in practice method of analysis of results of company activities that allows breaking down the indicator of return on equity into 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 is a product of operating efficiency, measured by net profit margin, efficiency of asset usage, measured by asset turnover, and financial leverage of a company:

$$\text{ROE} = \text{Net Profit Margin} \times \text{Asset Turnover} \times \text{Financial Leverage}$$

(Net Profit/Sales Revenue) (Sales Revenue/Assets) (Assets/Equity)

SOE portfolio normalised ROE	Energy normalised ROE	Transport and communications normalised ROE	Forestry normalised ROE	Other enterprises' normalised ROE
2014: 4.4% 2015: 4.4%	2014: 6.2% 2015: 8.4%	2014: 2.8% 2015: 1.8%	2014: 3.0% 2015: 2.3%	2014: 5.5% 2015: 3.0%
Normalised net profit margin	Normalised net profit margin	Normalised net profit margin	Normalised net profit margin	Normalised net profit margin
2014: 10.0% 2015: 9.1%	2014: 11.1% 2015: 11.1%	2014: 6.8% 2015: 4.6%	2014: 19.3% 2015: 16.7%	2014: 6.7% 2015: 3.8%
Asset turnover	Asset turnover	Asset turnover	Asset turnover	Asset turnover
2014: 0.26 2015: 0.27	2014: 0.28 2015: 0.33	2014: 0.25 2015: 0.23	2014: 0.15 2015: 0.14	2014: 0.35 2015: 0.34
Financial leverage	Financial leverage	Financial leverage	Financial leverage	Financial leverage
2014: 1.70 2015: 1.77	2014: 2.02 2015: 2.26	2014: 1.64 2015: 1.65	2014: 1.02 2015: 1.02	2014: 2.38 2015: 2.25

The normalised return on equity of energy enterprises during the analyzed period was 2.2 percentage points higher than in 2014. Growth in return was mostly influenced by the increased normalised net profit of the sector. The significant increase in the sector revenue determined the increase of asset turnover, from 0.28 to 0.33. The indicator of financial leverage of the sector also changed significantly by increasing from 2.02 to 2.26.

The normalised return on equity of the enterprises of the transport and communications sector is one of the lowest in SOE portfolio, in 2014 it constituted 2.8%, and at the end of 2015 – 1.8%. As the enterprises of transport and communications sector earned less of normalised net profit, the normalised net profit margin declined down to 4.6%. The decreased revenue and increased assets of the transport and communications sector determined the decrease of asset turnover (from 0.25 to 0.23).

Forestry sector's normalised return on equity decreased by 0.7 percentage points and at the end of 2015 reached 2.3%. The major influence on the return indicator had the significant decrease in the normalised net profit. The decline in the normalised net profit of the sector reduced the normalised net profit margin by 2.6 percentage points to 16.2%.

The largest change of normalised return on equity was recorded in the sector of other enterprises, which in 2015 reached 3% and was 2.5 percentage points lower than at the end of 2014. The indicator of the normalised return on equity was determined by the decreased normalised net profit and increased equity of the sector of other enterprises. Sales revenue of other enterprises increased; consequently, the normalised net profit margin decreased by 2.9 percentage points during the reference period and at the end of 2015 amounted to 3.8%.





# Transport and communications

A convenient geographical location, an access to the Baltic Sea and a well-developed infrastructure of roads and rails determine the impact of transport and communications sector to the state's economy. SOEs, as the operators of the infrastructure, are one of the key elements for further development of the transport and communications sector.

The state owns 20 companies in transport and communications sector: road maintenance, railway, water transport, airport, mailing and telecommunication service providers, - all of which controlled 33.6% of the total assets of SOEs and accounted for 28.9% of the total revenues of SOEs in 2015. The number of companies decreased by one, Lithuanian Shipping Company, which was subjected to bankruptcy proceedings on 14th December 2015.

The table below shows 10 largest companies by sales revenues.

Enterprise	Field of activity	Turnover in 2015 (EUR '000)	Assets at the end of 2015 (EUR '000)	Number of employees at the end of 2015	State's interest at the end of 2015 (%)
Lithuanian Railways Group	Passenger and freight transportation	429,521	2,077,793	12,256	100%
Lithuanian Post Group	Provision of postal and courier, financial services	72,247	70,567	5,766	100%
Klaipėda State Seaport Authority	Klaipėda seaport infrastructure management	54,546	527,315	243	100%
Oro Navigacija	Provision of specialised services in national airspace	27,990	46,852	309	100%
Lithuanian airports	Operation of airports	24,499	165,935	577	100%
Lithuanian Radio and Television Centre	Radio and television broadcast services	18,825	40,741	359	100%
Šiaulių Regiono Keliai	Maintenance of roads of national importance	12,630	18,647*	302	100%
Kauno Regiono Keliai	Maintenance of roads of national importance	10,815	16,893*	324	100%
Automagistrėlė	Maintenance of roads and related infrastructure	9,086	14,140*	314	100%
Vilniaus regiono keliai	Maintenance of roads of national importance	8,963	12,138*	343	100%

\* Assets of the enterprise are net of the value of roads





## Financial results

Companies in the transport and communications sector earned EUR 717.9 million in revenues in 2015, which was 2.8% or EUR 20.6 million less than in 2014. The decrease in the total revenues of the transport and communications sector was mostly influenced by **Lithuanian Railways** group of companies, whose revenues fell by 8.7% down to EUR 429.5 million. This significant decrease was the result of less cargo transported, which led to a decrease in the group's cargo transportation revenues of EUR 15.6 million or 4%. Another major reason was an 8.1% or EUR 2.1 million decrease in passenger transport revenues and a 39.6 % decrease in revenues from additional activities of the company group. Slight changes in revenues were also observed in the following companies: **Vilniaus Regiono Keliai** (-1.2%) and **Oro Navigacija** (-0.2%), **Lithuanian Radio and Television Centre** (1.5%), **Automagistralė** (2.1%). Revenues of other major transport and communications companies increased: **Lithuanian Post** group of companies – 12% (due to higher international postage flows and an increase in income from other services), **Klaipėda State Seaport Authority** – 9.2% (due to increased toll revenues and income from land lease), **Lithuanian Airports** – 11.9% (due to an increased number of passengers and aircraft served).

Sector's costs decreased slightly less than its revenues in 2015, i.e. by 4.3% down to EUR 494.9 million. The drop was mainly the result of the decreased costs of **Lithuanian Shipping Company** due to operating with fewer vessels (on 14th December 2015 the company was subjected to bankruptcy proceedings). At the time, the sector's operating costs recorded an increase of EUR 23 million: mainly due to an EUR 8.2 million (12.6%) rise in the operating costs of **Lithuanian Post** group of companies. The group's costs increased due to 5% higher staff maintenance costs, 43.5% higher costs in international shipping and settlement with foreign post offices (as a result of increased international postage flows) and 12.6% higher other costs (i.e. shipping from China to Lithuania; also increased premise lease costs following the launch of the new Lithuanian post logistics centre, and tax costs due to ineligible VAT deduction).

In 2015, the normalised net profit of the transport and communication sector companies fell by 34.4% and was EUR 32.7 million. A decrease in the normalized net profit of companies in the transport and communications sector has been recorded for the last five years since 2011. Among the transport and communications sector companies, the largest profit in 2015 was made by **Klaipėda State Seaport Authority** – EUR 23.1 million and **Lithuanian Railways** group of companies – EUR 19.4 million. These two companies generated the majority of the sector's normalised net profit. Nevertheless, the decrease in the normalised net profit was mainly the result of less positive results from **Lithuanian Railways**, whose profit went from EUR 30.2 million down to EUR 19.4 million. As the group's revenues decreased, its costs rose, mainly as a result of higher labour costs – a 5.6% increase to EUR 130.8 million, and the carried out locomotive repair programme – a 21.3% increase to EUR 27.7 million. Another important factor which led to the increase in costs was the provisions set aside by **Lithuanian Railways** due to the depreciation of ORLEN Lietuva's bad debts (EUR 8.3 million). Three companies in the transport and communications sector recorded net losses in 2014.

In 2015 the carrying value of the assets managed by the transport and communications sector companies grew by 1.4% to EUR 3.1 billion. The largest impact on the growth came from **Lithuanian Railways** group of companies, whose assets increased by EUR 224.7 million or 12.4%. The growth in assets was caused by a significantly higher share of construction-in-progress and prepayments thanks to the modernisation and upgrading of infrastructure and rolling stock as a result of assimilating grants for further development of the Rail Baltica project. The assets of **Lithuanian Railways** group of companies amounted to around 66% of all the assets of the transport and communications sector at the end of 2015. The value of the assets also increased significantly within the **Lithuanian Post** group of companies (30.4% or EUR 20.7 million) as a result of the group's mandate to exchange litas into euros 60 days after the adoption of the euro in Lithuania.



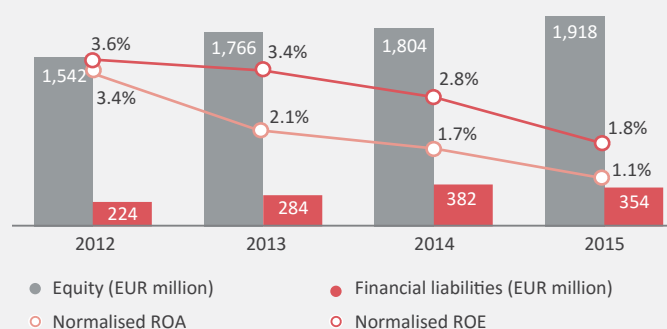
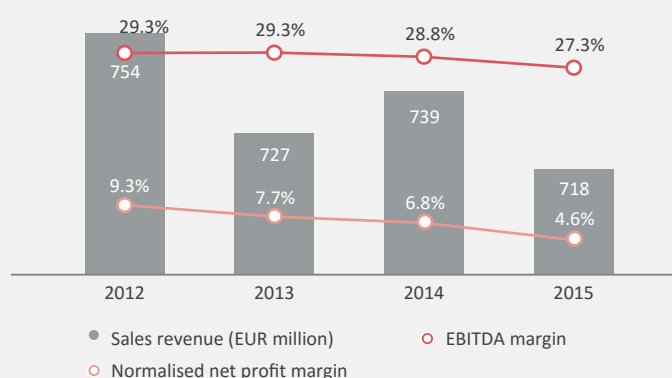
<b>Profit (Loss) Statement (EUR '000)</b>	<b>2014</b>	<b>2015</b>
<b>Sales revenue</b>	<b>738,526</b>	<b>717,931</b>
Cost of goods sold	517,371	494,958
<b>Gross profit (loss)</b>	<b>221,155</b>	<b>222,974</b>
Operating expenses	168,151	191,232
Profit (loss) from other activities	11,810	9,714
<b>Operating profit (loss)</b>	<b>64,813</b>	<b>41,456</b>
<i>Operating profit margin</i>	<i>8.8%</i>	<i>5.8%</i>
<b>EBITDA</b>	<b>212,723</b>	<b>196,159</b>
<i>EBITDA margin</i>	<i>28.8%</i>	<i>27.3%</i>
Financial and investment activities	-15,775	-9,060
<b>Profit (loss) before taxes</b>	<b>49,038</b>	<b>32,396</b>
Profit tax	6,272	2,805
<b>Net profit (loss)</b>	<b>42,767</b>	<b>29,591</b>
Minority share in profit (loss)	11	2
<b>Normalised net profit (loss)</b>	<b>49,873</b>	<b>32,724</b>
<i>Normalised net profit margin</i>	<i>6.8%</i>	<i>4.6%</i>
<b>Balance Sheet (EUR '000)</b>	<b>31 DEC 2014</b>	<b>31 DEC 2015</b>
Intangible assets	24,706	25,110
Tangible assets	2,732,938	2,804,596
Financial assets	12,255	15,054
Other non-current assets	3,389	3,812
Biological assets	0	0
<b>Non-current assets</b>	<b>2,773,287</b>	<b>2,848,572</b>
Inventories, prepayments and contracts in progress	80,031	77,906
Amounts receivable in one year	77,809	73,379
Other current assets	18,788	20,942
Cash and cash equivalents	103,280	74,266
<b>Current assets</b>	<b>279,908</b>	<b>246,493</b>
<b>TOTAL ASSETS</b>	<b>3,053,195</b>	<b>3,095,064</b>
<b>Total equity</b>	<b>1,804,169</b>	<b>1,917,797</b>
Minority shareholder equity	237	234
<b>Grants and Subsidies</b>	<b>681,053</b>	<b>682,886</b>
No-current liabilities	330,059	338,309
Current liabilities	237,914	156,072
<b>Liabilities</b>	<b>567,973</b>	<b>494,381</b>
Financial liabilities*	381,783	353,517
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,053,195</b>	<b>3,095,064</b>
<b>RATIOS</b>	<b>31 DEC 2014</b>	<b>31 DEC 2015</b>
Normalised ROA	1.7%	1.1%
Normalised ROE	2.8%	1.8%
D/E	21.2%	18.4%
<b>Return to the state (EUR '000)</b>	<b>2014</b>	<b>2015</b>
Allocated dividends (share of the state)	8,900	1,769
Assigned profit contributions	451	2,019
<b>Dividends and profit contributions to the state</b>	<b>9,351</b>	<b>3,788</b>
Property tax	3,412	3,549
<b>TOTAL</b>	<b>12,763</b>	<b>7,337</b>
<b>Employee information</b>	<b>2014</b>	<b>2015</b>
Number of employees	22,890	22,415
Number of executives	94	93

Following the equity increase of the sector companies and the decrease in the net profit, the return on equity in the sector fell by 1% down to 0.8% and was the lowest among all sectors. In comparison, the return on equity in 2011 was 4.2%. The ratio between financial liabilities and equity reached 18.4% in 2015 – i.e. was 2.7 percentage points lower compared to 2014. The ratio fell mainly due to decreased financial liabilities and increased equity. Also due to an increase in the loans taken out by **Lithuanian Railways** group of companies for the acquisition of rolling stock and the loan taken out by **Lithuanian Post** group of companies for currency exchange during the transitional period.

The amounts set aside for dividends and profit contributions to the state increased in 2015 and reached EUR 9.5 million (an increase of 40.1%). The majority of all dividends and profit contributions set aside came from **Lithuanian Railways** – EUR 8.4 million (88.6% of all dividends and

profit contributions in the sector). Dividends paid out by the companies were 2.7 times higher in 2014 and amounted to 36.9% of retained earnings. Apart from **Lithuanian Railways**, dividends were also allocated by **Lithuanian Post** – EUR 187 thousand, i.e. EUR 2.3 million less than in 2014, and **Smiltynė Ferry Terminal** – EUR 485 thousand or EUR 42 thousand more than in 2014. State road maintenance companies paid out a total of EUR 422 thousand profit contributions. **Klaipėda State Seaport Authority**, which earned EUR 23.8 million normalised net profit in 2014, is exempt from the liability to pay the contributions due to a high demand for investments for the implementation of state-level projects (including the LNG terminal project).

Changes in the sector's sales revenues, equity, financial liabilities and profitability during 2012–2015 are provided in the following diagrams.



## Railways

Lithuania is crossed by two corridors of the international railway network: East-West IX corridor branches, connecting Ukraine and Belarus with Klaipėda seaport and Kaunas with Kaliningrad, and North-South I corridor, connecting Helsinki and Warsaw. The East-West corridor is strategically important because of the cargo carried from Belarus to Klaipėda seaport. Meanwhile, the North-South corridor is not yet integrated due to a different type of track used; however, it should fully connect the Baltic states with the European network by 2020.

October of 2015 marked the completion of the first railway branch of the international project Rail Baltica, spanning from the Lithuanian-Polish border to Kaunas. The 120 km long international Rail Baltica section was upgraded with a new European-standard track (1435 mm wide), while the nearby broad-gauge railway line (1520 mm) was also upgraded. A total of 233 km of new rails were laid for 1,435 mm and 1,520 mm wide tracks, including station tracks.

The total length of the Lithuanian railway network – 1,877 km. A large part of the network consists of the 1,520 mm wide track used in the CIS and the Baltic countries. The length of the electrified track remained unchanged in 2015 – 122 km. The infrastructure of the Lithuanian railway network is trusted and served by the state-owned company **Lithuanian Railways**.

### Passenger transport

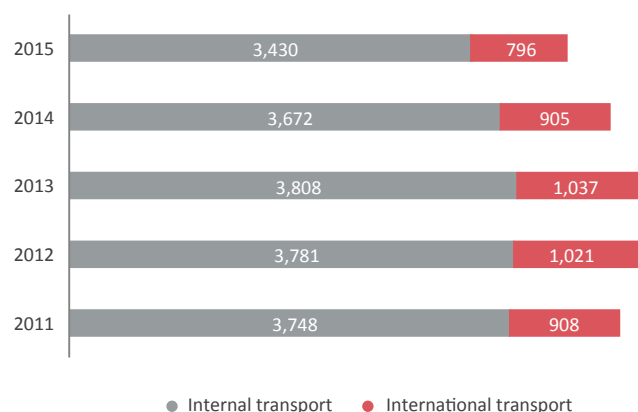
In 2015, a total of 4.2 million passengers were carried by railway transport, which was 6.6% less than in 2014. The number of passengers carried by railway transport accounts to only 1% of all passengers carried. In order to increase the popularity of railway travelling, additional trains were launched, which will reduce the duration of travelling from Vilnius to Klaipėda and from Vilnius to Ignalina and Turmantas; the route from Kaunas to Marijampolė was also updated. Regardless, in 2015, the number of passengers carried by local trains was 3.4 million, which

was 6.6% less than in 2014. The decrease in the transportation of local passengers was partially the result of railway infrastructure maintenance works, which led to the cancellation of 6% of all local trains. Compared to 2014, revenues from passenger transportation via local routes increased by 1% in 2015.

A total of 0.8 million passengers were carried via international routes, which was 12% less than in 2014. The number of international passengers decreased significantly on the routes going to Russia as a result of unstable economic and political situation in Russia. The decrease in international routes to Russia has been recorded for the last several years in a row, which is why the Lithuanian Railways' formation train Vilnius-Saint Petersburg-Vilnius was cancelled in June 2015, while the train Vilnius-Moscow-Vilnius was merged with the transit train Kaliningrad-Moscow-Kaliningrad as of December 2015. The passenger flow on the Lithuanian Railways' formation trains Vilnius-Minsk-Vilnius increased by 1.8% over the year. Compared to 2014, revenues from passenger transportation via international routes decreased by 14% in 2015.

Passenger transportation via railways remains unprofitable; however, despite that, **Lithuanian Railways** must continue the provision of the services to satisfy the public needs. The losses incurred from the provision of the public services are compensated from the profitable cargo transportation activities.

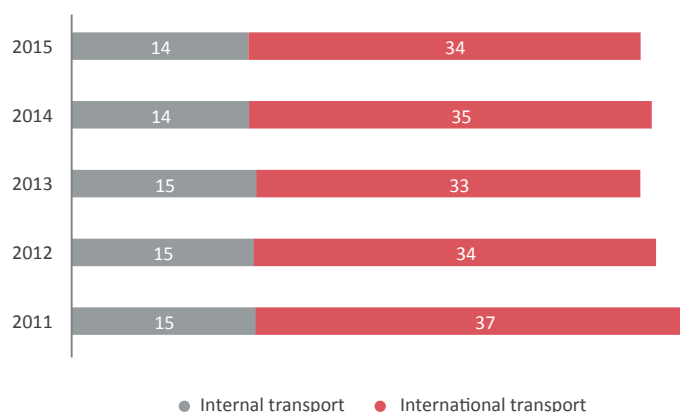
Transport of passengers by Lithuanian railways ('000)



● Internal transport ● International transport

Source: Department of Statistics

Freight transportation by Lithuanian railways (million tons)



● Internal transport ● International transport

Source: Department of Statistics

## Cargo transportation

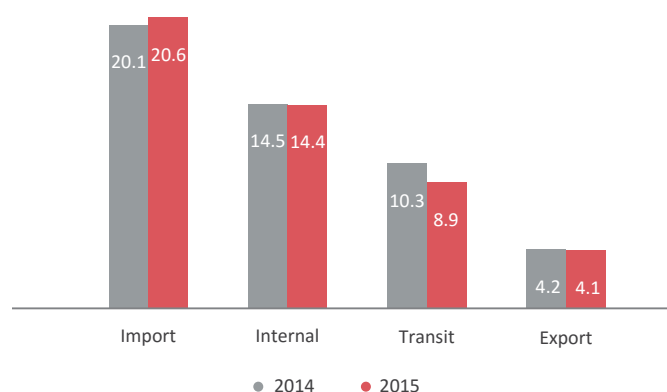
Cargo transportation amounts for the majority of railway revenues. In 2015 the revenues from cargo transportation made up 86.2% of all revenues generated by **Lithuanian Railways**. In 2015, cargo transportation volumes decreased by 1.9% and were 48 million tons. Out of these, 30% or 14.4 million tons of cargo were transported via local routes. Transportation volumes via local routes decreased by 0.1 million tons. These were affected by lower global oil prices, as 39.9% of cargo transported via local routes were oil products (ORLEN Lietuva). Like in previous years, the local railway transportation market remains dependant on the results of several of the major Lithuanian manufacturers: Lifosa, Akmenės Cementas, Dolomitas, Achema.

The overall cargo growth in 2014 was boosted by 2.6% higher volumes of imported cargo, which accounts for 42.9% of all cargo. The increase in the share of imported goods was as a result of increased shipments of chemical and mineral fertilizer goods from Belarus via Klaipėda seaport. Volumes via transit decreased by 13% down to 8.9 million tons. The majority of transit cargo is shipped to the Kaliningrad area, which is why the economic problems affecting the neighbour market also affected the transit volumes. The key cargo transportation arteries remain cargo transportation via Klaipėda seaport and transportation via transit to the Kaliningrad area.

Looking at the structure of the cargo transported in 2015, it should be noted that chemical and mineral fertilizers accounted for the majority of cargo transported and overtook oil and oil products for the second year in a row – 15.5 million and 14.3 million tons respectively (32.3% and 29.8% of all shipments). Food products and feed accounted for 11.9%, mineral products – 8.1% of all shipments. The increase in chemical and mineral fertilizer shipments in 2015 was 3.5% due to, as mentioned before, significantly higher volumes of fertilizers transported from Belarus, while the increase in oil and oil product shipments was 5.4%.

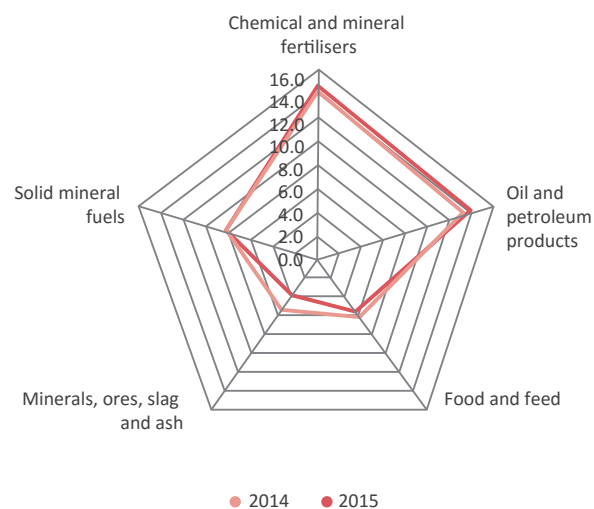
A comparison of the volumes of passengers and cargo carried via Lithuanian railways and other Baltic States shows that Latvian railways clearly stood out as they transported 17.1 million passengers in 2015 (4 times more than in Lithuania). Estonia's passenger volumes were also higher – 6.6 million or 11.4% more than in 2014 (the passenger train fleet in Estonia was completely upgraded in 2013-2014). Meanwhile, in terms of the volumes of cargo transported, Latvian railways stood out again and amounted to 55.6 million tons, 73.4% of which consisted of coal and oil products. Meanwhile, Estonian volumes were lower than Lithuanian – 28 million tons (22.8% less than in 2014), 76.4% of which was coal and oil products.

Cargo transportation via Lithuanian railroads



Source: Department of Statistics

Structure of freight transported by Lithuanian railways (million tonnes)



Source: Lithuanian Railways

## Sea transport

Lithuanian sea transport system consists of Lithuanian merchant fleet, Klaipėda state seaport, Šventoji state seaport and ORLEN Lietuva Būtingė oil terminal as well as other ship-serving companies and agencies. Klaipėda state seaport and Šventoji state seaport are in trust of **Klaipėda State Seaport Authority**. The airport is capable of handling around 65 million tons of cargo annually and servicing ships with 13.4 meter draft.

Lithuanian merchant fleet mainly consists of: Limarko Shipping Company (6 ships) and DFDS Seaways (10 ferries). However, due to lower freight prices following the crisis, fleets in the global shipping market are becoming significantly smaller. State-owned company **Lithuanian Shipping Company** was subjected to bankruptcy proceeding on 14 December 2015 and was declared bankrupt on 30 May 2016.

In 2015 Klaipėda seaport handled 38.5 million tons of cargo – 5.8% more than in 2014. The main reason for the growth was 29.5% higher oil product handling volumes (up to 8 million tons), 10.5% higher fertilizer handling volumes, especially from Belarus (up to 13.2 million tons), 5.7% higher grain handling volumes (up to 3.1 million tons), and 2.6% higher containerized cargo handling volumes (up to 4.4 million tons).

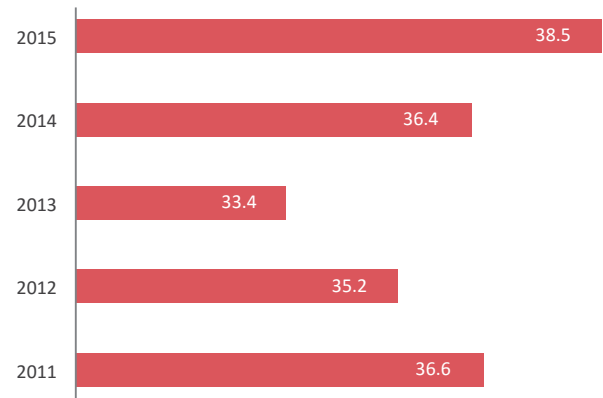
Belarus currently remains the main trading partner of Klaipėda seaport, whose cargoes account for around a third of total cargo handling.

In 2015 Klaipėda seaport was visited by a record 286 thousand passengers, which was 1.9% more than 2014. The last few years saw an increase in the passenger numbers especially from cruise ships: in 2015 passenger volumes were 60.2 thousand or 4.2% higher than in 2014 (and a staggering 83.8% higher than in 2013). The number of cruise ships at berth also increased significantly – from 40 ships in 2013 to 61 ships in 2015. Comparing passenger flows with the other Baltic states, Riga attracted 526 thousand passengers in 2015 (28.7 % less than in 2014), while Tallinn – 9.8 million passengers (2.3% more than in 2014), more than 80% of which travelled via Tallinn-Helsinki-Tallinn route.

### East coast seaports of the Baltic Sea

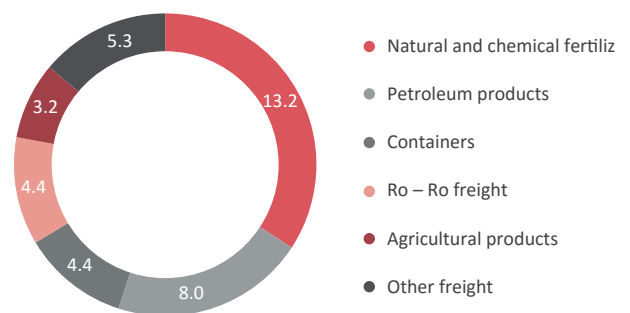
The total cargo handling volumes of the Eastern coast seaports of the Baltic Sea increased by 0.1% in 2015 up to 368.6 million tons. The leading positions were once again taken by Russian Ust-Lugos (87.9 million tons), Primorsk (59.6 million tons) and Saint Peterborough (51.5 million tons) ports. In terms of cargo handling volumes on the East coast, Klaipėda seaport was overtaken by Riga port (40.1 million tons), which saw an increase of 5.8% in 2015. However, unlike Klaipėda seaport, Riga, Tallinn and Ventspils ports are less diversified. In Tallinn and Ventspils ports, more than half of the volumes handled are oil products, while in Riga – coal and oil products. In terms of container handling volumes among Baltic country seaports, Klaipėda retained the leading position with 392 thousand TEU handled, while Riga handled 355 thousand TEU and Tallinn – 208 thousand TEU.

Handling volumes at Klaipėda seaport (million tonnes)



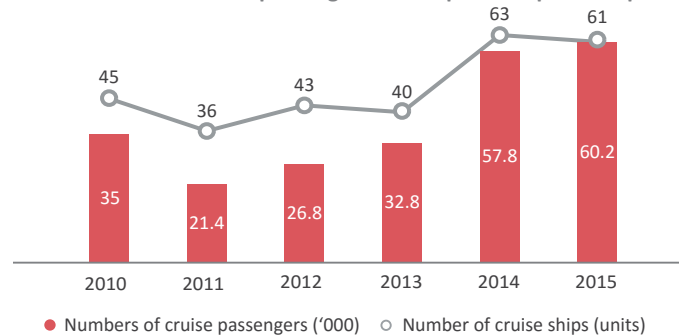
Source: Klaipėda State Seaport Authority

Freight structure at Klaipėda Seaport (million tonnes)



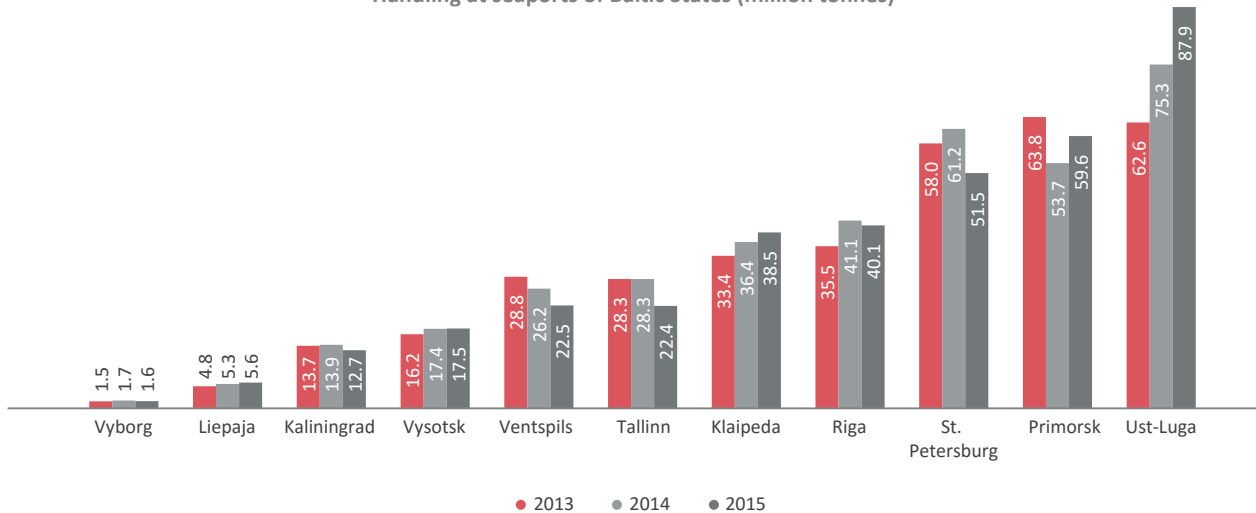
Source: Klaipėda State Seaport Authority and Department of Statistics

Number of cruise passengers and ships at Klaipėda Seaport



Source: Klaipėda State Seaport Authority and Department of Statistics

Handling at seaports of Baltic States (million tonnes)



Source: Klaipėda State Seaport Authority and Department of Statistics

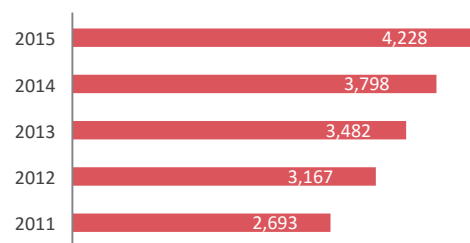
## Airports

In 2015, Lithuania had three international passenger airports: Vilnius, Kaunas and Palanga (for medium and small class airlines), as well as Šiauliai airport owned by Šiauliai Municipality, mainly used for the purposes of military aviation. The passenger airport infrastructure has been trusted to **Lithuanian Airports** as of 1st July 2014. Air traffic control, communication and flight control services are provided by state company **Oro Navigacija**. Lithuanian airport flight map in 2015 included 59 cities and 72 airports in 26 countries.

On 1st July 2014 **Vilnius International Airport**, **Kaunas Airport** and **Palanga International Airport** were reorganised into a state enterprise **Lithuanian Airports**, merging Kaunas and Palanga airports with Vilnius Airport. The merger of the airports is expected to cut down administrative costs of the airports, eliminate domestic competition and help take advantage of the strengths of each airport to develop Lithuanian air transport. **Lithuanian Airports** strategy provides that Vilnius Airport will remain the main national airport, Kaunas Airport, which is implementing AeroHub KUN project, will become the base for aviation-related businesses, while Palanga Airport will focus on the Baltic Sea routes.

It is currently expected that if the current growth rates remain, Vilnius Airport will reach its capacity limits within the next 1-2 years; therefore, further development of Lithuanian air transport will require significant investments in infrastructure development. A concession model was suggested as one of the options to attract investment, transferring the management of the infrastructure to a private operator for a predetermined duration, yet retaining the ownership of the airport infrastructure. On the 4th of June, 2016 the parliament of Lithuania, the Seimas, approved the law on airports concession, which promotes public-private partnership and aims: to ensure a sufficient funding for the maintenance and development of airport infrastructure, to comprehensively develop Lithuania's accessibility by air, to increase the number of passengers and extend the number of flight destinations. Following the selection of concession partner, the concession contract will have to be ratified by the Seimas. The concession contract would allow the state to take over the management of airports at the end of the concession term. Airports managed under a concession model would also help to achieve one of the strategic priorities of **Lithuanian Airports** – growth in non-aviation income. Looking at the practices of European airports, airports transferred under a concession model considerably increase their capacities and volumes served, which is why about half of the airports in Europe are currently managed by investment funds or consortiums.

Number of passengers at Lithuanian Airports ('000)



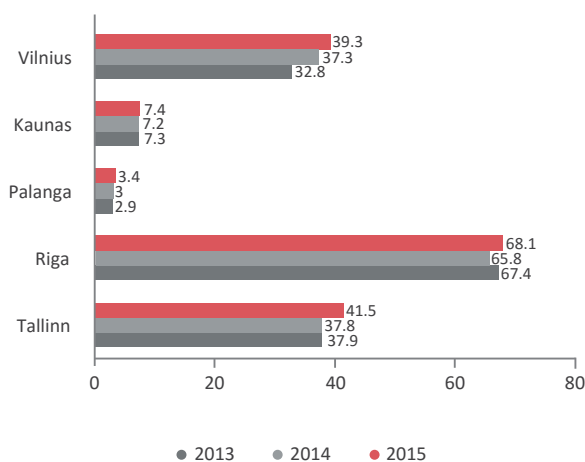
Source: Department of Statistics

## Performance

In 2015 all three civil airports serviced 50 thousand flights, which was a 5.7% increase from 2014. The number of people who used the services provided by the airports increased by 11.3% to 4.2 million passengers. Vilnius branch saw passenger numbers increase by 13.4% (to 3.3 million passengers), Kaunas – by 3.2% (to 0.7 million passengers), while Palanga – by 9.4% (to 0.2 million). Key factors for the increased number of flights – more frequent flights and 9 new destinations. An increase in the number of passengers and flights served over the last six years was essentially the merit of better performance by Vilnius branch. Since 2009 passenger flows in Vilnius branch have increased 2.5 times, while the number of flights serviced – by 52%.

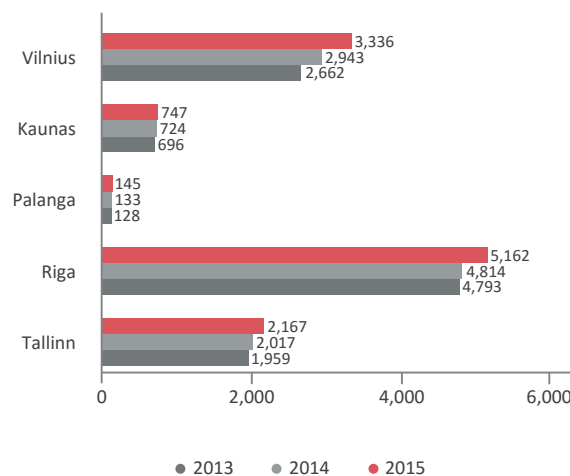
A comparison of Lithuanian airports with the airports of the other Baltic countries, Riga remains the clear leader both in terms of flights serviced and passengers served – 68.1 thousand and 5.2 million respectively. Meanwhile, Tallinn Airport is behind (2.2 million

Number of flights at airports in the Baltic States ('000)



Source: Riga Airport, Tallinn Airport, Lithuania Airports

Number of passengers at airports in the Baltic States ('000)



Source: Riga Airport, Tallinn Airport, Lithuania Airports

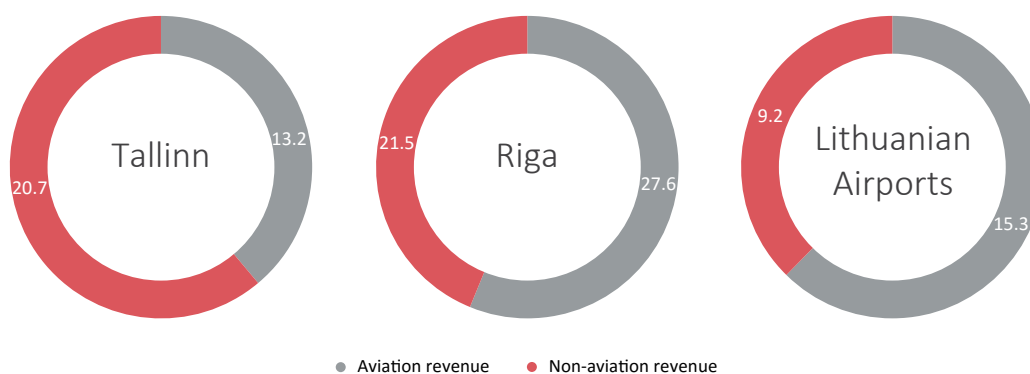
passengers and 41.5 thousand flights). Vilnius branch surpasses it quite significantly in terms of the number of passengers (1.2 million more), yet falls behind in terms the number of flights serviced (2.2 thousand less). It should be noted that the market share of **Lithuanian Airports** has increased considerably over the last three years. The key reasons behind it are changes in the operational strategy of Vilnius branch (the goal to attract more cheap airlines, active development of flight geography) and huge and untapped potential of Lithuanian tourism (the estimates are around 1.2 passengers for each Lithuanian resident in 2015 via Vilnius branch (1.5 via all three branches), while in Tallinn the number is 1.6 and in Riga – 2.6).

The major airlines in Lithuanian airports in 2015 remained low-cost airlines Ryanair and Wizz Air, which occupied 34% and 18% of the market in 2014 respectively, yet 7% less than the year before. In Latvia

and Estonia the market was led by national carriers – AirBaltic (48.6% of the market) and Estonian Air (24% of the market) respectively. Low-cost airlines account for a lot less flights in these countries as compared to Lithuania. The most popular destinations in Vilnius remain London, Frankfurt and Riga, in Palanga – Copenhagen, in Kaunas – London, Dublin and Copenhagen.

In 2015 the share of non-aviation income in Lithuanian airports was 37.6% of all income; meanwhile, in 2014 it was 36.7%, while in 2013 – 40.9%. However, in terms of separate branches, the structure of non-aviation income among Lithuanian airport branches is significantly different due to different pricing and toll fees. Compared to other airports in the Baltic countries, the share of non-aviation income of Lithuanian airports was significantly lower than that of Tallinn Airport (61.1%) and Riga Airport (43.8%).

Revenue structure of the airports in Baltic States (EUR million)



Source: Riga Airport, Tallinn Airport, Lithuania Airports





# Energy

SOEs of energy sector generate one fifth of the country's electricity demand and own electricity and gas transmission and distribution networks. After liberalization of electricity and gas markets, activities of generation, transmission and distribution were separated and liberalized market of electricity was established. Further development of completed LNG terminal and international electricity links with Sweden and Poland projects will ensure international integration of energy systems, encourage the sector efficiency and transparency.

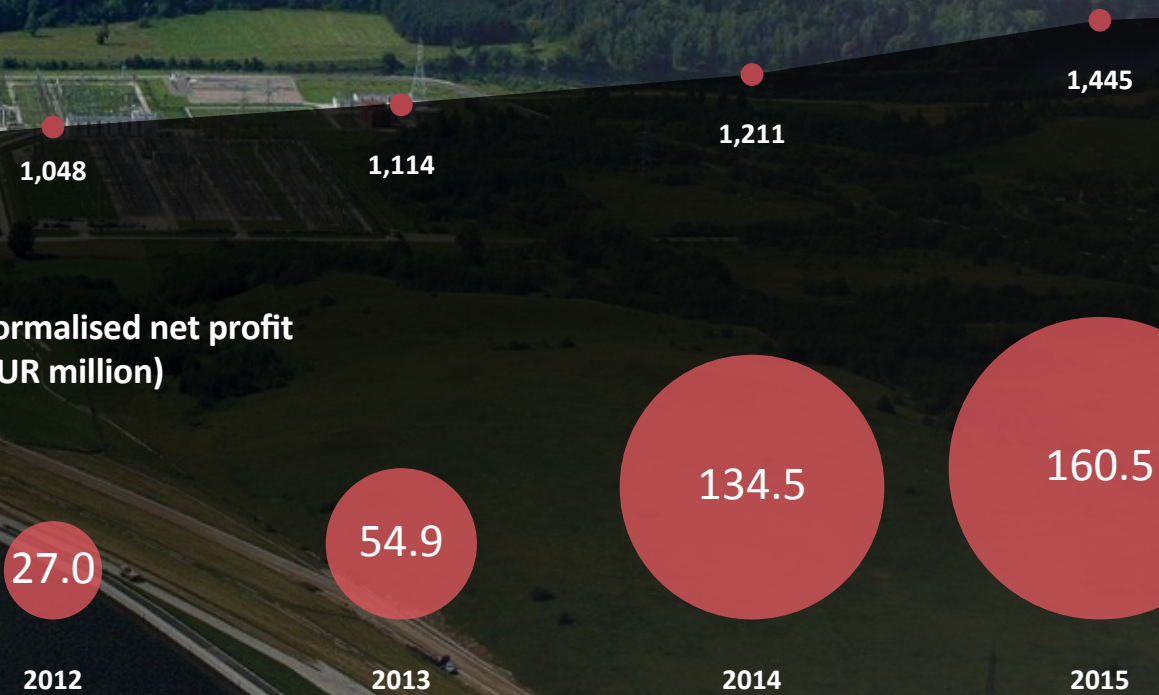
SOE (State-owned enterprises) that operate in the energy sector produce and supply electricity and heat to the consumers, also provide various related services. Moreover, this sector includes Klaipėdos Nafta that provides transshipment services of oil and oil products, and is responsible for the operation of liquefied natural gas terminal (LNG) in Lithuania. 9 SOEs are operating in the energy sector in total, they are indicated in the table below.

Energy sector of SOEs has undergone significant changes in 2014 that had a significant impact on comparative results. On 21 May **Lietuvos Energija** has bought 38.9% of shares of Natural Gas Supply and Distribution Company **Lietuvos Dujos** and 11.76% of shares of Electricity Distribution Network Operator **LESTO** for EUR 97.6 million from the German concern E.ON Ruhrgas International. After these acquisitions, **Lietuvos Energija** has controlled 96.6% of **Lietuvos Dujos** and 94.4% of **LESTO** shares. At the same time (on 21 May), **EPSO-G** has bought 38.9% of **Amber Grid** shares from the German concern E.ON Ruhrgas International GmbH for EUR 49.8 million. On 19 June **EPSO-G** has bought another 39.96% of the company shares from the Russian company Gazprom and minor shareholders for EUR 54.3 million. After these transactions **EPSO-G** controls 96.58% of **Amber Grid** shares. The financial data of **Lietuvos Dujos** and **Amber Grid** is not included in the results of the sector separately, but it is

provided with consolidated financial data of **Lietuvos Energija** and **EPSO-G** companies. A new company **Lietuvos Dujų Tiekimas** has been established on 1 November 2014 that took over the activity of natural gas supply from **Lietuvos Dujos**. All the shares of **Lietuvos Dujų Tiekimas** belong to the State-owned enterprise **Lietuvos Energija**. On 27 November 2014 **Klaipėdos Nafta**, after the National Commission for Energy Control and Prices (NCC) issued a liquefaction license to the company, has started to operate the LNG terminal. A decision to merge **LESTO** and **Lietuvos Dujos** should also be mentioned, although it has no direct impact on the results of 2014-2015. The companies have been merged into **Energijos Skirstymo Operatorius** (ESO) that has replaced **LESTO** and **Lietuvos Dujos** in the stock exchange from 1 January 2016. After the merger **Lietuvos Energija** controls 95% of **ESO** shares.

## Sales revenue (EUR million)

## Normalised net profit (EUR million)



Enterprise	Field of activity	Turnover in 2015 (EUR '000)	Assets at the end of 2015 (EUR '000)	Number of employees at the end of 2015	State's interest at the end of 2015 (%)
Lietuvos Energija Group	Lietuvos Energija Group includes Lietuvos Energijos Gamyba Group, LESTO Group and Lietuvos Dujos. The Group's activities are comprised of electricity and heat generation and supply, electricity trading and distribution, natural gas trading and distribution.	1,095,766	2,339,230	5,379	100.0%
EPSO-G Group	The company is controlling Lithuanian electricity transmission system operator Litgrid, as well as natural gas system operator Amber Grid	156,837	1,152,123	1,030	100.0%
Klaipėdos Nafta	Petroleum product export and import, exploitation of LNG terminal	109,702	238,787	371	72.3%
Lithuanian Oil Products Agency	Storage of petroleum products	66,939	95,282	7	100.0%
Visagino Energija	Heat and water supply, wastewater treatment	13,923	52,415	216	100.0%
Geoterma	Heat generation	1,253	7,052	15	99.1%
Ignalina Nuclear Power Plant	Decommissioning of the Ignalina Nuclear Power Plant	192	571,282	2,106	100.0%
Radioactive Waste Management Agency	Radioactive waste management and disposal	15	370	21	100.0%
Energy Agency	Execution of national energy strategy and other state programmes	0	951	20	100.0%



## Financial results

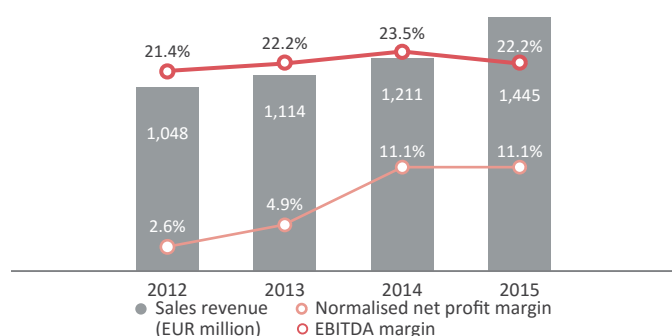
<b>PROFIT AND LOSS STATEMENT (EUR '000)</b>	<b>2014</b>	<b>2015</b>
<b>Sales revenue</b>	<b>1,210,917</b>	<b>1,444,626</b>
Cost of goods sold	742,331	980,712
<b>Gross profit (loss)</b>	<b>468,586</b>	<b>463,914</b>
Operating expenses	974,540	359,434
Profit (loss) from other activities	93,887	-814
<b>Operating profit (loss)</b>	<b>-412,078</b>	<b>103,666</b>
<i>Operating profit margin</i>	<i>-34.0%</i>	<i>7.2%</i>
<b>EBITDA</b>	<b>284,603</b>	<b>320,244</b>
<i>EBITDA margin</i>	<i>23.5%</i>	<i>22.2%</i>
Financial and investment activities	52,666	-6,178
<b>Profit (loss) before taxes</b>	<b>-359,413</b>	<b>97,488</b>
Profit tax	-73,549	10,013
<b>Net profit (loss)</b>	<b>-285,864</b>	<b>87,475</b>
Minority interest	-18,690	12,710
<b>Normalised net profit (loss)</b>	<b>134,461</b>	<b>160,503</b>
<i>Normalised net profit margin</i>	<i>11.1%</i>	<i>11.1%</i>
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2014</b>	<b>31 DEC 2015</b>
Intangible assets	17,881	23,896
Tangible assets	2,904,153	3,162,432
Financial assets	19,828	23,303
Other non-current assets	309,394	310,483
<b>Non-current assets</b>	<b>3,251,186</b>	<b>3,520,113</b>
Inventories, prepayments and contracts in progress	178,724	198,778
Amounts receivable within one year	419,178	400,455
Other current assets	65,459	59,283
Cash and cash equivalents	312,592	278,863
<b>Current assets</b>	<b>975,953</b>	<b>937,379</b>
<b>TOTAL ASSETS</b>	<b>4,227,140</b>	<b>4,457,492</b>
<b>Equity</b>	<b>1,907,601</b>	<b>1,933,656</b>
Minority shareholder equity	111,255	117,578
<b>Grants and subsidies</b>	<b>896,903</b>	<b>966,194</b>
Non-current liabilities	761,696	897,422
Current liabilities	660,939	660,221
<b>Liabilities</b>	<b>1,422,635</b>	<b>1,557,643</b>
Of which financial liabilities	675,798	846,413
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,227,139</b>	<b>4,457,492</b>
<b>RATIOS</b>	<b>31 DEC 2014</b>	<b>31 DEC 2015</b>
Normalised ROA	3.1%	3.7%
Normalised ROE	6.2%	8.4%
D/E	35.4%	43.8%
<b>RETURN TO THE STATE (EUR '000)</b>	<b>2014</b>	<b>2015</b>
Assigned dividends (only the state's share)	53,355	99,164
Assigned profit contributions	0	0
<b>Dividends and profit contributions to the state</b>	<b>53,355</b>	<b>99,164</b>
Property tax	534	534
<b>TOTAL</b>	<b>53,889</b>	<b>99,698</b>
<b>EMPLOYEE INFORMATION</b>	<b>2014</b>	<b>2015</b>
Number of employees	9,463	9,165
Number of executives	149	146

Sales revenue of energy companies in 2015 has amounted to EUR 1,444.6 million and compared with the results of 2014 has increased by 19.3%. This growth was mostly determined by the results of the **Lietuvos Energija** Group. Income of the **Lietuvos Energija** Group in 2015 has increased by 12.7% or EUR 123.1 million. Increase in **Lietuvos Energija** income is partly related to **Lietuvos Energija** purchase of **Lietuvos Dujos** controlling interest on the second quarter of 2014. Also the increase of **Klaipėdos Nafta** income, from EUR 39.8 million to EUR 109.7 million, has contributed to the income growth of the sector. The increase in the company income is also related to the start of operation of the LNG terminal on the last quarter of 2014. Income from the activity of LNG terminal in 2014 has amounted to EUR 5.8 million, meanwhile the same income has amounted to EUR 69.9 million in 2015. Income of Lithuanian Oil Products Agency has significantly changed: compared with 2014, income has doubled in 2015 – increase by 103.5%, up to EUR 66.9 million. The **EPSO-G** Group income that also significantly impacts the sector results has increased by 6.6%, up to EUR 156.8 million. **Litgrid**, the company whose income comprises the larger share of the **EPSO-G** Group's income, has earned EUR 100.5 million, which is 16% less than in 2014. Most of the company income comes from electricity transmission, therefore the lower income was mainly determined by the asset revaluation undertaken in 2014 and the related reduction of electricity transmission prices. Income of another **EPSO-G** Group company **Amber Grid** has increased by 7.7%, up to EUR 55.8 million.

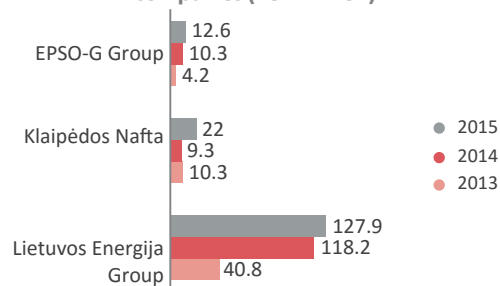
General cost of sales of the energy sector companies has increased by 32.1% and amounted to EUR 980.7 million, and operating costs have decreased 2.7 times (by 63.3%), up to EUR 359.4 million. The change in cost of sales of the sector has been influenced by the **Lietuvos Energija** Group whose cost of sales has amounted to EUR 774 million – 26.4% more than in 2014. This change has been affected by the financial data of **Lietuvos Dujos**, which was included in the statements of the Group, and whose costs related to the gas trade have amounted to EUR 363.8 million (in 2014 these costs amounted to EUR 148.9 million). **Klaipėdos Nafta's** cost of sales (including operating costs) has almost tripled – increased by 179.9% and amounted to EUR 80.6 million due to the start of operation of LNG terminal in the last quarter of 2014, related costs of which in 2014 have amounted to EUR 30.5 million. The rent of ship-storage unit and other related expenses have amounted to EUR 50.4 million in 2015 (EUR 4.4 million in 2014). Cost of sales of **Lithuanian Oil Products Agency**, similarly to income, has doubled – increased from EUR 32.5 million to EUR 65.9 million. Changes in income and costs of the company have emerged due to replacement of the older State fuel reserves. **Visagino Energija's** cost of sales has amounted EUR 12.4 million in 2015 and compared with 2014 has decreased by 13.2% due to lower costs related to heating energy and hot water supply.

The operating costs of the energy sector decreased 2.7 times and amounted to EUR 359.4 million at the end of 2015. The operating costs of the **Lietuvos Energija** Group have decreased from EUR 751.2 million to EUR 256.7 million in 2014, and that was the main reason for decrease of operating costs of the sector. **LESTO**, a subsidiary of the Group, has made the most significant influence to this change when it revalued its assets at the end of 2014 and thus decreased the value of long-term tangible assets by EUR 618.4 million. The change in operating costs of **EPSO-G** also had a significant impact on the results of the sector and while it amounted to EUR 216.8 million in 2014, in 2015 it has decreased to EUR 93.9 million. **EPSO-G** subsidiary **Litgrid** also revaluated assets in 2014, thus featuring a EUR 123.3 million higher operating costs as compared with 2015.

Taking into consideration the income increase in 2015 and largely assets-



Normalised net profit of the largest energy sector companies (EUR million)



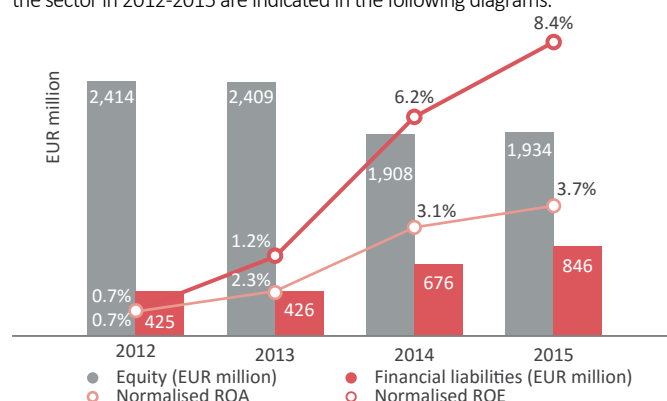
revaluation-related operating losses in 2014, the companies of the energy sector have operated profitably in 2015 with EUR 87.5 million of net profit (in 2014 operations resulted in a net loss of EUR 285.9 million). Increase in the income of **Lietuvos Energija**, **EPSO-G** and **Klaipėdos Nafta** and the fact that they were not proceeding with any large-scale assets revaluations by far determined such outcomes. After the adjustments addressing one-time factors which had an impact on the results of 2015, the companies of energy sector have earned EUR 160.5 million of normalized net profit in 2015. In comparison with 2014, normalized net profit increased by EUR 26 million.

The change in normalized net profit of the largest companies of energy sector is illustrated in the diagram above.

In comparison with 2014, rates of normalized return of the companies in energy sector have increased. The return on assets (ROA) increased by 0.6 percentage points, up to 3.7%, and the return on equity (ROE) has increased from 6.2% to 8.4%. Excluding the impact of one-time factors on the activity results, the rates of return on assets and equity of the **Lietuvos Energija** Group companies increased, respectively, from 4.6% to 5.4%, and from 7.7% to 9.8%, due to a significant increase in profit and previous asset revaluations, as well as due to the purchase of **Lietuvos Dujos** in 2014. Meanwhile, the return on equity of the **EPSO-G** Group companies, due to change in capital structure, has increased and amounted to 6.4%; the return on assets has remained the same and amounted to 1.2%. The rates of **Klaipėdos Nafta** have increased significantly in 2015 (return on assets increased from 4.4% to 9.6% and return on equity – from 5.4% to 11.9%) due to a significant increase in profitability, which is based on both the successful transshipment activities and the operation of LNG terminal; the assets and capital structure remained similar in comparison with 2014.

The amount of assigned dividends and profit contributions of the companies in the energy sector for 2015 that will add to the State budget has almost doubled and amounted to EUR 99.7 million. Dividends allocated by **Lietuvos Energija** represented a major part – EUR 86 million. The remaining dividends for 2015 were assigned by **Klaipėdos Nafta** and **EPSO-G**, EUR 12.7 million (the State's share of the dividends) and EUR 425 thousand respectively. Under the resolution of the Government, **EPSO-G** has assigned 0.5% of retained net earnings to dividends for 2015, since the company participates in the implementation of the project of the main gas pipeline of Klaipėda-Kuršėnai. Other companies of the energy sector did not contribute to the revenue to the State budget in the form of dividends or profit contributions.

Changes in sales revenue, equity capital, financial obligations and profitability of the sector in 2012-2015 are indicated in the following diagrams.

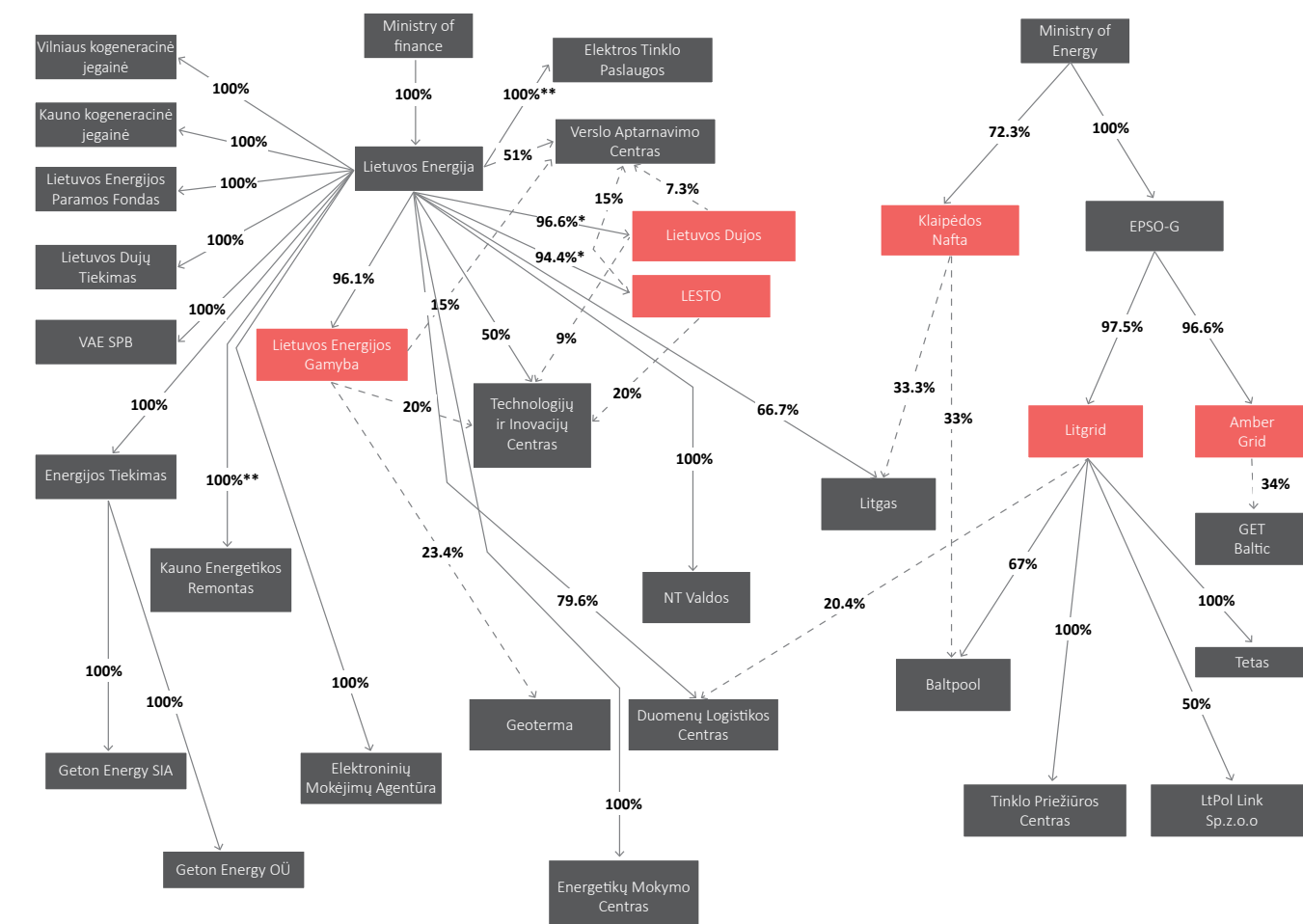


Under the requirements of the Third Energy Package of the European Union, in order to increase the efficiency of the electricity sector activity, to ensure equal conditions in the market and stimulate competition, electricity sector restructuring, launched in 2010, has divided the sector into separate elements which perform different functions: electricity production, transmission and distribution.

Energy sector restructuring, defined in the EU Third Energy Package, has been finished in September 2012.

Another aspect of electricity sector restructuring has been the establishment of free electricity market in 2010, where the suppliers, all legal entities and other non-household consumers can purchase electricity, and the electricity price is not controlled by NCC. On June 2012, Lithuania became a bidding area of Nord Pool Spot (the Nordic- Baltic electricity exchange), and thus accelerated the integration into the European electricity markets. Nord Pool Spot market activities are supervised by the Regulatory Board, which includes the regulators from Sweden, Norway, Finland, Denmark, Latvia and Estonia. The Regulatory Board may admit NCC, which is in charge of regulation of the energy sector activities, such as issuing of licenses authorizing to engage in activities in the energy sector, the determination of reliability of electricity transmission and requirements for the service quality, and other related functions.

Energy sector state-owned enterprises, their subsidiaries and associated companies at the end of 2015



Listed SOEs (the remaining part of these enterprises shares is held by minority shareholders)

Non-controlling interest

Compiled based on company financial reports of 2015

\*-by 31 December 2015. Since 2016 companies are merged into Energijos Skirstymo Operatorius (Energy Distribution Operator), 94.98% share of which is controlled by Lietuvos Energija

\*\* - by 31 December 2015. Since 2016 companies are merged into Energetikos Paslaugų Ir Rangos Organizacija (EnePRO), 100% share of which is controlled by Lietuvos Energetikos Paslaugų Ir Rangos Organizacija.

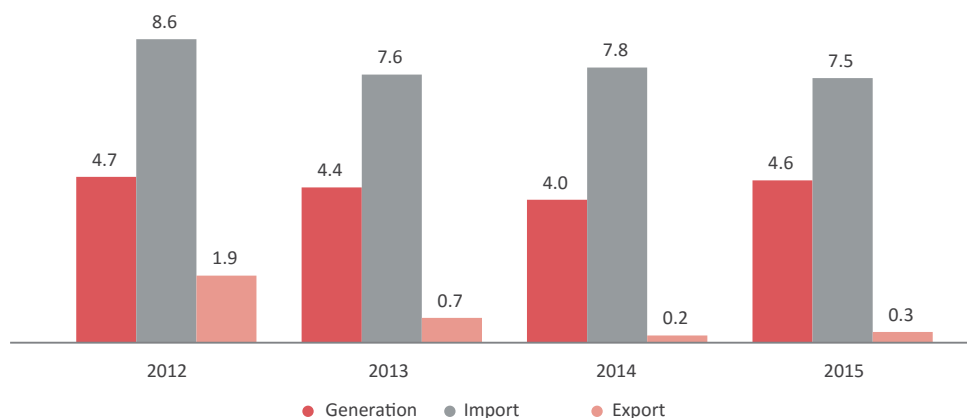
## Electricity generation

The base of Lithuanian electricity production is composed by the production units controlled by **Lietuvos Energijos Gamyba**: Elektrėnai Complex with a standby power plant and a combined cycle unit, Kaunas Algirdas Brazauskas' Hydroelectric Power Plant, and Kruonis Pumped Storage Plant. This strategically important indirectly state-owned company fulfills the functions of electricity and heat production, import, export and trade in the internal market, and has a large aggregate capacity of electricity generation in Lithuania.

According to the Litgrid data, the production of electricity in Lithuania has increased from 4.1 TWh in 2014 to 4.6 TWh in 2015. Overall electricity production in Lithuania, which has significantly decreased after the closure of Ignalina Nuclear Power Plant, has increased. According to the data of NCC, the production volume in 2011-2014 has decreased by 11.1%, however the production in 2015, in comparison to 2014, has increased by 13.4%, up to 4.6 TWh. 66% of imported electricity has been imported from other Baltic and North European countries; 43% of electricity has been imported from other countries. The contribution of **Lietuvos Energijos Gamyba** to the overall amount of electricity produced in Lithuania in 2015 has been 2 TWh (which is 9% higher than in 2014), i.e. **Lietuvos Energijos**

**Gamyba** has produced 43.6% of overall electricity produced in Lithuania, out of which 1.07 TWh of electricity has been produced in Elektrėnai complex; 0.27 TWh in Kaunas Algirdas Brazauskas' Hydroelectric Power Plant, which reduced its production by 13% due to a less humid year and lower debit of the river Nemunas; and 0.67 TWh in Kruonis Pumped Storage Plant, where the volume of produced electricity remained nearly unchanged. About 2.3 TWh of electricity in Lithuania has been produced from renewable energy sources. About 1 TWh has been produced by hydroelectric power plants, 0.8 TWh by wind power plants, and 0.46 TWh by other renewable energy power plants; therefore more than half of all electricity has been produced from renewable sources.

Electricity generation, export and import in Lithuania (TWh)



Source: NCC

## Transmission

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

Lithuanian transmission system operator **Litgrid** is responsible for the electricity transmission services or its transmission via high voltage devices (330–110 kV) from producers to suppliers or consumers. The only company in this market controls the electricity transmission network of high voltage, ensures quality, reliable and efficient electricity transmission, administers public service obligations (PSOs), trades in balancing/regulation electricity and reserve power, and implements balancing of energy system. According to Litgrid data, the transmitted volume of electricity transmitted via energy transmission networks has increased by 1.1%, up to 11.8 TWh. Losses in electricity networks and electricity consumption for its own needs (technological costs of the networks) has decreased by 2.9%, to 845 GWh. Transport, agriculture and residents' electricity consumption has slightly decreased; more significant changes – the increase in electricity consumption has been observed in industry, and services and other users, which increased by 3.2% and 1.8% respectively.

Electricity is transmitted to the majority of consumers via low and medium voltage networks, and enterprises that manage these networks are called Distribution Network Operators (DNOs). In Lithuania, the functions of distribution network operator are

carried out by indirectly State-owned company **LESTO** that has been established in 2011 (until 31 December 2015; since 2016 this activity is carried out by **ESO**). Without it, five other participants in the market have the electricity distribution licenses and distribute the energy in the territories of their companies – Achema, Lifosa, Akmenės cementas, E Tinklas and Dirbtinis Pluoštas. **LESTO** ensures exploitation, development and maintenance of distribution networks, their safety and reliability, meets the other needs of users, and connects new consumers efficiently. The company has a well-developed infrastructure throughout the territory of Lithuania, and, according to the data of the end of 2015, the company has provided services to as many as 1.6 million private customers, and 66.7 thousand business customers.

The final electricity tariff for consumers consists of two parts: one of them reflects the price of electricity as a product and can vary, thanks to the possibility to choose an independent supplier in the free market; while the other represents the price for the electricity transmission and distribution. The second part is paid to electricity transmission and distribution system operators, and it is determined, taking into account the energy transmission costs, by NCC



## 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 2015, the number of market participants holding licenses of independent electricity suppliers reached 34, of which 17 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). So far, the public supplier, which functions are performed by **LESTO** in Lithuania (since 2016 – **ESO**), must sell the electricity to all the consumers who are regulated and have not chosen or lost an independent supplier.

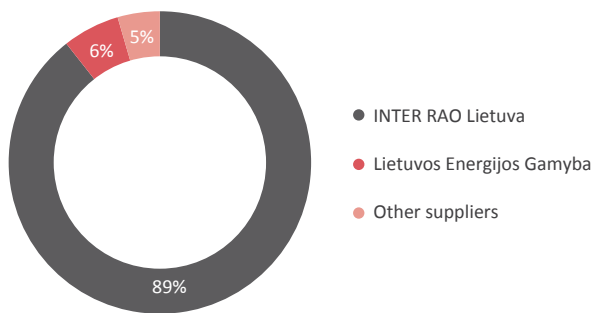
At the end of 2015, 380 market participants have been registered in the power market Nord Pool Spot where Lithuanian has become a bidding area in 2012, some of them are legal entities registered in Lithuania. In 2015, as in 2014, the largest part of sales market belonged to INTER RAO Lithuania – 89%.

In 2015, electricity suppliers have sold 9 TWh of electricity in retail electricity trading market, almost the same volume as in 2014. On the fourth quarter of 2015, the share of **LESTO** in retail market has

decreased by 0.1 percentage point within a year, compared with the same period of 2014. Among the independent electricity suppliers, the share of Enefit in retail market has decreased the most – by 2.6 percentage points, up to 5.8%, and the share of Elektrum Lithuania has increased the most – by 2.9 percentage points, up to 17.9%.

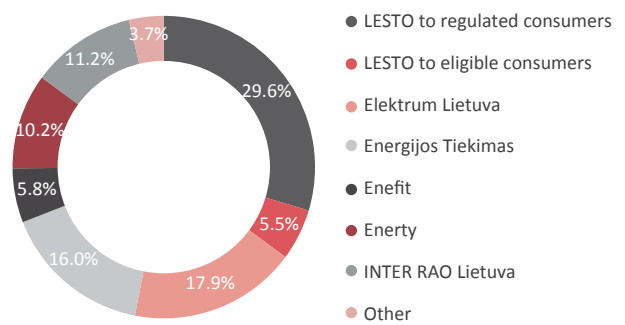
Total electricity demand and final consumption in Lithuania, compared with 2014, have changed slightly and amounted to 11.8 TWh and 10 TWh respectively.

Structure of sales market on the exchange in 2015 (%)



Source: NCC

Structure of retail electricity market in 2015, IV quarter (%)



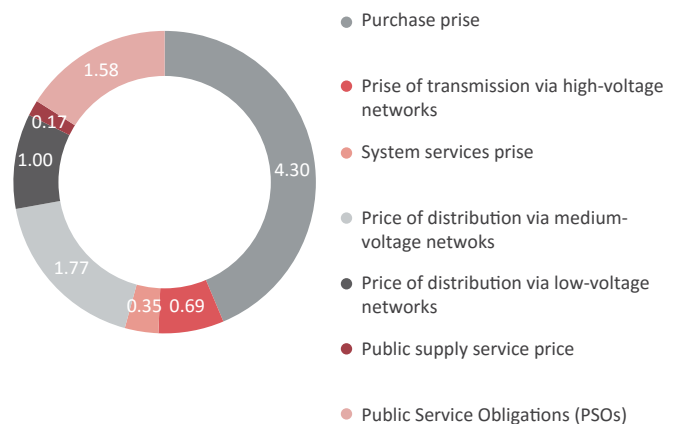
Source: NCC

## Electricity price

Electricity price consists of several components: the price of electricity purchase, transmission, distribution, supply, the price for system services and price for public service obligations. Prices of electricity transmission, distribution and public supply are regulated by NCC. The average price for electricity that the NCC has determined for 2015 is 9.85 cents/kWh excluding VAT. Pricing of NCC is presented in the diagram to the right.

Despite more than two-fold rise in system services price, given the purchase price decrease of 14.3%, average electricity price for the final consumer in 2016, as compared to 2015, decreased by 3%. PSOs price decreased by 3.8%, from 1.64 ct/kWh in 2015 to 1.58 ct/kWh in 2016. The structure of distribution has also featured a change: in nominal terms the price of distribution via medium-voltage networks increased by a similar amount as the price of distribution via low-voltage networks decreased; overall change in price of distribution via medium- and low-voltage networks increased by 0.04 ct/kWh, increasing 1.5% as compared to 2015.

Structure of average electricity price in 2016 (ct/kWh net of VAT)

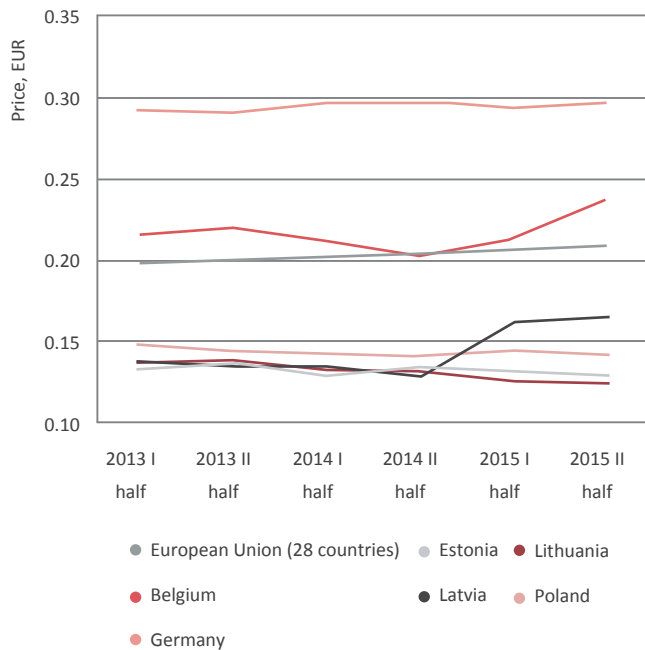


Source: NCC

## Electricity Prices for Households in EU Member States

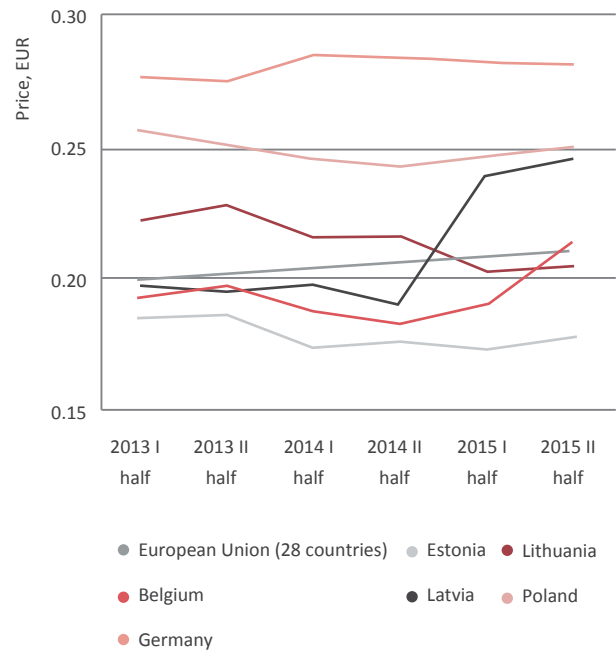
According to the data from the EU statistical office Eurostat, in the second half of 2015 Lithuanian domestic users have paid for electricity unrelated with economic or commercial purposes 24.7% less than Latvians, and 3.7% less than Estonians. This price, compared with 2014, has decreased in Lithuania (by 5%) and in Estonia (by 2.6%); however, in Latvia electricity prices rose by 26.8%. Compared to the EU average (21.1 ct/kWh), the price of electricity in Lithuania in the second half of 2015 was 41% lower (12.4 cents/kWh).

Electricity price for households (including taxes, EUR/kWh)



Source: Eurostat

Electricity price for households based on purchasing power parity (including taxes, EUR/kWh)



Source: Eurostat

## Natural gas sector

Similarly to the electricity sector, the activities in Lithuanian gas sector are divided into the sectors of gas supply, transmission and distribution. The requirement of the Third Package of the European Union to separate the activities of gas supply, trade and distribution has been fully implemented in 2014. Under that requirement, the gas transmission system operator Amber Grid has been established in August 2013, and a new company **Lietuvos Dujų Tiekimas** owned by **Lietuvos Energija** started the activity of natural gas supply on 1 November 2014; it was separated from **Lietuvos Dujos** that is now responsible only for the gas distribution activity, and has been merged with **LESTO** into **Energijos Skirstymo Operatorius** (ESO) in 2016. The Lietuvos Energija subsidiary LITGAS is a designated LNG provider, ensuring the provision of natural gas to heating companies in the cities.

Currently six companies that have a gas distribution license undertake the distribution operator functions in Lithuania: **Energijos Skirstymo Operatorius** (until 30 December 2015 – **Lietuvos Dujos**), Achema, Druskininkų Dujos, Intergas, Fortum Heat Lithuania and Jsvainiai. At the end of 2015, **Amber Grid** was performing the transmission activity, six companies performed distribution activity, and according to the data of the first quarter of 2016, 13 companies performed supply activities. The functions of market operator are carried out by **GET Baltic**.

The end of 2014 featured the first time the natural gas was imported to Lithuania from other country than Russia. After the launch of LNG terminal, operated by Klaipėdos Nafta, LITGAS (part of the Lietuvos Energija Group) as the company performing the role of designated natural gas provider, managed the transportation of LNG from Norwegian Statoil. Since the beginning of 2015, through the LITGAS responsibility of provision with minimum LNG stream via the terminal, Lithuania as well as the other Baltic countries attained the access to the international LNG market and possibilities of more flexible and more varying pricing opportunities, including the benefits of the spot markets. Additionally, the

gas provision and overall strategic energy security of the Baltic countries was heightened.

During the very beginning of 2016 the LNG terminal which previously was working under the technically minimum conditions featured a significant increase in load. Using the LITGAS competencies and network in LNG markets, Lietuvos Dujų Tiekimas (part of the Lietuvos Energija Group) and the largest private consumer the fertilizer manufacturer Achema bought LNG from Statoil under more favourable conditions as compared to the other LNG providers and Gazprom. Thus, in 2016 Lithuania successfully diversified gas import: it is forecasted that the Gazprom share in Lithuanian gas import structure will reach about 40% in 2016.

After the reorganisation of natural gas sector and after the emergence of differences in natural gas prices between Lithuania and Estonia, for the first time, in 2015, the active larger-quantity trade in natural gas between Lithuania and Estonia was started. In 2015, the gas dispatched from Lithuania comprised 20% of all natural gas imported to Estonia.

## Natural gas consumption trends

2,423 million cubic meters of natural gas have been consumed in Lithuania in 2015. This means that 2.7% less of natural gas was consumed in the country in 2015 than in 2014, and 24.6% less than in 2008. Decrease in gas consumption has been influenced by the usage of alternative fuels for electricity and heat production, and the lower gas demand from fertilizer manufacturers; however both electricity and heat producers, and the fertilizer manufacturer and producer of other industrial chemical products Achema still remain the main consumers of natural gas in Lithuania.

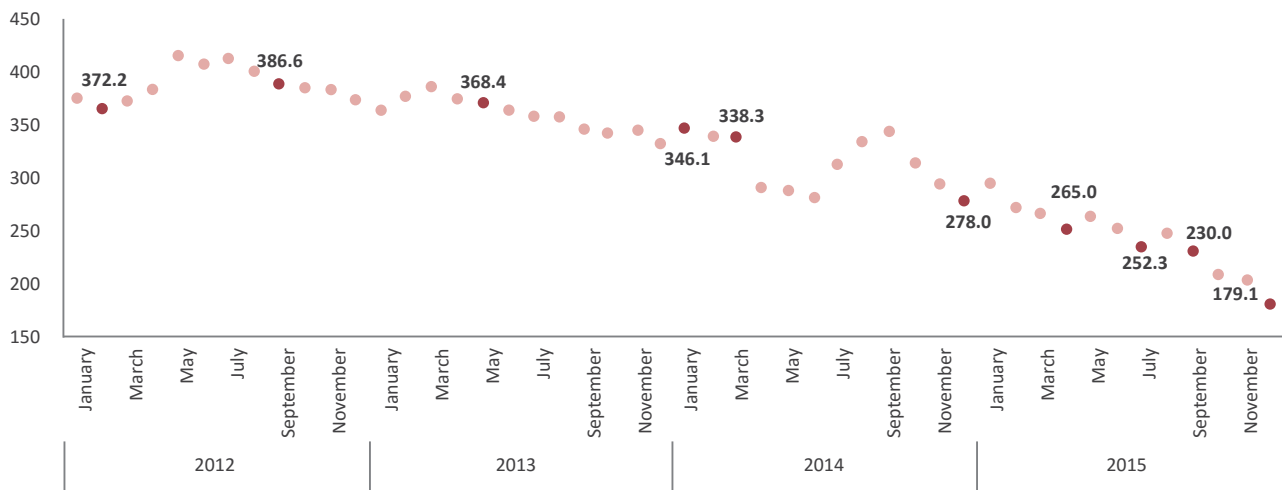
According to the NCC data, the volume of imported natural gas in 2015 has amounted to 2,653.9 million cubic meters, which is 2.8% lower than a year ago. From six companies that have imported gas in 2015, the import increase was by far resulting from the increase in the volume of the minimum natural gas required for the operation of LNG terminal imported by the designated provider **LITGAS**; this increase amounted to 393.2 million cubic meters. **LITGAS** share in imported natural gas was 16.5% and it resulted in **LITGAS** being the third largest importer of natural gas in 2015. Although the increase in gas imports in 2015 has been noticed at Kaunas Combined Heat and Power Plant, Dujotekana and Achema; it was not large enough for overall decrease in amount imported. In these companies amount of natural gas imported decreased by 417 cubic meters, when **LITGAS**, Haupas and **Lietuvos Dujų Tiekimas** increased their amounts imported in total by 489.3 million cubic meters. The supplier of natural gas import of four companies (**Lietuvos Dujų Tiekimas**, Haupas, Achema and Kaunas Combined Heat and Power Plant) in 2015 has remained Gazprom, Dujotekana has bought gas through the subsidiary of Gazprom – LT Gas Stream, and **LITGAS** has purchased natural gas for the testing of the LNG terminal from Statoil.

The price of natural gas import directly depends on the price of alternative fuels, in particular – oil price, which has decreased in 2015

by 26.3%, to EUR 33.5 per barrel (Europe Brent Spot Price FOB; the price in US dollars has been converted to euros in accordance with the exchange rate on the corresponding days). An additional factor is the exchange rate of euro and US dollar, which has significantly changed in 2015 – the dollar price in respect of euro has jumped by 11.3%, yet the comparative extent of this effect was lesser as compared to the oil price change. Due to these factors, the average price of the EU imported natural gas has also decreased from EUR 285 per thousand cubic meters in 2014 to EUR 197.5 per thousand cubic meters in 2015. Detailed changes in the price of Lithuanian gas import are indicated in the following diagram. Natural gas oversupply is observed all over the world, thus the diversification of Lithuanian natural gas resources (operation of the LNG terminal, which generates additional gas import capabilities) allows to use this situation in the natural gas market.

An alternative way to buy or sell gas is natural gas exchange. Currently, Lithuania has only one natural gas trading exchange – **GET Baltic**; **Baltpool** is no longer engaged in gas exchange activities and remains only the biomass trading exchange. In total, 652.3 gigawatt-hours of natural gas have been traded in the exchange in 2015 with an average price of 23.96 euros per megawatt-hour; the turnover of the year has amounted to EUR 15.6 million.

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

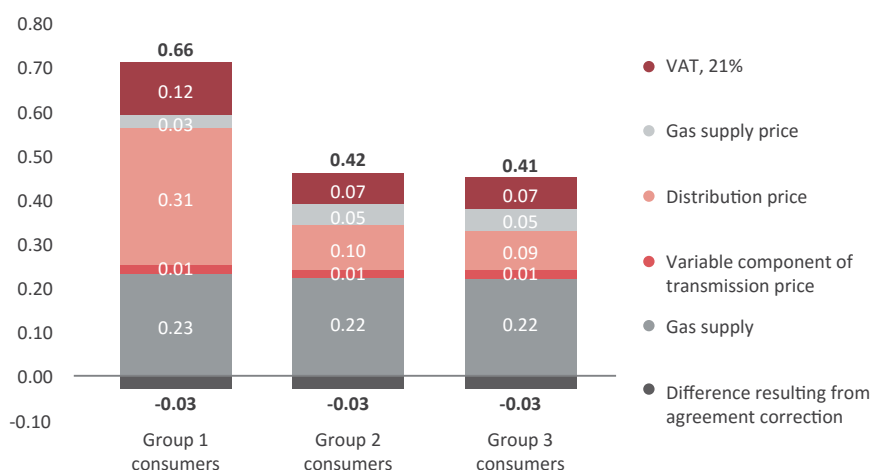


Source: NCC

## Natural gas price for households

Natural gas price for domestic consumers consists of two parts: fixed rate monthly fee paid for the gas system maintenance, power assurance and maintenance services, and variable fee, which depends on the volume of gas consumption. In the first half of 2016, clients of **Lietuvos Dujų Tiekimas**, who belong to the consumers of Group I (consuming up to 500 cubic meters of gas per year), have paid a fixed charge of EUR 0.56 per month. Fixed charge for consumers of Group II and III, who consume more than 500 and 20 thousand cubic meters of gas per year respectively, has been EUR 3.99 per month.

Structure of the natural gas tariffs (EUR/m<sup>3</sup>)  
first half of 2016



Source: NCC

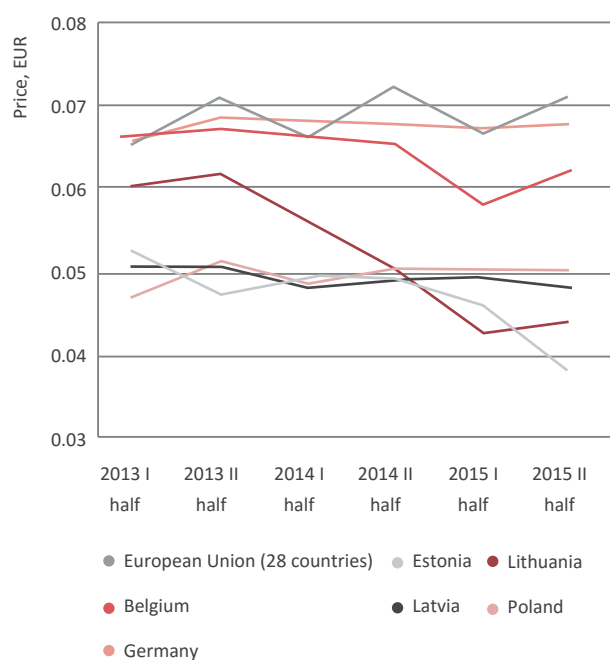
Due to smaller distribution costs per one consumed cubic meter, consumers of Group II and III pay smaller variable price for natural gas: in the first half of 2016, the tariff of EUR 0.42 and 0.41 per cubic meter respectively was applied for them, meanwhile the consumers of Group I have paid EUR 0.66 per cubic meter. In the second half of 2016, the variable price for natural gas has decreased for consumers of Group I, II and III to 0.61, 0.36 and 0.35 EUR per cubic meter respectively, and, compared with the first half of 2016, has decreased by 7.6%, 14.3% and 14.6% respectively.

In the second half of 2015, compared with the second half of 2014, natural gas tariffs for household consumers in the EU countries have decreased by an average of 1.7%. The highest increase has been recorded in Romania, the Czech Republic and the United Kingdom,

meanwhile the largest decrease – in Estonia, Bulgaria, Denmark and Lithuania.

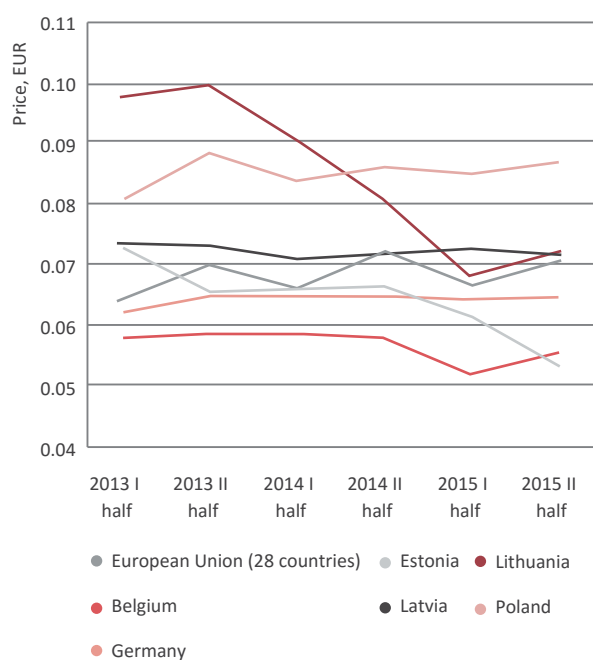
In the second half of 2015, the average price of natural gas for the households of the EU member states was EUR 7.07, and in Lithuania EUR 4.36 per 100 kilowatt-hours. However, adjusted for the country's purchasing power parity (after eliminating the price level differences between countries), gas prices for Lithuanians are above the EU average (EU average – 7.07 in purchasing power standards (PPS), meanwhile Lithuanian average – 7.23 in PPS). Based on natural gas prices in 2015, adjusted for the purchasing power, Lithuania was fifteenth among the EU countries, whose residents pay the highest price of natural gas; to compare, in 2014 Lithuania was the ninth.

Natural gas price for households  
(including taxes, EUR/kWh)



Source: Eurostat

Natural gas price for households based on purchasing power parity (including taxes, EUR/kWh)



Source: Eurostat



# Forestry

Forest area is increasing systematically and covers about a third of Lithuanian territory. Almost half of the forests are state-owned.

The forestry sector consists of 43 state owned enterprises—42 **forest enterprises** that manage and operate in entrusted state-owned forests, and carry out integrated forestry activities there, and **Forest Inventory and Management Institute** that performs forest management activities as well as activities of preparation and implementation of land management projects for land reform. Assets under the management of **forest enterprises** constitute 99.9% of the total assets of the sector, revenue – 98.4%. **Forest enterprises** employ 97.4% of all forestry sector employees. The sole owner of the state-owned enterprises in the forestry sector is the state.

Enterprise	Field of activity	Turnover in 2015 (EUR '000)	Assets at the end of 2015 (EUR '000)*	Number of employees at the end of 2015
Panevėžys Forest Enterprise	Integrated forestry activities	6,521	7,532	119
Tauragė Forest Enterprise		5,767	7,607	161
Ukmergė Forest Enterprise		5,661	5,720	139
Trakai Forest Enterprise		5,505	5,819	97
Švenčionėliai Forest Enterprise		5,020	5,567	119
Jurbarkas Forest Enterprise		4,962	6,694	100
Kretinga Forest Enterprise		4,895	8,632	144
Kazlų rūda Training Forest Enterprise		4,798	4,029	115
Vilnius Forest Enterprise		4,500	5,179	89
Biržai Forest Enterprise		4,467	4,111	87
Lithuanian Forestry Inventory and Management Institute	Forest management projects	2,482	1,756	97

\* The presented Balance Sheet data of the forest enterprises exclude the value of forests managed by these enterprises.

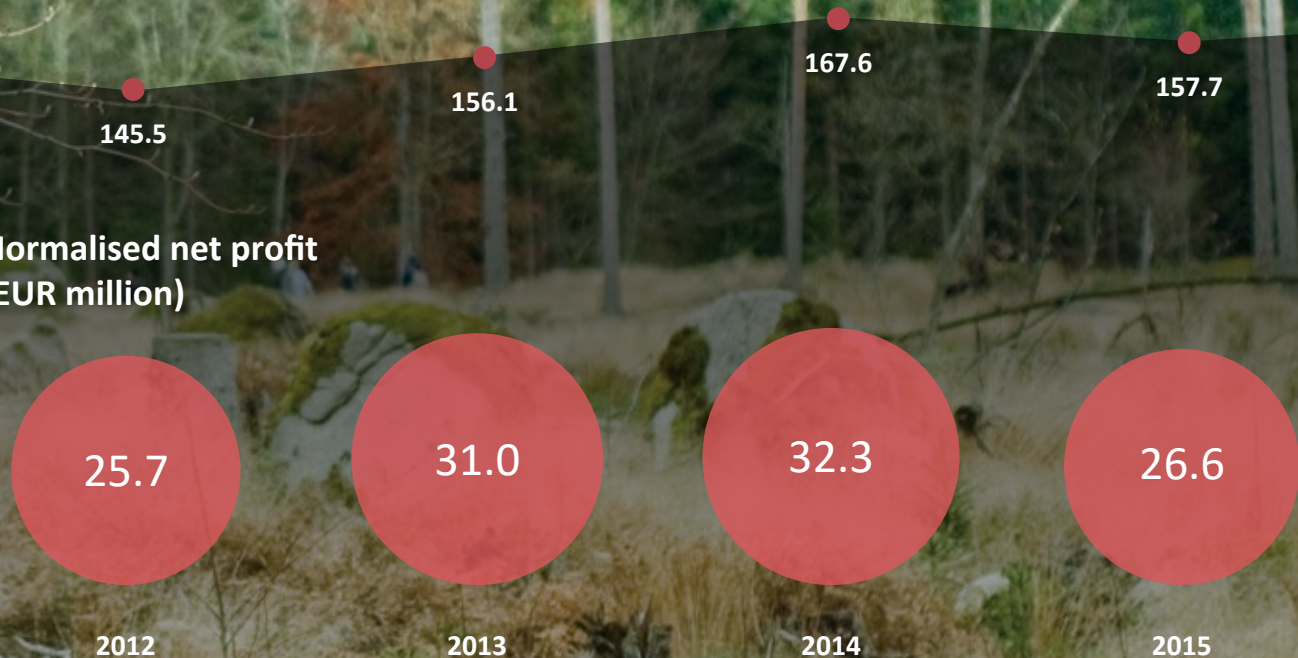
## Financial results

Forestry sector enterprises in 2015 earned EUR 158.7 million of revenue, which, compared to 2014, decreased by 5.4%. Sales revenue decrease was mostly affected by lower prices of round wood, the average price of which declined from EUR 43.8 per cubic meter in 2014 to EUR 38.6 per cubic meter in 2015. As a result of price decline the sales of round wood increased by 7%. In total, 3.7 million cubic meters of round wood were sold in 2015.



## Sales revenue (EUR million)

## Normalised net profit (EUR million)



Cost of sales in 2015 increased by 4.8%, up to EUR 66 million, mainly due to the increased volumes of round wood sales. Operating expenses decreased by 6.9%, down to EUR 86.3 million. The decrease was mostly influenced by EUR 4.5 million decline in reforestation and forest enhancement expenses, which at the end of 2015 amounted to EUR 39.3 million. Also, operating tax expenses decreased by 4.9% down to EUR 24.3 million. Furthermore, the expenses incurred in connection with the implementation of ecological and social activities were EUR 0.8 million lower and in 2015 amounted to EUR 8 million.

Net profit of the enterprises operating in the forestry sector, due to the decrease in sales revenue and increase in cost of sales, shrank by 42.9% and amounted to EUR 6.3 million. EBITDA result declined by 18.8% and amounted to EUR 20.7 million. After the elimination of the atypical taxes paid by **forest enterprises** and **Forest Inventory and Management Institute** to the state, the net profit (normalised) amounted to EUR 26.6 million and, compared to the result of 2014, was 17.8% lower.

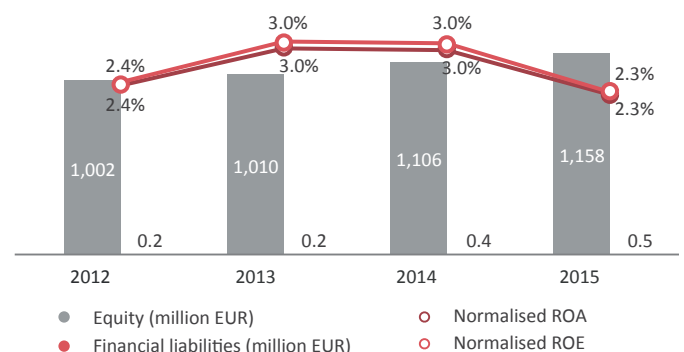
**Forest Enterprises**, while carrying out accounting according to the business accounting standards, exercise the exemption applied to **forest enterprises** and do not account for forest (biological assets) value. For the purpose of comparability with managers of private forests and managers of foreign state-owned forests, who account for the value of biological assets, GCC annually recalculates the value of biological assets of **forest enterprises** using the discounted cash flow method. According to the GCC calculation, **forest enterprises** managed biological assets worth EUR 1,003 million on December 31, 2015, i.e. 5.3% more than a year ago. The increase in the value of biological assets was determined by the grown average price of round wood, which is calculated within a 5 year period. Increasing quality of the forests also contributed to the growth of forest value.

Since the beginning of 2015 the assets of forestry sector grew 4.6% and at the end of 2015 amounted to EUR 1.2 billion. The growth in asset value was mainly influenced by the increase in the value of biological assets. The aggregate long-term financial assets of **forest enterprises** decreased by 61.9% and amounted to EUR 3.2 million.

During 2015, the reserves of **forest enterprises** decreased by 8.4%, down to EUR 29 million, accounts receivable increased by 8%, up to

EUR 7.9 million, and cash and cash equivalents increased by 38.8%, up to EUR 23.7 million. The current assets, in total, increased by 8.1% and constituted EUR 72 million. Growing current assets increase the liquidity ratios of **forest enterprises**, which remain significantly higher than in the private sector. Critical liquidity, which shows company's ability to cover the short-term liabilities by quickly realisable assets, in Lithuania's forestry and logging sector constitutes about 1.31 (2014 data of Statistics Department), while critical liquidity of **forest enterprises** and **Forestry Inventory and Management Institute** was 2.55 on December 31, 2014, and at the end of 2015- 3.27, and significantly surpassed the liquidity ratio of the country. Whereas, the absolute liquidity (ratio of cash and short-term liabilities) of the state-owned enterprises attributed to the forestry sector was 1.8 on December 31, 2015. Cash and cash equivalents in excess of current liabilities, in practice, is regarded as an untapped potential to generate more value to the enterprise and, therefore, the state.

The equity of **forest enterprises**, mainly due to a significant growth in value of biological assets, increased by 4.6% and constituted of EUR 1.2 billion. Also, the amount of grants and subsidies increased by 14.1% or EUR 12.8 million. Liabilities, constituting of 1.1% of the total assets, or EUR 13.3 million, decreased by 4% as a result of short-term liabilities, which decreased by EUR 13.2 million. Financial liabilities of the sector in 2015 constituted of EUR 478.3 thousand and during the year increased by 13.9%. Financial liabilities grew in following forest enterprises: **forest enterprise of Kaunas** (up to EUR 292 thousand), **Kaišiadoriai** (up to EUR 55 thousand)





and **Utena** (up to EUR 132 thousand). In **Dubrava Experimental-Training** and in **Pakruojis forest enterprises** financial liabilities decreased (from EUR 171 thousand to EUR 111 thousand and from EUR 95 thousand to EUR 44 thousand, respectively). **Ignalina Forest Enterprise's**, financial liabilities amounted to EUR 142 thousand at the end of 2014 and during 2015 were met, therefore, they were no longer accounted for at the end of year 2015. Other **forest enterprises** have no financial liabilities. They fund the assets only by equity and grants. High level of creditworthiness (low debt level) of

**forest enterprises** allow them to use a cheaper (compared to the required return on equity of 5%) loan capital for investments.

The drop of normalised net profit earned affected the sector's rates of return as well. The normalised rates of return on assets and return on equity during the reference period dropped by 0.7 percentage points each and thus constituted 2.3% each.

<b>Profit and loss statement (EUR'000)</b>	<b>2014</b>	<b>2015</b>
<b>Sales revenue</b>	<b>167,646</b>	<b>158,676</b>
Cost of goods sold	63,003	66,016
<b>Gross profit (loss)</b>	<b>104,643</b>	<b>92,660</b>
Operating expenses	92,716	86,290
Profit (loss) from other activities	643	693
<b>Operating profit (loss)</b>	<b>12,570</b>	<b>7,063</b>
<i>Operating profit margin</i>	<i>7.5%</i>	<i>4.5%</i>
<b>EBITDA</b>	<b>25,552</b>	<b>20,739</b>
<i>EBITDA margin</i>	<i>15.2%</i>	<i>13.1%</i>
Financial and investment activities	359	339
<b>Profit (loss) before tax</b>	<b>12,929</b>	<b>7,402</b>
Profit tax	1,921	1,116
<b>Net profit (loss)</b>	<b>11,009</b>	<b>6,286</b>
<b>Normalised net profit (loss)</b>	<b>32,348</b>	<b>26,576</b>
<i>Normalised net profit margin</i>	<i>19.3%</i>	<i>16.7%</i>
<b>Balance Sheet (EUR'000)</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>
Intangible assets	1,415	1,895
Tangible assets	100,498	101,177
Financial assets	8,260	3,151
Other long-term assets	2,366	2,623
Biological assets	952,271	1,002,964
<b>Long-term assets*</b>	<b>1,064,810</b>	<b>1,111,810</b>
Inventories, prepayments and contracts in progress	31,646	28,991
Amounts receivable within one year	7,286	7,866
Other short-term assets	10,577	11,427
Cash and cash equivalents	17,063	23,686
<b>Short-term assets</b>	<b>66,572</b>	<b>71,971</b>
<b>Total assets</b>	<b>1,131,381</b>	<b>1,183,781</b>
<b>Equity*</b>	<b>1,106,327</b>	<b>1,157,704</b>
Minority shareholder equity	0	0
<b>Grants and subsidies</b>	<b>11,190</b>	<b>12,767</b>
Long-term liabilities	176	147
Short-term liabilities	13,688	13,163
<b>Liabilities</b>	<b>13,864</b>	<b>13,310</b>
Financial liabilities	420	478
<b>Total equity and liabilities</b>	<b>1,131,381</b>	<b>1,183,781</b>
<b>Ratios</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>
Normalised ROA	3.0%	2.3%
Normalised ROE	3.0%	2.3%
D/E	0.0%	0.0%
<b>Return to the state (EUR'000)</b>	<b>2014</b>	<b>2015</b>
<b>Assigned profit contributions</b>	<b>5,506</b>	<b>3,176</b>
Property tax	2,193	2,243
Raw material tax	22,911	21,628
<b>Total:</b>	<b>30,611</b>	<b>27,047</b>
<b>Employee information</b>	<b>2014</b>	<b>2015</b>
Number of employees	3,851	3,739
Number of executives	88	88

\*The consolidated book values of long-term assets and equity capital of forest enterprises were increased by the forest value (biological assets), calculated using the discounted cash flow method, which, according to the evaluation performed at the end of 2015, was EUR 1,003 million. The ratios were calculated based on the increased values of long-term assets and equity capital.

## Contribution of Forest Enterprises to the State Budget

**Forest enterprises** paid EUR 27 million to the state budget for the results of 2015, i.e. 11.6% or EUR 3.6 million less than a year before. **Forest enterprises'** contribution to the state budget consists of profit contributions and atypical taxes.

**Forest enterprises**, as well as other state-owned enterprises, for the commercial activities carried out in 2015 through the disposal of state property, are obligated to allocate 50% of net profit to the state budget. A net profit contribution allocated by forest enterprises for the year 2015 amounted to EUR 3.2 million. In 2014 it amounted to EUR 5.6 million.

In 2015, **forest enterprises** accounted for EUR 23.9 million of atypical

taxes (in 2014 – EUR 25.1 million). For the use of entrusted state property, forest enterprises paid 2%, i.e. EUR 2.2 million of property tax. Meanwhile, the obligatory deductions (15%) from revenue received from the sale of wood in rough and uncut forest (raw material tax) amounted to EUR 21.6 million, 5.6% less than a year ago. Atypical taxes are included in the calculation of **forest enterprises'** contribution to the state budget, as such taxes do not apply to private forest companies.

## Area of Lithuanian Forests

Key forest indicators as of 1 January	2011	2012	2013	2014	2015
Forest land acc. to public records of forests (ha '000)	2,170	2,173	2,174	2,177	2,180
Forest coverage (%)	33.2	33.3	33.3	33.3	33.4
Forest area per capita (ha)	0.67	0.68	0.73	0.74	0.75
Total volume of timber with bark (million cubic metres)	489.8	501.3	510.2	521.3	528.9
Annual increment in stands volume per ha (cubic metres)	8.0	8.2	8.5	8.7	8.9

Source: State Forest Service

Forests in Lithuania cover an area of 2,180 thousand hectares. Since 2003, the forest area has increased by 134.6 thousand ha, and forest coverage of the country expanded by 2.1 percentage points and currently constitutes 33.4%. The major part (56% or 1,150.4 thousand ha) of forest area in Lithuania is covered by coniferous stands, which have decreased by 9.6 thousand ha since 2003.

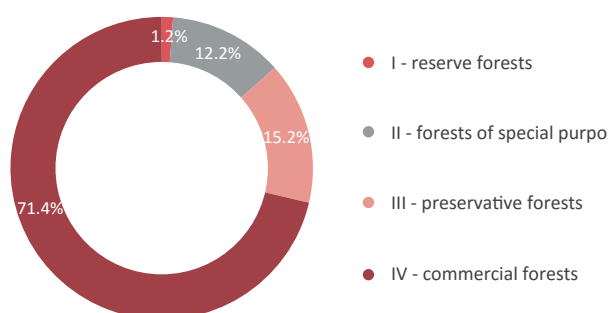
At the beginning of 2015, 71.4% of Lithuanian forest area consisted of forests of Group IV (commercial), 15.2% - forests of Group III (preservative). The rest of the forests are reserves forests (Group I) and forests of special purpose (Group II), where commercial forest activities are prohibited.

Almost half (49.7%) of Lithuanian forest area is covered by forests of national significance, which cover 1,085 thousand ha.

According to the data of 1 January 2015, 39.4%, or 866 thousand ha, of forests are managed by 247.8 thousand private owners, who on average manage 3.4 ha of forest. 10.5% of forest area is reserved for the restitution of ownership rights. The latter part of the forest has decreased by 0.4 percentage points since the beginning of 2014.

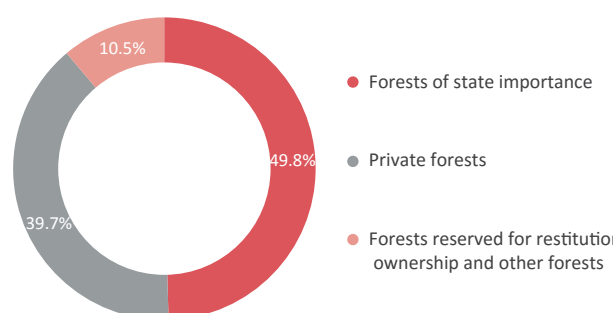
**Forest enterprises** manage 1.04 million ha of Lithuania's forest area, of which 0.76 million ha, or 73.6%, consist of forests of commercial purpose. On average, one **forest enterprise** manages 24.7 thousand ha of forest area. The largest forest enterprises are **Švenčionėliai** (42 thousand ha) and **Panevėžys** (38 thousand ha). Areas of less than 15 thousand ha are managed by **Dubrava**, **Kupiškis** and **Zarasai** forest enterprises.

Forest area group distribution



Source: State Forest Service

Breakdown of forest land by ownership

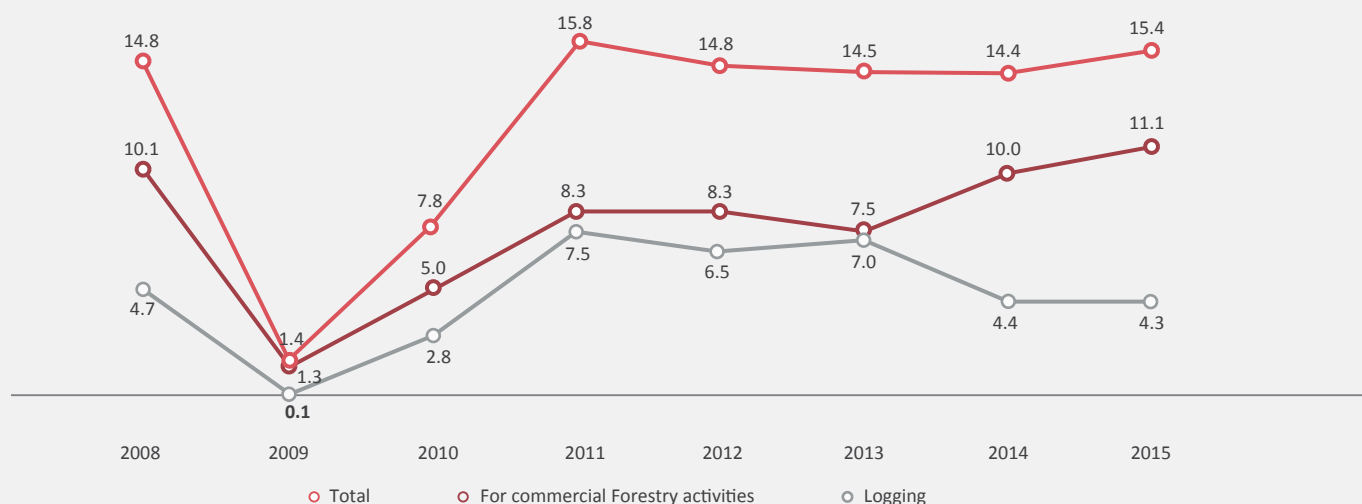


Source: State Forest Service

## Investments and construction of forest roads

During the period of 2008-2015 **forest enterprises** annually allocated about EUR 14-15 million of own funds to the investments in commercial forestry activities and logging, despite significantly reduced scale of investments as a result of the financial crisis in 2009 and 2010. In 2015, investments of **forest enterprises** from their own funds amounted to EUR 15.4 million, out of which EUR 4.3 million was designated for logging, and EUR 11.1 million directed to commercial forestry activities.

Investments of forest enterprises (own funds, EUR million)



Source: Directorate General of Forest Enterprise

Investments in commercial forestry activities include construction and reconstruction, repair and maintenance of domestic forest roads of local significance. Forest roads are one of the most important infrastructure factors for efficient development of forestry. They are used for afforestation, forest maintenance, sanitary protection and fire prevention, performance of installation and management works of environmental and recreational objects, as well as for the organization of industrial forestry activities, communication of local population and meeting other needs. According to the data of Directorate General of State Forests, there are about 24 thousand km of domestic forest roads of local significance in state-owned forests managed by **forest enterprises**.

In 2015, **forest enterprises**, using own funds, constructed and reconstructed 53.7 km, repaired 696.8 km of forest roads and performed maintenance in 12.1 thousand km of forest roads. In total, EUR 9.3 million were spent on the works related to forest roads, almost half of this (EUR 4.6 million) was allocated to road maintenance. In comparison, in

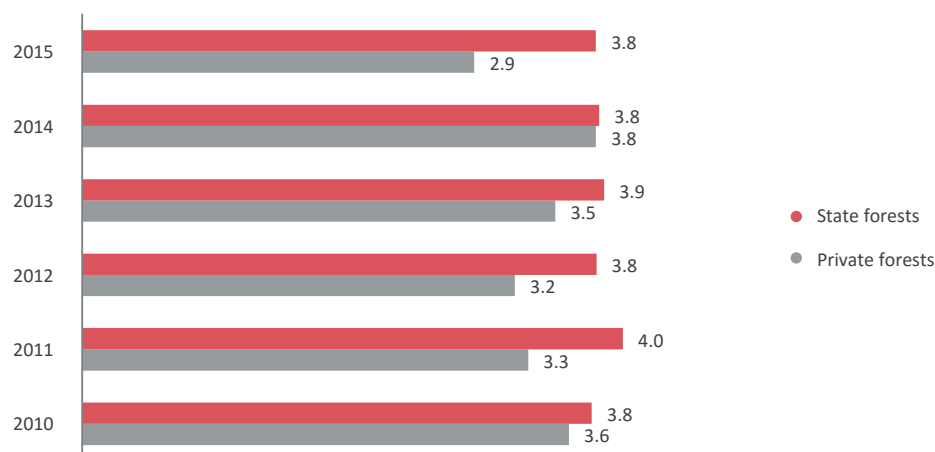
2014, forest enterprises constructed and reconstructed 71 km, repaired 1,377 km of forest roads, repaired one bridge and spent EUR 12.4 million on forest roads. In 2015, most of forest roads were constructed (reconstructed) by **Kaišiadorys** and **Tauragė forest enterprises**, 13.9 km and 5 km, respectively.

In 2015, EUR 2.6 million of Road Maintenance and Development Programme funds were allocated for managing forest roads, which were used to construct and reconstruct 36.8 km, and repair 84.2 km of forest road. In 2014, EUR 1.8 million were allocated, which were used to construct 22.7 km, reconstruct 5.6 km, and repair 28.7 km of forest roads. Significant difference in the distance of the repaired road, according to Directorate General of State Forests, was determined by the fact that in 2015 some **forest enterprises** conducted road repairs on the same road sections, so the distances of roads repaired for a second time were not included, also, in 2015 greater attention was paid to the construction and reconstruction of roads.

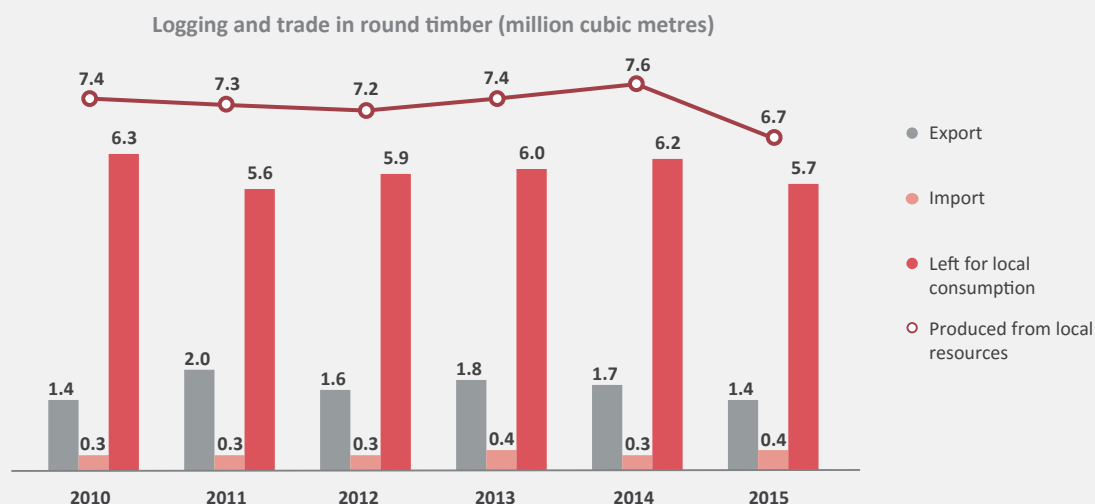
## Forest logging and sales of round wood

In 2015, 6.7 million cubic meters of timber was cut. In the state forests 3.8 million cubic meters of timber was cut and, compared to 2014, this amount remained unchanged. During the year the logging volumes in private forests decreased by 23.7% and amounted to 2.9 million cubic meters.

Logging in forests by ownership (million cubic metres)



Source: State Forest Service



Source: State Forest Service

Due to the decreased logging, the amount of round wood remaining for local consumption dropped as well. In 2015, 5.7 million cubic meters of round wood remained in the domestic market – 8.1% less than a year ago. The volumes of exported round wood also decreased and constituted 1.4 million cubic meters- 18.1% less than in 2014. The largest volumes of round wood are exported to the neighbouring Latvia- in 2015 export of round wood amounted to 0.76 million cubic meters, almost as much as in 2014. Out of the total amount conifers constitute of 0.63 million cubic meters.

**Export of round timber (thousand cubic metres)**

	2015			2014		
	Conifers	Deciduous trees	Total	Conifers	Deciduous trees	Total
Latvia	625	135	760	656	101	757
Poland	173	147	321	148	170	318
Sweden	29	117	146	98	136	234
China	31	28	58	146	61	207
Finland	28	27	55	43	20	63
Czech Republic	24	1	25	34	0	34
Germany	21	0	21	42	17	59
Other	14	5	19	36	8	44
Total	947	459	1,406	1,203	514	1,716

Source: State Forest Service

Round wood imports in the long term remained unchanged. Every year 0.3-0.4 million cubic meters of round wood are imported to Lithuania. Assessing the results of the last two years, deciduous trees from Belarus take the largest share of imported round wood. In 2015, the import from Belarus increased by more than a third and amounted to 0.21 million cubic meters.

**Import of round timber (thousand cubic metres)**

	2015			2014		
	Conifers	Deciduous trees	Total	Conifers	Deciduous trees	Total
Belarus	40	171	211	42	110	152
Latvia	14	61	75	15	82	97
Poland	69	0	69	77	1	78
Russia	0	9	9	0	0.4	0.4
Ukraine	0	7	7	1	12	13
Estonia	2	0	2	0	0	0
Other	0.2	0.4	0.6	0.3	0.6	1
Total	125	247	372	135	206	341

Source: State Forest Service

In 2015, **forest enterprises** sold 3.45 million cubic meters of round wood on the domestic market, which is 9.2% more than in 2014. Sales of wood in the rough increased by 6% and constituted to 2.8 million cubic metres. The amount of firewood sold on the domestic market grew as well by 24% and the total sold amount amounted for 0.65 million cubic metres.

The largest amounts of round wood from **forest enterprises** in 2015 were bought by Juodeliai (233.4 thousand cubic meters, or 6.3%), IKEA Industry Lithuania (230.1 thousand cubic meters, or 6.2%) and Targire (155 thousand cubic meters, or 4.2%). IKEA Industry Lithuania mainly bought cheaper timber – wood panels and firewood, while, Juodeliai

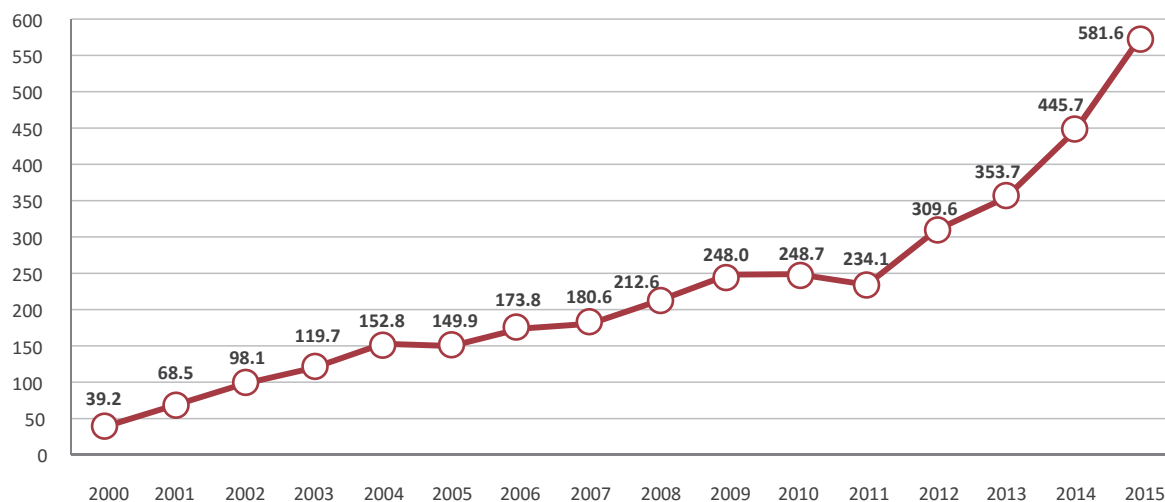
mainly purchased long and short logs from **forest enterprises**.

It is noted that there are no large purchasers of wood in Lithuania; the largest customers of the forest enterprises buy about 6% (Juodeliai 6.3%) of the total amount of round wood. This may be related to the fact that 42 **forest enterprises** that operate in Lithuania are relatively small and each enterprise trades individually and is unable to serve larger customers due to low volumes of sales. Such situation has a negative effect on the competitiveness of forest enterprises.

## Solid Biofuel Market

One of the key priorities of the energy strategy for the EU Member States remains the promotion to use renewable energy sources (RES). The largest RES potential is found in solid biofuel (firewood and wood waste, straw and energy crops), which is used mainly for the generation of electricity and district heating (DH). In 2015, solid biofuel consumption for the generation of electricity and district heating was 582 thousand tonnes of oil equivalent, which is 30.5% more than a year ago, when the consumption was 446 thousand tonnes of oil equivalent. In Lithuania, during the period of 16 years, the consumption of solid biofuel for district heating has grown more than 15 times. It is forecasted that due to the growing use of biofuel in DH sector, solid biofuel demand will continue to grow.

Logging and trade in round timber (million cubic metres)



Source: Statistics Lithuania

Since 2010, one of the operational priorities of the Directorate General of State Forests has been to increase the production of feedstock for biofuel in the state forests. Since 2010, when the amount of sold forest logging waste was only 75 thousand cubic meters, the supply and sales of logging waste have increased more than 3 times- in 2015 forest enterprises sold 251 thousand cubic meters of forest logging waste, 4.6% less than a year ago. The largest amount of logging waste in 2015 was sold by **Trakai and Ukmergė forest enterprises** – 12.2 and 10.9 thousand cubic meters, respectively. Meanwhile, **Zarasai and Rokiškis forest enterprises** sold only 1.1 and 1.7 thousand cubic meters of forest logging waste.

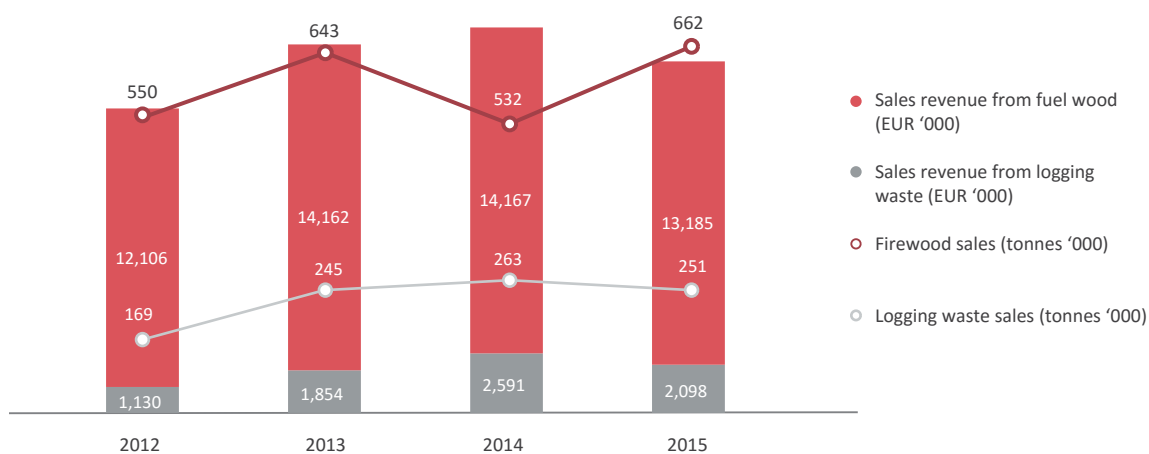
In 2015, **forest enterprises** sold 24.5% more of firewood than a year ago (662.2 thousand cubic meters). The greatest amount of firewood was sold by **Radviliškis, Tauragė and Raseiniai forest enterprises** – 43.6, 37.1 and 30.8 thousand cubic meters, respectively, and the

least, by **Veisiejai and Druskininkai forest enterprises** – 1.9 and 2.2 thousand cubic meters.

Significant differences in sales of raw material for biofuel between **forest enterprises** are partly related to the norms of forest logging and production of logging waste established by the Ministry of Environment. The types of cut trees prevailing in a specific forest enterprise and biofuel demand have influence as well.

Although the amount of sold solid biofuel increased, the revenue from the sale of biofuel, as a result of significantly increased prices for firewood and forest logging waste, dropped by 8.8% and amounted to EUR 15.3 million. The price of firewood decreased the most, on average from 21% to 29%, depending on the group of firewood. The prices of logging waste in 2015 were EUR 8 per cubic metre and compared to the year 2014 dropped by almost a fifth.

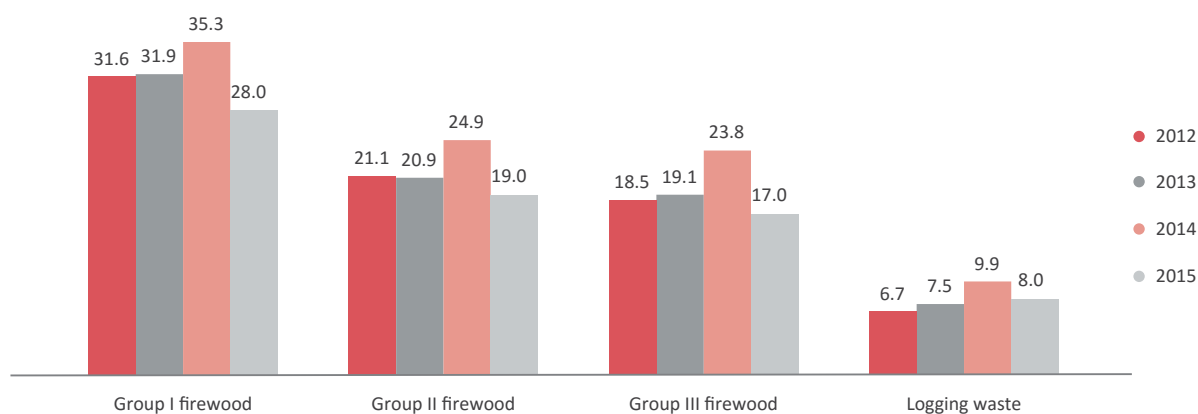
Sales of biofuel by forest enterprises



One of the operational priorities of the Directorate General of State Forests since 2014 was the production of wood chips and their presentation to the biofuel exchange at competitive prices. Since the beginning of 2014, **forest enterprises** have participated in the biofuel raw material exchange Baltpool. During the first year in the exchange, forest enterprises transacted 90 tonnes of oil equivalent which amounted to EUR 14.3 thousand. In 2015, forest enterprises sold 4,806 tonnes of oil equivalent in wood chips from firewood and forest logging waste. The value of those transactions accounted for EUR 697.4 thousand. **Tauragė, Valkininkai** and **Švenčionėliai** forest

enterprises sold the most solid biofuel, respectively 1,716, 1,026 and 528 tonnes of oil equivalent. According to the assessment of Directorate General of State Forests, the increase in quantities of sold solid biofuel was influenced by a few factors. Firstly, the previously mentioned three forest enterprises utilized subsidies of Climate change special programme and purchased machinery for biofuel production and produced biofuel transportation. Moreover, forest enterprises made deals with contracting firms to be able to perform operations involving biofuel production and produced biofuel transportation.

Prices of biofuel sold by forest enterprises (EUR per cubic metre)



Source: Directorate General of Forest Enterprise



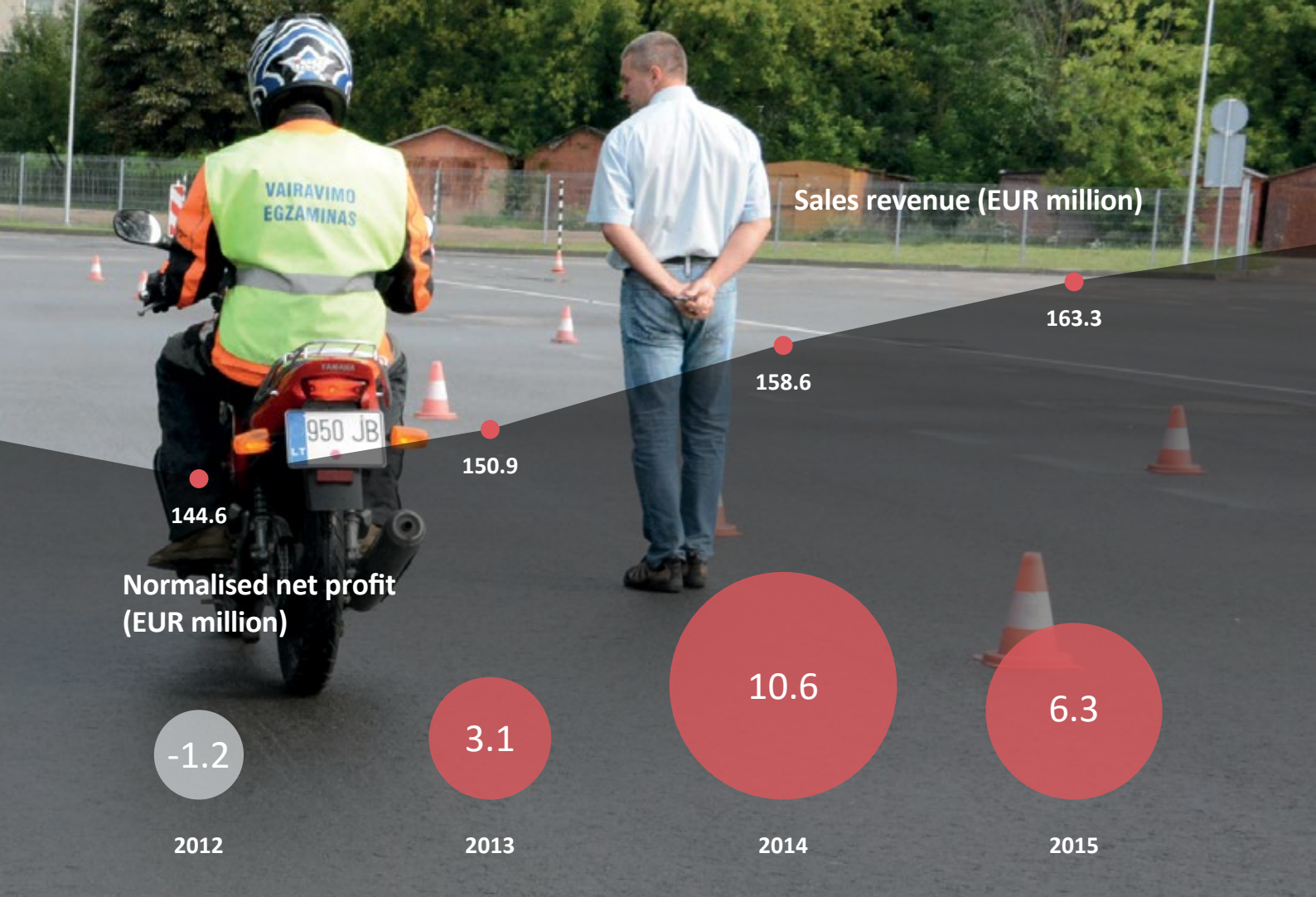


## Other Companies

State-owned enterprises not attributed to the sectors discussed separately, are engaged in various activities from the insurance services to agriculture. The SOE portfolio includes as many as 56 such enterprises, but the total amount of revenue comprises only 7% of the total revenue of the SOE portfolio.

State-owned enterprises, that are not included in the three previously described sectors, perform various functions of importance to the state: make coins, provide assay and calibration services, evaluate construction projects, take care of cultural objects, etc. A number of companies in this sector are the only ones who engage in such activities in Lithuania and have no competitors in the private sector. Three companies – **Detonas**, **Jonavos grūdai** and **Giraitės Ginkluotės Gamykla** are legally assigned to the companies with strategic importance to national security or that are important for national security.

Enterprise	Field of activity	Turnover in 2015 (EUR '000)	Assets at the end of 2015 (EUR '000)	Number of employees at the end of 2015	State's interest (%)
Centre of Registers	Administration of the Immovable Property Register, the Register of Legal Entities and other registers	30,219	22,201	1,547	100.0%
Regitra	Administration of the Road Vehicle Register and the Register of Drivers	23,888	18,818	537	100.0%
Lithuanian Mint	Minting of circulation and collectors coins	12,862	7,610	66	100.0%
Lietuvos Paminklai	Management of cultural heritage sites and places	8,594	921	46	100.0%
Infostruktūra	Provision of secure state data transmission network services and Internet services	8,419	7,447	64	100.0%
Mūsų Amatai	Manufacture of various furniture, racks, metal ware	7,251	7,019	138	100.0%
State Land Fund	Provision of land management, land use planning, geodetic, GIS, soil analysis and evaluation, land reclamation cadastre services	7,000	4,605	329	100.0%
Jonavos Grūdai	Wholesale of grain and rapeseed	6,134	6,237	62	70.1%
Lithuanian Exhibition and Congress Centre LITEXPO	Organisation of meetings and business events, lease of halls and conference rooms	5,597	13,675	96	98.8%
Šilutės Polderiai	Operation and maintenance of polder system	4,328	1,172	73	81.0%



56 SOEs are included in the sector of other companies. Compared to 2014, the number of SOEs included in this sector decreased by two. On 31 March 2015, **Baldžio Šilas** was reorganized and merged to **Senevita** which took part in the reorganization. On 15 July, **Pušyno Kelias** was reorganized into public institution. **Vilniaus Pilių Direkcija**, which had ceased to operate in the third quarter of 2015 and had a liquidator appointed on 14 August, was also excluded from the list of companies in this sector. **Mašinių Bandymo Stotis** was added to the list of companies in this sector, after it was established in 1 October 2015 by restructuring the budget institution Valstybinė Mašinių

Bandymo Stotis under the Ministry of Agriculture.

13 of the companies included in the sector of other companies are joint stock companies, 27 – limited liability companies, and 16 – state enterprises. The largest company in this sector in terms of turnover and number of employees is **Centre of Registers** that provided services for EUR 30.2 million in 2015. Ten of the largest companies in this sector are indicated in the table in previous page.

## Financial results

Income of the sector of other companies increased by 2.9% in 2015 and amounted to EUR 163.3 million. **Centre of Registers** received the largest amount of income – EUR 30.2 million (3.3% more than a year ago). The income of **Šilutės Polderiai** increased the most in the sector (from EUR 2.8 million to EUR 4.3 million), where the income of melioration equipment maintenance, road maintenance, forest cleaning and other works increased by 53% or EUR 1.5 million. **Turto Bankas** suffered the biggest decrease of income – from EUR 4.6 million to EUR 2.5 million.

The State Enterprise **Turto Bankas** that suffered loss of almost EUR 1 million in 2015, and earned EUR 1.6 million of normalized net profit in 2014 was the biggest influence to the change in net profit of the sector. The main reason was the decrease of sales revenue due to merger of **State Property Fund** together with **Turto Bankas**. Sales revenue in 2015 decreased by 44.6% and it was largely determined by the delayed adoption of funding and other legislation due to the reorganization processes. **Toksika** suffered losses of EUR 0.5 million

in 2015, while the net profit had been EUR 2 million in 2014, and had a significant influence on normalized net profit of the sector. State enterprise **Mūsų Amatai** earned EUR 95 thousand, which was EUR 1.2 million more than in 2014, when it suffered losses of EUR 1.1 million, had the greatest positive impact on normalized net profit of the sector.

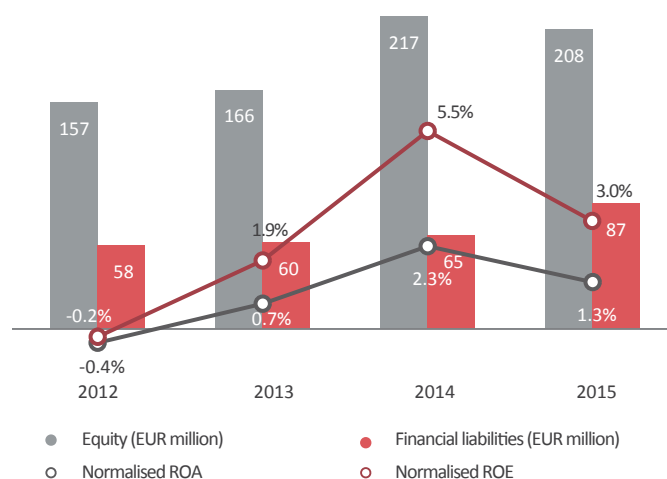
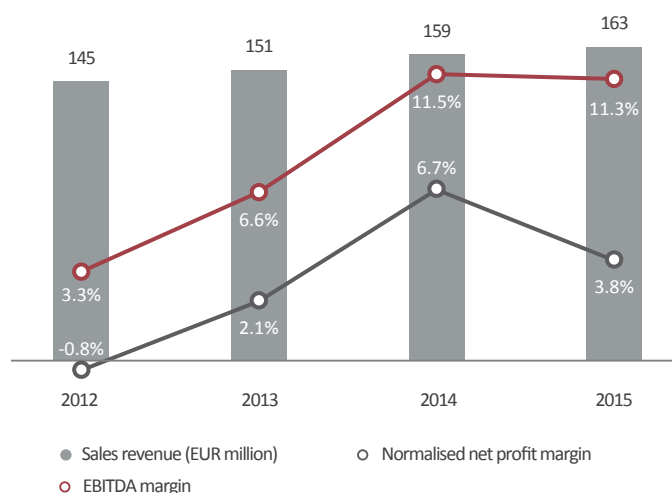
<b>Profit (Loss) Statement (EUR '000)</b>	<b>2014</b>	<b>2015</b>
<b>Sales revenue</b>	<b>158,615</b>	<b>163,282</b>
Cost of goods sold	118,160	125,070
<b>Gross profit (loss)</b>	<b>40,454</b>	<b>38,212</b>
Operating expenses	32,964	33,774
Profit (loss) from other activities	564	2,022
<b>Operating profit (loss)</b>	<b>8,054</b>	<b>6,461</b>
<i>Operating profit margin</i>	<i>5.1%</i>	<i>4.0%</i>
<b>EBITDA</b>	<b>18,170</b>	<b>18,421</b>
<i>EBITDA margin</i>	<i>11.5%</i>	<i>11.3%</i>
Financial and investment activities	3,526	620
<b>Profit (loss) before taxes</b>	<b>11,581</b>	<b>7,080</b>
Profit tax	1,598	1,426
<b>Net profit (loss)</b>	<b>9,982</b>	<b>5,654</b>
Minority share in profit (loss)	247	313
<b>Normalised net profit (loss)</b>	<b>10,592</b>	<b>6,270</b>
<i>Normalised net profit margin</i>	<i>6.7%</i>	<i>3.8%</i>
<b>Balance Sheet (EUR '000)</b>	<b>31 DEC 2014</b>	<b>31 DEC 2015</b>
Intangible assets	7,085	5,453
Tangible assets	179,597	174,715
Financial assets	98,070	88,255
Other non-current assets	26,822	22,091
Biological assets	2,492	2,425
<b>Non-current assets</b>	<b>314,066</b>	<b>292,940</b>
Inventories, prepayments and contracts in progress	82,155	83,903
Amounts receivable in one year	21,878	19,663
Other current assets	20,136	28,888
Cash and cash equivalents	43,035	48,807
<b>Current assets</b>	<b>167,204</b>	<b>181,261</b>
<b>TOTAL ASSETS</b>	<b>481,270</b>	<b>474,201</b>
<b>Total equity</b>	<b>216,891</b>	<b>207,755</b>
Minority shareholder equity	3,570	3,504
<b>Grants and Subsidies</b>	<b>44,670</b>	<b>39,341</b>
No-current liabilities	157,345	163,261
Current liabilities	62,364	63,844
<b>Liabilities</b>	<b>219,709</b>	<b>227,105</b>
Financial liabilities	65,446	86,816
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>481,270</b>	<b>474,201</b>
<b>Ratios</b>	<b>31 DEC 2014</b>	<b>31 DEC 2015</b>
Normalised ROA	2.3%	1.3%
Normalised ROE	5.5%	3.0%
D/E	30.2%	41.8%
<b>Return to the state (EUR '000)</b>	<b>2014</b>	<b>2015</b>
Allocated dividends (share of the state)	4,323	3,788
Assigned profit contributions	1,636	1,447
<b>Dividends and profit contributions to the state</b>	<b>5,959</b>	<b>5,234</b>
Property tax	711	721
<b>TOTAL</b>	<b>6,670</b>	<b>5,955</b>
<b>Employee information</b>	<b>2014</b>	<b>2015</b>
Number of employees	5,429	5,281
Number of executives	146	147



**Turto Bankas** had a significant impact on change of assets and equity capital value of the sector of other companies. The assets of the latter decreased from EUR 171.9 million to EUR 160.9 million due to a decrease of investment property and unfinished contracts, and the equity decreased from EUR 8.4 million to EUR 42.8 million, mainly due to a decrease of capital corresponding to centrally managed state assets. **Lithuanian Agricultural and Food Market Regulation Agency**, which assets increased by EUR 20.5 million in 2015, from EUR 4.1 million to EUR 24.6 million, also had a significant impact on the change of assets of the sector. This change was determined by the increase of current liabilities of the company in EUR 20.5 million

due to an increase of financial debts from credit institution in EUR 13.6 million, increase of debts to suppliers in EUR 4.4 million, and accounted received prepayments in value of EUR 5 million.

Returns to the state of the sector of other companies for 2015 amounted to EUR 6 million, out of which 24.3% are profit payments, and 63.4% – in the form of dividends. Profit payment (EUR 1.1 million), assigned to **Regitra** for 2015, and dividends of **Lithuanian Mint** and **Investment and Business Guarantees** for 2015 amounted the largest part of this return, EUR 0.7 million and EUR 0.6 million respectively.



### The most important events of the sector are briefly described further in the review of this sector.

- On 31 March 2015 **Baldžio Šilas** has ceased the company's operations. The company was merged to another state-owned enterprise **Senevita** through reorganization. Reorganization conditions adopted on 10 March 2015 during the general meeting of the shareholders indicated that **Senevita** would take over the assets, rights and obligations of **Baldžio Šilas** under the transfer-acceptance act.
- On 9 June 2015, following the Article 24 Part 2 of the Law on State and Municipal Enterprises of the Republic of Lithuania, the Government decided to terminate operations of state enterprise **Vilniaus Pilių Direkcija**. This state enterprise was established to coordinate the construction of the Palace of the Grand Dukes and was not engaged in other projects. The newly founded Museum of the Palace of Grand Dukes, that has the disposition of the assets of the Palace, may continue to implement the development of its construction.
- On 15 July 2015, state-owned **Pušyno Kelias** was reorganized to public institution. The reorganization was based on the fact that after the change of status to public institution and receiving a new founder (Ministry of Health of The Republic of Lithuania), the company will be able to take advantage of state investment programs, the European Union's structural funds, and to renovate buildings of sanatorium for rehabilitation activities.
- Mašinų Bandymo Stotis** was established in 1 October 2015 by restructuring the budget institution Valstybinė mašinų bandymo stotis under the Ministry of Agriculture. Budget institution was reorganized in order to rationalize the use of the State budget of the Republic of Lithuania and to implement the Article 4 Part 3 of the Law on Agricultural, Food Sector and Rural Development of the Republic of Lithuania. The company carries out certification and testing of agricultural machinery and equipment, agricultural and forestry tractors, equipment of processing agricultural production and wood-processing and other machinery and equipment, by measuring whether the consumption characteristics correspond to normative documents.
- On 1 January 2016 **Vilnius Metrology Centre** was reorganized by merging it with **Kaunas Metrology Centre**, **Klaipėda Metrology Centre**, **Šiauliai Metrology Centre** and **Panevėžys Metrology Centre**.
- After the budget institution Central Mortgage Office was reorganized on 1 January 2016, **Central Mortgage Office** was established. On 1 July 2016, **Central Mortgage Office** was reorganized and merged with **Centre of Registers** that participated in the reorganization. The reorganization was implemented in order to optimize the management of the main state registers, usage of state information resources and provision of public e-services, to ensure their growth and development.
- On 6 April 2016 state-owned **Athletes Testing and Rehabilitation Centre** was acquired by a private investor.
- On 25 May 2016, following the Article 24 Part 2 of the Law on State and Municipal Enterprises of the Republic of Lithuania, the Government decided to cease operations of state enterprise **the Parliament publishing house Valstybės žinios**. Since 2014 the legislation of the Parliament and other authorities have been published in the Register of Legal Acts of the Parliament, therefore the main activity of **Valstybės žinios**, which was the printing of official legal acts of the state, has become unnecessary.

An aerial photograph of a landscape featuring a river, a dam, a road, and a railway line. The river is on the left, with a dam structure across it. A road runs parallel to the river, and a railway line is visible on the right. The background shows a vast, green landscape with scattered buildings and trees.

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## The Lithuanian Railways Group

www.litrail.lt



Services of freight and passenger transportation via railways, administration of railway network, management, maintenance and development of public railway infrastructure

Lithuanian Railways hold 100% of shares of the companies Geležinkelio Tiesimo Centras, Vilniaus Lokomotyvų Remonto Depas, Geležinkelių Projektavimas, Gelsauga, Geležinkelių Aplinkosaugos Centras and Rail Baltica Statyba, 79.61% of shares of Vilniaus Logistikos Parkas, and 34% of shares of Lithuanian and Austrian Voestalpine VAE Legetecha.

- The amount of transported freight decreased by 1.9%
- The amount of transported passengers decreased by 7.7%
- Net profit of the Group decreased by 96.5%

In 2015 Lithuanian railways transported 48 million tonnes of freight – 1.9% less than during the respective period in 2014. The amount of freight transported on international routes, due to unfavourable situation in the international freight market, decreased by 2.6% and amounted to 33.6 million tonnes, or 70% of the total of transported freight. Mostly decreased transit towards the direction of Kaliningrad. The amount of freight transported on domestic routes amounted to 14.4 million tonnes. On domestic routes oil and its products were transported mostly (5.8 million tonnes).

The number of transported passengers decreased by 7.7%, down to 4,226 thousand. The number of passengers transported on domestic routes decreased by 6.6% compared to 2014 – it was mainly caused by the shortening of some routes and cancellation of trains due to the construction works of the project Rail Baltica and construction of the second rail track on the IXB corridor. Due to the increasing competition from alternative means of transport and due to unstable economic and political situation in Russia, international transportation declined by 12%, down to 796 thousand passengers, at the end of 2015, which resulted in the cancellation of the route Vilnius- Saint Petersburg since June.

Sales revenue of the Company Group decreased by 8.7%, down to EUR 429.5 million. The revenue decline was mostly influenced by lower volumes of transported freight, which resulted in the decline of Group's freight revenue by EUR 15.6 million, or 4% (freight revenue constitute 86.2% of total sales revenue of the Group). Also, a significant influence had passenger revenue decline of 8.1% or EUR 2.1 million as well as 39.6% decline in other revenue of the Company Group received from additional activities.

Group's cost of sales decreased by 7.3%, down to EUR 360 million. Due to the decline of diesel prices and the decreased freight volumes, fuel expenses of the Group significantly decreased, by 20.5% or EUR 12.4 million.

Net profit of the Group decreased by 96.5%. It was influenced by the decrease of sales revenue and 17.3% increase of operating expenses. Increase of expenses was influenced by the decrease of doubtful debt value because of the ongoing litigation with ORLEN Lietuva regarding the issues of the application of freight rates and the formed provision to the objection expressed by the European Commission to vouch for in the lawsuit regarding the dismantling of rail track.

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	470,355	429,521
Cost of goods sold	388,319	360,020
Gross profit (loss)	82,036	69,502
Operating expenses	59,308	69,549
Profit (loss) from other activities	9,178	6,850
Operating profit (loss)	31,907	6,803
EBITDA	139,597	120,498
Net profit (loss)	19,376	669
Net profit margin	4.1%	0.2%

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	1,883,174	1,961,219
Current assets	154,229	116,575
Cash and cash equivalents	42,496	14,682
Total assets	2,037,403	2,077,793
Equity	1,014,966	1,099,419
Grants and subsidies	574,116	576,611
Liabilities	448,320	401,763
Financial liabilities	311,223	320,709
Total equity and liabilities	2,037,403	2,077,793

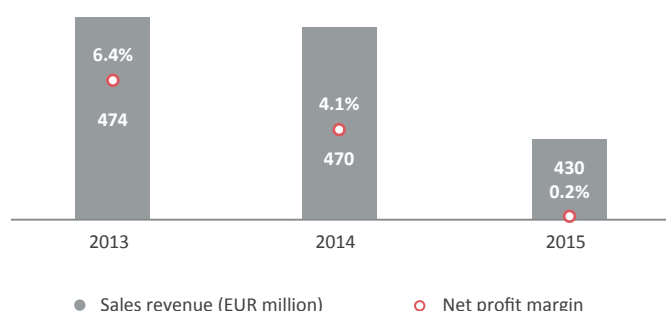
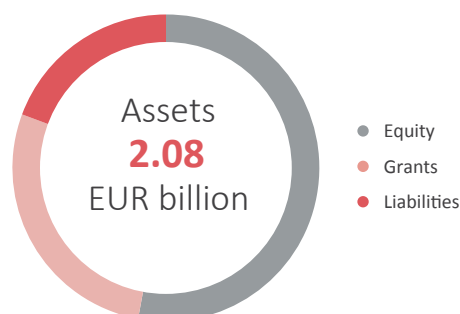
Ratios	31 DEC 2014	31 DEC 2015
ROA	1.0%	0.0%
ROE	1.9%	0.1%
D/E	30.7%	29.2%

Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	8,233	846
Employee information	2014	2015
Number of employees	12,534	12,256
Number of employees in managerial positions	6	6
Average monthly salary of one employee in a managerial position (gross, EUR)	5,974	6,386

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* (UAB RC Holding) Tomas Karpavičius (Ministry of Transport and Communications) Alfonsas Macaitis (Ministry of Transport and Communications) Algimantas Variakojis* (KUB Verslo angelų fondas I)

\* Independent member





## The Lithuanian Post Group

www.post.lt

The delivery of universal, other postal, courier, financial, and other services

*Lithuanian Post manages three subsidiary companies: Lietuvos Pašto Finansinės Paslaugos, LP Mokėjimų Sprendimai, and Baltic Post.*



- The volume of provided postal services increased by 13.3%
- Sales revenue of the Group grew by 12%
- EBITDA rate shrank by 6.7%

During 2015 the Lithuanian Post Group provided 172 million items of service – 5.4% less than during 2014. During the analyzed period the amount of postal services provided by Lithuanian Post increased by 13.3%, despite a slight decrease in the volume of universal postal services. In 2015, 58.1 million consignments were received and dispatched via Lithuanian Post.

Sales revenue of the Group in 2015 amounted to EUR 72.2 million and was 12% higher compared to the same period of 2014. Revenue received from postal services, which constitutes 52.8% of total revenue generated by the Group, was 11.4% higher due to the increased flow of international postal consignments. Revenue from courier services increased by 3.8% (up to EUR 5.6 million), from financial mediation services – by 4.8% (up to EUR 11.8 million), and revenue from other services (subscription of periodicals, non-targeted advertisements, retail and commission trade, etc.) increased by 20% (up to EUR 16 million). In other services revenue mostly increased the provision of additional postal services for the shipment of Chinese company consignments; retail trade revenue from the sold merchandise increased by 6.1%.

Operating expenses of the Group amounted to EUR 73.3 million. Compared to 2014, they increased by 12.6%. The largest share of expenses (51.5%) constituted the personnel costs, which during the accounting period were 5% higher than in the same period of 2014. Expenses for the international delivery of postal items and settlements with foreign posts in 2015 were 43.5% higher compared to 2014, due to the increased flow of international consignments. Other expenses were 12.6% higher than at the end of 2014. This change was determined by the expenses of shipments from China to Lithuania; also by the increase in premise lease after the opening of the new logistics centre of Lithuanian Post, and by tax expenses due to the non-eligible VAT deductions.

During 2015 the Lithuanian Post Group incurred the net loss of EUR 268 thousand, while during 2014 the Group incurred EUR 524 thousand of loss. Group's EBITDA rate at the end of 2015 amounted to EUR 2.2 million, when a year ago this rate amounted to EUR 2.3 million.

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	64,479	72,247
Operating expenses	65,090	73,278
Profit (loss) from other activities	765	1,294
Operating profit (loss)	154	264
EBITDA	2,323	2,167
Net profit (loss)	-524	-268
Net profit margin	-0.8%	-0.4%

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	43,137	41,500
Current assets	45,667	29,067
Cash and cash equivalents	22,787	3,184
Total assets	88,804	70,567
Equity	28,074	27,662
Grants and subsidies	5	13
Liabilities	60,725	42,891
Financial liabilities	33,631	11,854
Total equity and liabilities	88,804	70,567

Ratios	31 DEC 2014	31 DEC 2015
ROA	-0.7%	-0.3%
ROE	-1.8%	-1.0%
D/E	119.8%	42.9%

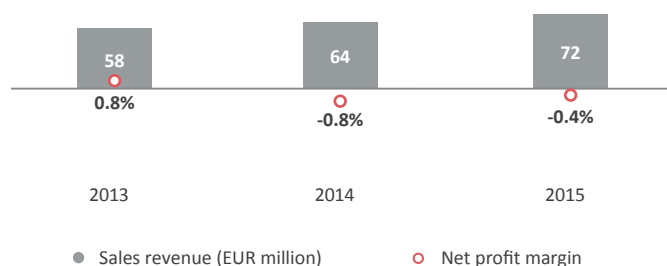
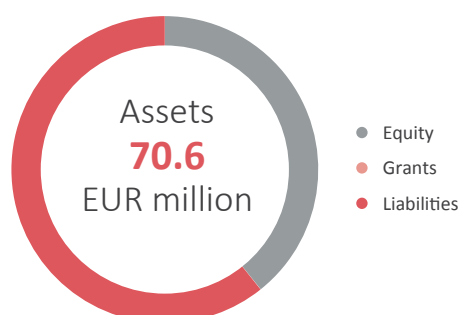
Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	187	692

Employee information	2014	2015
Number of employees	6,038	5,766
Number of employees in managerial positions	8	8
Average monthly salary of one employee in a managerial position (gross, EUR)	3,027	3,588

Shareholders	
State-owned share	100%

Management	
Director General	Lina Minderienė
Chairman of the Board of Directors	Alfonas Macaitis (Ministry of Transport and Communications)
Members of the Board of Directors	Jonas Butautis* (Magnetic MRO AS) Irma Kirklytė (Ministry of Transport and Communications) Janina Laskauskienė (Ministry of Transport and Communications) Linas Sasnauskas* (UAB Carlsen Baltic)

\*Independent member



# Klaipėda State Seaport Authority

www.portofklaipeda.lt



Management of Klaipėda port infrastructure: collection of fees for the use of infrastructure, land rent, execution of development and reconstruction works

- *Cargo handling in the port reached a growth record and increased by 5.8% due to the successful handling of liquid cargo*
- *Revenues grew by 9.2%, EBITDA - 5.9%, and normalized net profit - 4.8%*

During 2015, 38.5 million tons of cargo was handled in Klaipėda Port, 5.8% or 2.1 million tons more than in 2014. The growth of cargo handling in Klaipėda port was mainly caused by the increase of liquid cargo handling by 28.2%, which enabled to reach record results of cargo handling.

In 2015, 340,446 passengers were registered in Klaipėda Seaport. Compared to 2014, the number of passengers decreased by 1.3% or by 4,396 passengers.

The sales revenue of Klaipėda Port Authority grew by 9.2%, up to EUR 54.5 million. Toll revenue, constituting 86% of port's operating income, increased by 9.9%, to nearly EUR 47 million, while revenue from land lease grew up 4.7%, to EUR 7.3 million. The uptrend of the latter revenue was influenced by the completed works of quay reconstruction, deepening, and railway construction, which led to an increase in rental rates. In 2015 company's operating expenses amounted to EUR 28 million and, compared to 2014, increased by 15.2%. The growth of typical operating expenses was mostly influenced by an increase of depreciation expense of fixed assets by 9.5%, up to EUR 12.8 million, and by the increased cost of port dredging works by even 68.8%, up to EUR 3.7 million. The expense of financial and investment activities changed insignificantly, decreased by 2.9% to EUR 3.4 million.

In 2015 the normalized net profit of Klaipėda Port Authority increased by 4.8%, up to EUR 24.2 million. Profit growth was caused by the significant revenue growth, which amounted to EUR 4.6 million. EBITDA of port authority grew as well. During the accounting period the rate was 5.9% higher than at the end of 2014. The normalized net profit margin of 2015 reached 44.4%, it was 1.9 percentage points lower than in 2014.

In 2015 Company's investments amounted to EUR 20.5 million. During the analyzed period, most of the investment funds were allocated to the deepening works of port area (29%), quay construction and reconstruction (24%), and the reconstruction of access roads (21%).

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	49,950	54,546
Operating expenses	24,288	27,978
Profit (loss) from other activities	317	370
Operating profit (loss)	25,980	26,938
EBITDA	34,700	36,758
Net profit (loss)	22,662	23,771
Normalised net profit (loss)	23,120	24,229
Normalised net profit margin	46.3%	44.4%

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	495,462	497,768
Current assets	17,366	29,547
Cash and cash equivalents	7,990	14,142
Total assets	512,828	527,315
Equity	433,038	457,785
Grants and subsidies	53,958	54,891
Liabilities	25,832	14,639
Financial liabilities	20,542	11,597
Total equity and liabilities	512,828	527,315

Ratios	31 DEC 2014	31 DEC 2015
Normalised ROA	4.5%	4.7%
Normalised ROE	5.5%	5.4%
D/E	4.7%	2.5%

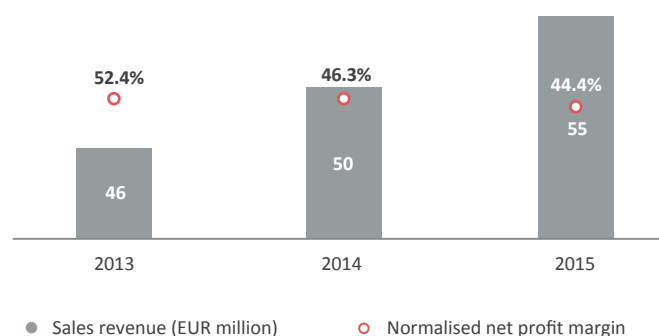
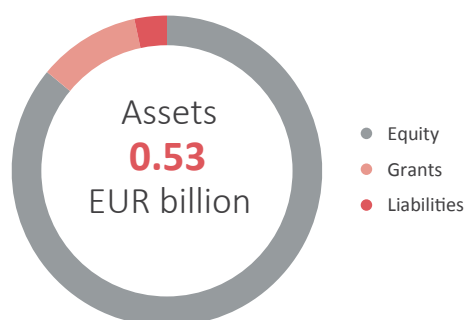
Return to the shareholders (EUR '000)	2014	2015
Assigned profit contributions	0	0
Property tax	458	458
Total contributions and non-standard taxes to the state	458	458

Employee information	2014	2015
Number of employees	246	243
Numbers of employees holding managerial positions	5	5
Average monthly salary of employees holding managerial positions (gross, EUR)	3,547	3,582

## Management

Director General	Arvydas Vaitkus
Chairman of the Board of Directors	Tomas Karpavičius (Ministry of Transport and Communications)
Members of the Board of Directors	Saulius Kerza (Ministry of Transport and Communications) Andrius Šniuolis (Ministry of Transport and Communications) Normantas Marius Dvareckas* (UAB Adventum) Nerijus Udrėnas* (Energy and Infrastructure Baltic Fund)

\* Independent member



## Lithuanian Airports

www.lta.lt

Exploitation of airports, rental of premises and parking areas, advertising

- The number of served passengers reached 4.2 million
- Sales revenue increased by 11.9%
- EBITDA rate increased by 16.1%

During 2015 Lithuanian airports served 4.2 million passengers – 11.3% more than during 2014. Mostly increased the number of passengers served at Vilnius airport, by 13.4%, up to 3.3 million. In Palanga the number of passengers increased by 9.4%, and in Kaunas - by 3.2%. During 2015 Lithuanian airports serviced 50 thousand flights, 5.7% more than during 2014.

Sales revenue of Lithuanian airports during the accounting period amounted to EUR 24.5 million and was 11.9% higher than in 2014. Aeronautical revenue increased by 9.9%, up to EUR 15.3 million. The increase of aeronautical revenue was determined by the increased numbers of served passengers and airships. Non-aeronautical revenue of Lithuanian airports increased by 15.4%, up to EUR 9.2 million. During 2015 Company's operating expenses increased by 7.2% and reached EUR 22 million. The change of expenses was mostly influenced by the costs of maintenance, repair and utilities of fixed assets, which increased by 26.7%, up to EUR 4.4 million.

Company's EBITDA rate increased by 16.1% and at the end of 2015 amounted to EUR 8.3 million. Compared to 2014, the normalized net profit of Lithuanian airports increased by even 71.9% up to EUR 2.4 million, and the net profit margin reached 9.9% and was 3.5 percentage points higher than in 2014.

In 2015 the company made 7,771 thousand EUR investments. 61% of the investments were financed by company funds, 35% by European Union funds, and 4% by budget funds. 71% of the investments were allocated to buildings and constructions – for modernization, development and acquisition.

## LIETUVOS ORO UOSTAI

VNO KUN PLQ

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	21,885	24,499
Expenses of core activities	20,500	21,971
Profit (loss) from other activities	29	18
Operating profit (loss)	1,414	2,547
EBITDA	7,131	8,275
Net profit (loss)	1,214	2,113
Normalised net profit (loss)	1,410	2,424
Normalised net profit margin	6.4%	9.9%

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	153,835	151,922
Current assets	11,741	14,012
Cash and cash equivalents	8,203	10,122
Total assets	165,575	165,935
Equity	110,748	113,248
Grants and subsidies	43,575	41,434
Liabilities	11,252	11,253
Financial liabilities	7,014	5,147
Total Equity and liabilities	165,575	165,935

Ratios	31 DEC 2014	31 DEC 2015
Normalised ROA	0.8%	1.5%
Normalised ROE	1.3%	2.2%
D/E	6.3%	4.5%

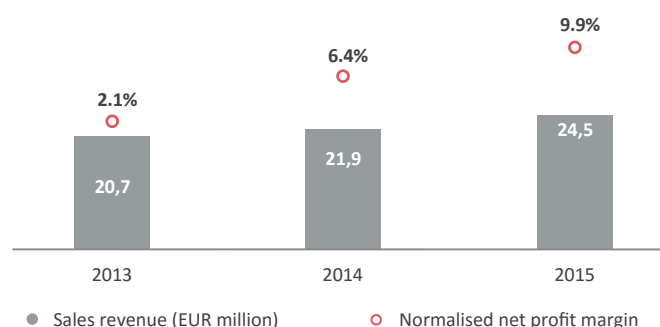
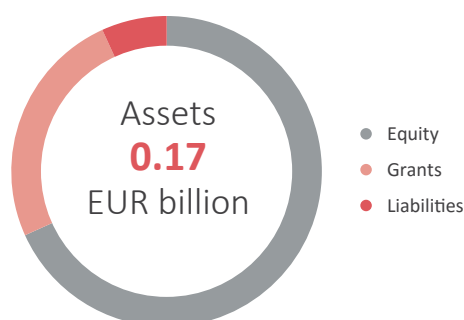
Return to the shareholders (EUR '000)	2014	2015
Assigned profit contributions	0	1,056
Property tax	230	366
Total contributions and non-standard taxes to the state	230	1,422

Employee information	2014 METAI	2015 METAI
Number of employees	532	577
Numbers of employees holding managerial positions	8	10
Average monthly salary of employees holding managerial positions (gross, EUR)	2,701	3,617

### Management

Director General	Gediminas Almantas
Chairman of the Board of Directors	Arijandas Šliupas (Ministry of Transport and Communications)
Members of the Board of Directors	Tomas Krakauskas* (UAB INVIL Asset Management) Nerijus Pačesa* (Independent expert) Janina Laskauskienė (Ministry of Transport and Communications) Vilius Veitas (Ministry of Transport and Communications)

\*Independent member



# Lithuanian Radio and Television Centre

www.telecentras.lt



Provision of radio and television broadcast services, placement of broadcasters' and telecommunication system operators' equipment at the company sites, provision of telephony, wireless internet, mobile internet and data transmission services

- Revenue and operating expenses increased, cost of goods sold decreased
- The net profit of Telecentre increased by 138%

In 2015, sales revenue of the Company was 1.5% higher compared to 2014 and amounted to EUR 18.8 million. Revenue from typical activities, which constitute 98.3% of total revenue, increased by 1.5%. Company's revenue from radio transmission and transfer, access services, as well as from non-telecommunication activities- excursions to TV tower and guest catering services, grew by 32%. In 2015 Company's revenue from other activities increased by 58.5% compared to 2014. Revenue increased due to the sale of real estate, income from the rent of larger non-residential premises, and other one-off revenue.

In 2015 Company's operating expense increased by 15.5%, up to EUR 5.2 million. This change in operating expenses was determined by the acquisition of external services, increased costs of advertising, maintenance information systems, as well as equipment upkeep costs and personnel costs.

Increase of revenue and decrease of expenses, as well as additional revenue from one-off transactions resulted in EUR 171 thousand of Company's net profit in 2015. During the respective period of 2014, the net profit of the Company amounted to EUR 72 thousand.

EBITDA rate of the Company at the end of 2015 reached EUR 5.4 million and was 2% lower compared to the same period of 2014. EBITDA margin during the accounting period shrank by 1 percentage point and reached 28.7%.

Company customers' payables at the end day of accounting period amounted to EUR 3 million. During the last quarter Company's customer payables decreased by EUR 1 million due to early repayment of Lietuvos Nacionalinis Radijas Ir Televizija debt to Lithuanian Radio and Television Centre.

During 2015 the Company invested EUR 4.2 million. During the fourth quarter Company's investments amounted to EUR 2.6 million. The largest share of investments (approximately EUR 2 million) was allocated to the development and renewal of the existing network. In 2015 the Company made investments taking into consideration the needs of market participants and actual orders.

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	18,550	18,825
Cost of goods sold	13,974	13,740
Gross profit (loss)	4,576	5,084
Operating expenses	4,505	5,204
Profit (loss) from other activities	-86	193
Operating profit (loss)	-16	74
EBITDA	5,510	5,399
Net profit (loss)	72	171
Net profit margin	0.4%	0.9%

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	30,580	28,011
Current assets	7,271	12,730
Cash and cash equivalents	3,102	7,962
Total assets	37,851	40,741
Equity	31,353	31,559
Grants and subsidies	16	0
Liabilities	6,481	9,182
Financial liabilities	4,224	187
Total Equity and liabilities	37,851	40,741

Ratios	31 DEC 2014	31 DEC 2015
ROA	0.2%	0.4%
ROE	0.2%	0.5%
D/E	13.5%	0.6%

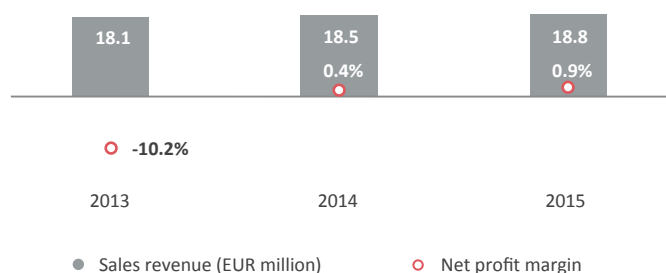
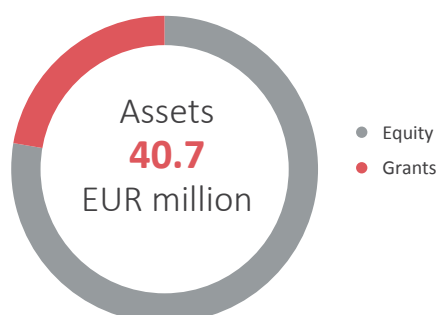
Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	0	0

Employee information	2014	2015
Number of employees	352	359
Numbers of employees holding managerial positions	6	6
Average monthly salary of employees holding managerial positions (gross, EUR)	3,438	3,195

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	Giedrius Martusevičius* (UAB „Probiosanus“) Janina Laskauskienė (Ministry of Transport and Communications) Arūnas Šikšta* (UAB Financial Management Group managing partner) Viktorija Trimbel* (Quantum Capital)

\*Independent member



## Road Maintenance Enterprises

www.lakd.lt

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

- Number of traffic accidents, injuries and deaths on Lithuanian roads decreased
- Sales revenue of the enterprises grew by 6.3%
- The amount of normalized net profit earned is higher by 29.4%

On Lithuanian roads, during 2015, 3,161 traffic accident occurred, that is 2.9% less than in 2014. During the 12 months of 2015, 3,777 people were injured in traffic injuries – 8 people less than in 2014. Meanwhile, the number of road deaths during 2015 is 241 people, that is almost 10% less comparing to the last year.

In 2015, sales revenue of the enterprises increased by 6.3% and amounted to EUR 82.7 million. The sales revenue of Šiaulių Regiono Keliai increased the most (from EUR 1.6 million to EUR 12.6 million), mostly due to the increase in revenue from road maintenance (main activities) and road repair (contracting activities). Also, a relatively significant increase in revenue was registered in the road maintenance enterprises of Kaunas and Utena - revenue increased by 16.1% and 11%, respectively. Revenue of regional road enterprises of Alytus, Panevėžys, and Vilnius decreased during the reference period.

Cost of sales of the road maintenance enterprises at the end of 2015 amounted to EUR 73.7 million and was 4.7% higher than in 2014. As a result of an increased number of orders the cost of sales of Kaunas and Šiauliai regional road enterprises increased the most, and constituted 12.7% and 12.1%, respectively.

During 2015, road maintenance enterprises collectively earned EUR 3.9 million of normalized net profit, i.e. 29.4% more than a year ago. During the analyzed period, the greatest growth of the normalized net profit was registered in the enterprises of Kaunas regional roads (EUR 300 thousand) and Šiauliai regional roads (EUR 274 thousand). Meanwhile, the greatest drop of the normalized net profit was registered in the enterprise of Marijampolė regional roads – EUR 42 thousand or 18.9% decrease.

During 2015, road maintenance enterprises earned 80.8% more of net profit than during the same period in 2014, due to a greater growth in revenue than in expenses.



**LITHUANIAN ROAD  
ADMINISTRATION**

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	77,802	82,676
Cost of goods sold	70,282	73,611
Gross profit (loss)	7,520	9,065
Operating expenses	6,883	7,339
Profit (loss) from other activities	647	682
Operating profit (loss)	1,284	2,408
EBITDA	10,983	12,334
Net profit (loss)	1,094	1,978
Normalised net profit (loss)	3,007	3,892
Normalised net profit margin	3.9%	4.7%

Balance sheet' (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	97,154	98,053
Current assets	27,158	29,057
Cash and cash equivalents	13,895	17,568
Total assets	124,311	127,111
Equity	118,701	120,226
Grants and subsidies	0	0
Liabilities	5,611	6,885
Financial liabilities	0	0
Total equity and liabilities	124,311	127,111

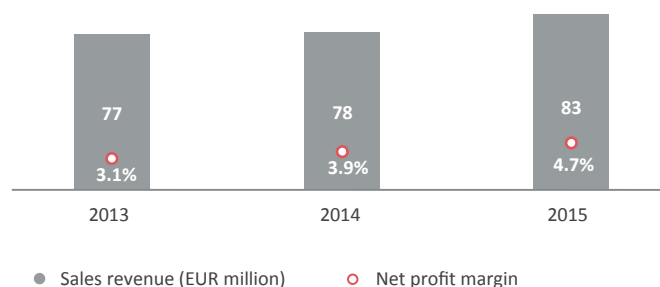
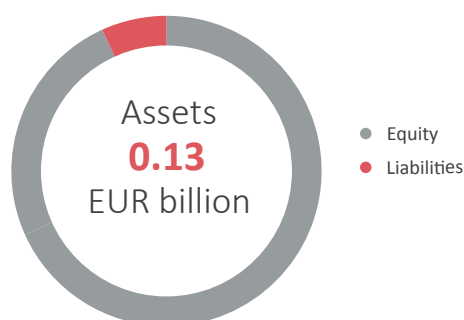
Ratios'	31 DEC 2014	31 DEC 2014
Normalised ROA	2.4%	3.1%
Normalised ROE	2.5%	3.3%
D/E	0.0%	0.0%

Return to the shareholders (EUR '000)	2014	2015
Assigned profit contribution	451	962
Property tax	2,251	2,251
Total contributions and non-standard taxes to the state	2,702	3,213

Employee information	2014	2015
Number of employees	2,683	2,684
Number of employees holding managerial positions	47	45
Average monthly salary of employees holding managerial positions (gross, EUR)	2,634	2,584

Management	
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	Stasys Būrė
Telšių Regiono Keliai	Romualdas Kačerauskas
Utenos Regiono Keliai	Edmantas Šakalys
Vilniaus Regiono Keliai	Petras Džervus

1 – 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





## Klaipėdos Nafta

www.oil.lt

Klaipėdos Nafta – company of the energy sector in Lithuania that manages oil and LNG loading terminals in Klaipėda, develops small-scale LNG activities and provides services of long-term storage of oil products at fuel base in Subačius (Kupiškis district)

- *Transshipment of oil products increased by 15.6%*
- *Net profit increased 2.4 times, up to EUR 22 million*
- *The normalized return on equity increased up to 11.9%*

During 2015, transshipment of oil products grew by 15.6% and amounted to 6,461 thousand tons. The growth of oil transshipment was positively influenced by the improved macroeconomic conditions, due to which Orlen Lietuva increased the production of oil products and reloaded 17.9% more oil products at the Company's terminal than the last year. The increase of transshipment volumes was also influenced by a 3.9% increase in the flow of transit cargo from Belarus and Russia plants, which at the end of 2015 amounted to 2,028 thousand tons.

LNG terminal, which started regasification activities on November 27, 2014, during 2015 regasified 4.6 million MWh of natural gas.

The start of LNG terminal operation and the increased transshipment volumes resulted in almost 2.8 times higher sales revenue of the company compared to 2014. In 2015, the sales revenue reached EUR 109.7 million, out of which even EUR 69.9 million of revenue constituted the operating income of LNG terminal, EUR 37.3 million – income from transshipment services of oil products, and EUR 2.5 million – sales revenue of Subačius fuel base. Meanwhile, in 2015 the cost of sales, compared to the same period last year, increased 3 times, up to EUR 80.6 million. The increase of cost of sales was mainly influenced by the floating storage rental and related costs, which at the end of 2015 amounted to EUR 50.4 million, EUR 46 million more than in 2014.

In 2015 the company earned EUR 22 million of net profit, i.e. 2.4 times more than in 2014. At the end of 2015, EBITDA amounted to EUR 37.1 million, 2.2 times more than in 2014.

Company's current assets increased by 79.6% and amounted to EUR 58.7 million. It was mostly influenced by a 2.7 increase in accounts receivable (from EUR 10.5 million to EUR 28.7 million) due to increased receivables of LNG terminal.

The return on equity of the last 12 months, compared to the end of 2014, has grown from 5.4% up to 11.9%.

For the year 2015, the company's shareholders allotted EUR 17.6 million to dividends, EUR 17.5 million more than had been allotted for 2014, when the allocated amount to dividends had been EUR 93 thousand.



Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	39,775	109,702
Cost of goods sold	26,625	80,579
Gross profit (loss)	13,150	29,123
Operating expenses	3,886	4,823
Profit (loss) from other activities	89	286
Operating profit (loss)	9,353	24,586
EBITDA	16,628	37,136
Net profit (loss)	9,257	22,036
Net profit margin	23.3%	20.1%

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	189,231	180,074
Current assets	32,687	58,713
Cash and cash equivalents	10,902	23,788
Total assets	221,918	238,787
Equity	174,715	196,804
Grants and subsidies	0	209
Liabilities	47,203	41,774
Financial liabilities	29,887	29,737
Total Equity and liabilities	221,918	238,787

Ratios	31 DEC 2014	31 DEC 2015
ROA	4.4%	9.6%
ROE	5.4%	11.9%
D/E	17.1%	15.1%

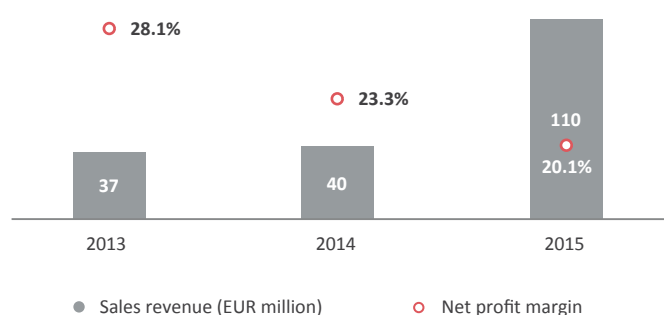
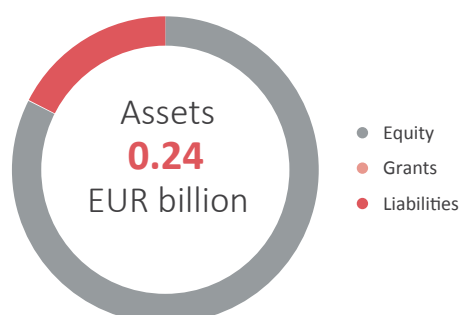
Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	93	17,629

Employee information	2014	2015
Number of employees	374	367
Numbers of employees holding managerial positions	34	36
Average monthly salary of employees holding managerial positions (gross, EUR)	3,423	3,513

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

Management	
Director General	Mantas Bartuška
Chairman of the Board of Directors	Not appointed
Members of the Board of Directors	Rytis Ambrazevičius* (Baltic Institute of Corporate Governance) Mantas Bartuška (AB Klaipėdos Nafta Director General) Dainius Bražiūnas (Ministry of Energy) Mindaugas Jusius* (AB Swedbank Life Insurance)
Members of the Supervisory Board	Eimantas Kiudulas* (UAB Klaipėda FEZ Management Company) Agnė Amelija Petravičienė (Ministry of Energy) Romas Švedas* (MB Romas Švedas ir partneriai)

\* Independent member



# The Lietuvos Energija Group

www.le.lt

Activities – electrical and thermal power generation, supply, trade and distribution of electrical energy and natural gas, as well as maintenance and development of energy sector

The Group consists of Lietuvos Energijos Gamyba (part of shares owned – 96.13%), Energijos Skirstymo Operatorius (94.98%), LITGAS (66.67%), Lietuvos Dujų Tiekimas (100%), Verslo aptarnavimo centras (97%), Duomenų Logistikos Centras (79.64%), Technologijų ir Inovacijų Centras (97.8%), VAE SPB (100%), Energetikų Mokymo Centras (100%), Energetikos Paslaugų Ir Rangos Organizacija (100%), Energijos Tiekimas (100%), Support Fund of Lietuvos Energija (100%), Kauno Kogeneracinė Jėgainė (100%), Vilniaus Kogeneracinė Jėgainė (100%), Elektroninių Mokymų Agentūra (100%), Energijos Sprendimų Centras (100%), EURAKRAS (75%), HOB OU (100%), Tuuluenergia OU (100%), and via Energijos Tiekimas – Geton Energy OU and Geton Energy SIA (100%).



- Electricity consumption in the country and volumes of generated and distributed electrical energy increased
- EUR 127.9 million normalized net profit was earned

**Consumption of electricity increased in 2015.** Compared to 2014, the amount of electricity generated and distributed by the Group was bigger by 9.3% and 1.6% respectively. The Group generated 2.01 TWh and distributed 8.53 TWh of electrical energy. **Consumption of natural gas decreased.** In 2015, the volume of distributed gas amounted to 6.83 TWh, 12.2% less than in the previous years. After the launch of LNG terminal, the amount of natural gas sold by the Group increased by 77.6%, up to 14.76 TWh.

**Sales revenue in 2015 was 12.7% higher compared to the same period of 2014 and amounted to EUR 1,095.8 million.** The growth of revenue was determined by the revenue from natural gas distribution and sale, which have been accounted for in the Group since June 2014, when the controlling block of shares of Lietuvos Dujos was obtained. Excluding the revenue of Lietuvos Dujos, Group's revenue decreased by 2.8%, or by EUR 22.1 million, due to lower prices of electricity and electricity transmission.

Group's cost of sales increased by 26.4%, up to EUR 774 million. After the elimination of the influence of gas distribution and sale activities, Group's cost of sales of electricity and related services increased by 2.7%, up to EUR 398.3 million.

**EBITDA of regular operations increased by 4.2% during 2015, compared to the same period of the previous year.** During the calculation of EBITDA of regular operations, the negative effect of EUR 50 million temporary discount on the price of gas applied to household and non-household customers in 2015 and the negative effect of EUR 8.3 million expense from previous periods allocation to the results of the current period were eliminated. The positive effect of liquefied gas trade result of EUR 4 million was also eliminated, which will serve for the reduction of Group's future operating results.

**In 2015 the Group earned net profit of EUR 55.3 million, although in 2014 the loss of EUR 280 million had been incurred. However, the normalized net profit of the Group for the accounting period, without estimation of one-off indicators, reached EUR 127.9 million – 8.2% more than at the end of 2014.**

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	972,689	1,095,766
Cost of goods sold	612,380	774,001
Gross profit (loss)	360,309	321,765
Operating expenses	751,220	256,672
Operating profit (loss)	-390,911	65,093
EBITDA	216,915	226,010
Net profit (loss)	-279,961	55,296
Net profit margin	-28.8%	5.0%
Minority share in the profit (loss)	-18,532	6,080
Normalised net profit (loss)	118,157	127,870

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	1,935,232	1,955,377
Current assets	433,944	383,853
Cash and cash equivalents	211,019	164,341
Total assets	2,369,176	2,339,230
Equity	1,308,889	1,304,485
Minority shareholder equity	48,830	50,445
Grants and subsidies	304,449	296,437
Liabilities	755,838	738,308
Financial liabilities	391,565	420,688
Total Equity and liabilities	2,369,176	2,339,230

Ratios	31 DEC 2014	31 DEC 2015
Normalised ROA	4.6%	5.4%
Normalised ROE	7.7%	9.8%
D/E	29.9%	32.4%

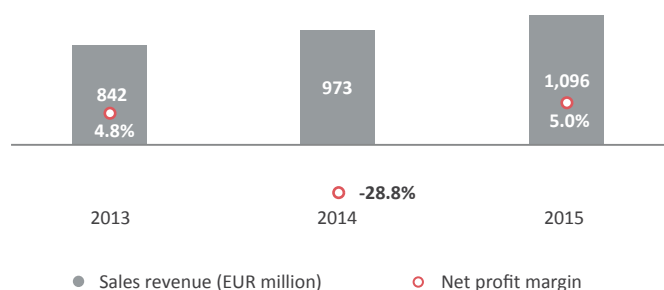
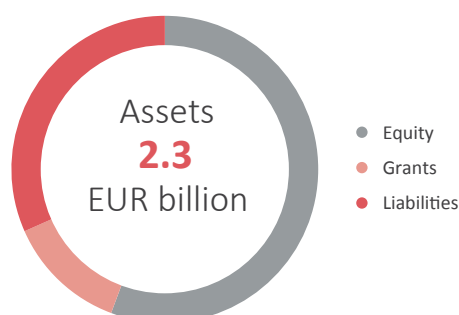
Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	52,697	85,991

Employee information	2014	2015
Number of employees	5,602	5,379
Numbers of employees holding managerial positions	77	71
Average monthly salary of employees holding managerial positions (gross, EUR)	3,861	4,165

Shareholders	
State-owned share	100%

Management	
Director General	Dalius Misiūnas
Chairman of the Board of Directors	Dalius Misiūnas (Director General)
Members of the Board of Directors	Dominykas Tučkus (Generation and Services Director) Ilona Daugėlaitė (Director of Organizational Development) Darius Kašauskas (Finance and Treasury Director) Mindaugas Keizeris (Strategy and Development Director)
Members of the Supervisory Board	Rokas Baliukovas Baliukovas (Ministry of Energy) Antanas Danys* (VšĮ Lietuvos Junior Achievement) Tomas Garasimavičius (Office of the Government of the Republic of Lithuania) Šarūnas Kliokys* (UAB Avestis) Virginijus Lepeška* (UAB Organizacijų vystymo centras) Rasa Noreikienė (Ministry of Economy) Aloyzas Vitkauskas (Ministry of Finance)

\* Independent member



# Lietuvos Energijos Gamyba

www.gamyba.le.lt

The activities of generation and supply of electrical and thermal energy, as well as trade of electrical energy

*The Company manages Elektrėnai Complex with reserve power plant and the combined cycle unit, Kaunas Hydro Power Plant of A. Brazauskas, and Kruonis Pumped Storage Power Plant.*



- The amount of generated electricity was higher by 9.3%. Trade of financial derivatives expanded
- EBITDA of the Company decreased by 21.5%; normalized net profit – by 30.3%

During 2015, the amount of sold electricity decreased by 8.9%, compared to the same period of 2014. During 2015 the Company sold 2.2 TWh of electricity, of which 2 TWh of electricity was generated in the power plants managed by the Company. In 2015, the total amount of electricity generated in all power plants of the Company increased by 9.3%. The increase was mostly influenced by the increased generation of eligible electricity in Elektrėnai Complex. Meanwhile, the amount of electricity sold on exchange market and to independent suppliers decreased by 24.7%. The main cause of this decrease is that an increasingly larger share of the Company's electricity trade portfolio constitutes trade of financial derivatives (mainly – contracts for difference) rather than trade of physical electricity.

In 2015, the Company received 8.1% less revenue than in the previous year, i.e. EUR 214.4 million. During the analyzed period Lietuvos Energijos Gamyba earned EUR 203.1 million of sales revenue – 12.1% less than in 2014. It was mostly influenced by the decisions of the National Commission for Energy Control and Prices (NCC) regarding the results of inspection of the Company's activities in 2010–2012 and the recognition of the Company as having a significant impact in the electricity generation market. Following these decisions, lower regulated prices were set for the Company for 2015.

In 2015, EBITDA of the Company decreased by 21.5% and amounted to EUR 50.3 million, and the net result of the Company was EUR 231 thousand. The decrease of the Company's profitability indicators was significantly influenced by the above mentioned decisions of the National Commission for Energy Control and Prices (NCC) that were evaluated in the financial reports following the recommendations of Company's auditor. At the end of 2015, the normalized net profit of the Company reached EUR 29.9 million, 30.3% less compared to 2014, when this indicator had reached EUR 42.9 million. During the normalization of the company's net profit of 2015, the impact of the decrease of asset value of Lietuvos Energijos Gamyba on the net result was eliminated.

Following the decision of Board adopted on May 31, 2015, the Company sold all shares of its controlled Kauno Energetikos remontas and Energijos Tiekimas to its parent company Lietuvos Energija and on April 27, 2015, the Company concluded a sale-purchase contract with Lietuvos Energija and sold all ordinary registered shares of NT Valda held by the Company.

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	233,200	214,395
Expenses of core activities	193,834	208,634
Operating profit (loss)	39,366	5,761
EBITDA	64,023	50,272
Net profit (loss)	33,407	-231
Net profit margin	14.3%	-0.1%
Normalised net profit (loss)	42,915	29,896

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	794,244	703,816
Current assets	120,393	129,658
Cash and cash equivalents	75,750	66,176
Total assets	914,637	833,474
Equity	367,278	342,900
Grants and subsidies	297,204	280,343
Liabilities	250,155	210,231
Financial liabilities	162,886	145,674
Total Equity and liabilities	914,637	833,474

Ratios	31 DEC 2014	31 DEC 2015
Normalised ROA	4.6%	3.4%
Normalised ROE	11.2%	8.4%
D/E	44.3%	42.5%

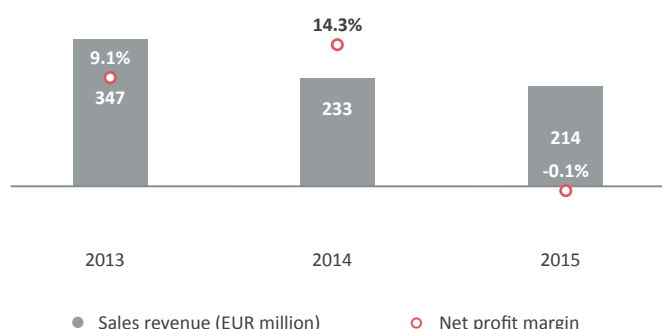
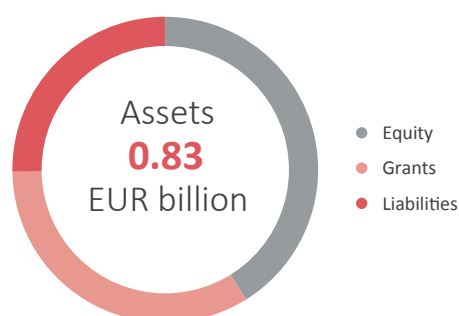
Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	41,952	2,667

Employee information	2014	2015
Number of employees	474	429
Numbers of employees holding managerial positions	5	5
Average monthly salary of employees holding managerial positions (gross, EUR) <sup>1</sup>	4,129	4,809

Shareholders	
Lietuvos Energija, UAB (indirectly state-owned share)	96.1%
Other shareholders	3.9%

Management	
Director General	Eglė Čiužaitė
Chairman of the Board of Directors	Eglė Čiužaitė (Director General)
Members of the Board of Directors	Adomas Birulis (Director of Business Development Department) Darius Kucinas (Director of Power Generation Department) Mindaugas Kvekšas (Director of Finance and Administration Department)
Members of the Supervisory Board	Dominykas Tučkus (Lietuvos Energija, UAB) Mindaugas Keizeris (Lietuvos Energija, UAB) Pranas Vilkas*

\*Independent member



## LESTO

www.lessto.lt www.eso.lt

Transmission of electric power and supply to customers via distribution networks, connection of the equipment of new users, operation, maintenance, management and development of distribution networks

- Sales revenue decreased by 10.6%
- Net profit margin reached 12.5%
- Normalized return on equity increased by up to 17.5%

During 2015 the amount of sold electricity decreased by 3.1% and amounted to 3.1 TWh. Meanwhile, the amount of electricity distributed via medium and low voltage cables increased by 1.6% (in total 8.5 TWh) compared to the same period of the previous year

After the simplification of the process of new customer connection, during the twelve months of the year 2015, 28,504 new customers were connected, i.e. 7.8% more than during the previous year. Sales revenue from the connection of new customers and related services constitute 3% of the total sales revenue of LESTO.

**LESTO sales revenue of 2015 decreased by 10.6%, down to EUR 581.8 million.** The decline was mostly influenced by the decrease of electricity prices since the beginning of this year. The biggest share of LESTO revenue, 66%, constitutes revenue from network service.

**Expenses incurred by LESTO, compared to the expenses of 2014, in which revaluation losses of EUR 219.9 million were eliminated, decreased by 20.5%, down to EUR 494.9 million.** The decrease of expenses was mainly caused by a 14.8% drop in purchase costs of electricity and related services, which constitute even 75.5% of total LESTO expenses. A significant influence on expenses had a 2.8 times decrease in depreciation and amortisation expenses (down to EUR 34.8 million) due to the revaluation of assets at the end of 2014. Due to the significant reduction of expenses, in 2015 the Company earned net profit of EUR 72.5 million, while net profit margin reached 12.5%.

**Normalized return on equity (after the elimination of the impact of revaluation executed at the end of 2014) in 2015 amounted to 17.5%, even 13.9 percentage points more than at the end of 2014.**

In 2015 LESTO company's investment into network upgrade and modernization amounted to EUR 117.6 million, i.e. 15.9% more than in the corresponding period of 2014. The purpose of this is to make the network safe, reliable, and intelligently managed. It also creates preconditions to achieve lower maintenance and repair costs in the future.

**On January 1, 2016 the company was reorganized by merging LESTO and Lietuvos Dujos and establishing Energijos Skirstymo Operatorius.**



Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	650,710	581,783
Expenses of core activities	842,446	494,886
Operating profit (loss)	-191,736	86,897
EBITDA	128,889	124,830
Net profit (loss)	-164,601	72,547
Net profit margin	-25.3%	12.5%
Normalised net profit (loss)	22,354	72,547

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	748,064	776,334
Current assets	68,187	105,169
Cash and cash equivalents	4,109	19,027
Total assets	816,251	881,503
Equity	394,120	433,075
Grants and subsidies	8,983	17,146
Liabilities	413,148	431,282
Financial liabilities	222,078	246,980
Total Equity and liabilities	816,251	881,503

Ratios	31 DEC 2014	31 DEC 2015
Normalised ROA	2.0% <sup>1</sup>	8.5%
Normalised ROE	3.3% <sup>1</sup>	17.5%
D/E	56.3%	57.0%

Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	31,319	21,742 <sup>2</sup>

Employee information	2014	2015
Number of employees	2,229	2,178
Numbers of employees holding managerial positions	7	6
Average monthly salary of employees holding managerial positions (gross, EUR)	4,560	6,206

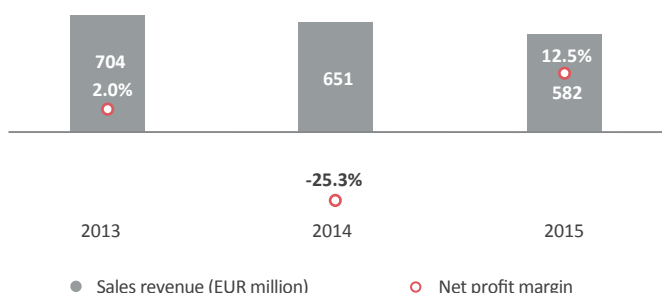
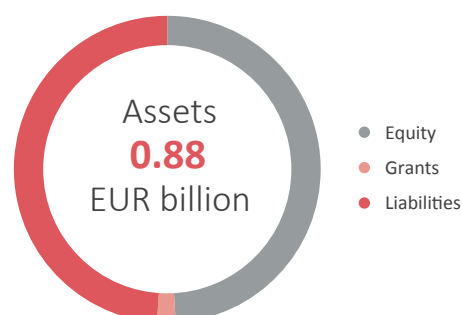
Shareholders	
Lietuvos Energija, UAB (indirectly state-owned share)	94.4%
Other shareholders	5.6%

Management	
Director General	Aidas Ignatavičius
Chairman of the Board of Directors	Aidas Ignatavičius (Director General)
Members of the Board of Directors	Andrius Bendikas (Director of Finance and Administration Division) Sergejus Ignatjevas (Director of Customer Service Division) Virgilijus Zukauskas (Director of Electricity Division)
Members of the Supervisory Board	Petras Povilas Česna* Ilona Daugėlaitė (Lietuvos Energija, UAB) Darius Kašauskas (Lietuvos Energija, UAB)

1-The impact of property revaluation to the reduction of depreciation costs was not eliminated. If it was eliminated, the normalised result would increase.

2- Allocated dividends are for the period of 2015-01-01 – 2015-06-31. The company Energijos Skirstymo Operatorius (established following the reorganization of Lietuvos Dujos and LESTO) allocated dividends for the period of 2015-07-01 – 2015-12-31, which amounted to 30,596 thousand euro.

\* Independent member



# Lietuvos Dujos

www.lietuvosdujos.lt www.eso.lt

Provision of natural gas distribution services, rational development of Lithuanian natural gas distribution infrastructure



- Net profit increased by 120.3%
- EBITDA increased by 76%
- The amount of distributed natural gas decreased by 13.6%

During 2015, the Company distributed 6.8 terawatt-hours (TWh) of natural gas. Due to unusually warm winter weather at the beginning of the year, reduced electricity production in heat and electricity production companies, and the replacement of natural gas with biofuel, the amount of gas transported via distribution gas pipelines was smaller by 13.6% than in 2014.

In 2015, the revenue of EUR 56.4 million was generated. The increase in revenue of 1.5% was caused by the distribution service prices that had been reviewed and adjusted according to gas consumption forecasts.

Expenses decreased by 17.2% and in 2015 amounted to EUR 41.3 million. The total expense level decreased due to the reduced value of fixed assets accounted for retrospectively (in 2013 and 2014), reduced repair and maintenance costs, and reduced costs of purchase of natural gas and transmission services. It was influenced by the decisions adopted by the Company on the change of the accounting policy and consistently implemented efficiency measures.

Company profitability notably increased. During 2015 the Company earned net profit of EUR 12.9 million, i.e. 120.3% more than during the previous year. Accordingly, net profitability increased from 10.6% to 22.9%.

EBITDA of 2015 amounted to EUR 24.2 million and was 76% higher than in 2014. This change was caused by better operating results due to increased revenue and decreased expense.

During 2015, the Company invested EUR 14 million – 15.7% more than during the same period of 2014. Investments into the connection of new customers to the gas distribution network increased by 28.1% and amounted to EUR 7.3 million. In total, 4,078 new customers were connected – 13.5% more than in 2014.

On January 1, 2016, the Company was reorganized by merging LESTO and Lietuvos Dujos and establishing Energijos Skirstymo Operatorius.

Profit (loss) statement (EUR '000)	2014	2015
Revenue	55,629	56,442
Expenses of core activities	49,844	41,281
Operating profit (loss)	5,785	15,161
EBITDA	20,278	24,082
Net profit (loss)	5,871	12,935
Net profit margin	10.6%	22.9%
Net profit (loss) (including terminated operations)	42,353	12,935

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	178,461	164,971
Current assets	36,817	32,326
Cash and cash equivalents	19,751	7,934
Total assets	215,278	197,297
Equity	165,590	140,738
Grants and subsidies	3,961	4,238
Liabilities	45,727	52,321
Financial liabilities	0	0
Total Equity and liabilities	215,278	197,297

Ratios	31 DEC 2014	31 DEC 2015
ROA	2.5%	6.3%
ROE	3.7%	8.4%
D/E	0.0%	0.0%

Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	48,198	10,348 <sup>1</sup>

Employee information	2014	2015
Number of employees	1,136	971
Numbers of employees holding managerial positions	11	4
Average monthly salary of employees holding managerial positions (gross, EUR)	6,938	4,444

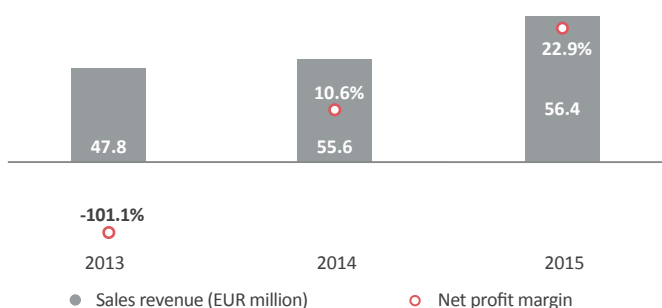
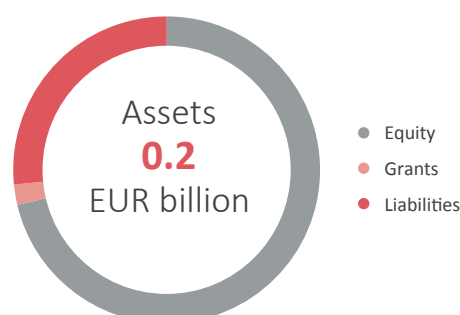
Shareholders	
Lietuvos Energija, UAB (indirectly state-owned share)	96.64%
Other shareholders	3.36%

Management	
Director General	Liudas Liutkevičius
Chairman of the Board of Directors	Liudas Liutkevičius (Director General)
Members of the Board of Directors	Valentina Birulienė (Director of Services and Development Division) Giedrė Glinskienė (Director of Finance and Treasury Division) Dalius Svetulevičius (Director of Gas Network Division)

Members of the Supervisory Board	
	Darius Kašauskas (Lietuvos Energija, UAB) Ilona Daugėlaitė (Lietuvos Energija, UAB) Petras Povilas Česna*

1- Allocated dividends are for the period of 2015-01-01 – 2015-06-31. The company Energijos Skirstymo Operatorius (established following the reorganization of Lietuvos Dujos and LESTO) allocated dividends for the period of 2015-07-01 – 2015-12-31, which amounted to 30,596 thousand euro.

\* Independent member





## The Litgrid Group

www.litgrid.eu



Litgrid – a subsidiary company of EPSO-G – is the Lithuanian electricity transmission system operator managing electricity transmissions in Lithuania and ensuring stable operation of the country's electric power system. The company is responsible for the integration of Lithuania's electric power system into the Europe's electricity infrastructure and creates the conditions for the electricity market to operate

*The Litgrid Group consists of Tetas, company performing maintenance of electrical equipment (part of shares held – 100%), Tinklo Priežiūros Centras, company competent in operation of international power links (HVDC) (100%), and Baltpool, operator of the energy resources exchange market (67%). Furthermore, Litgrid holds 50% of LitPol Link shares and 20% of Duomenų Logistikos Centras shares.*

- Due to lower prices of electricity transmission services Group's revenue decreased by 16%
- Group's normalized profit declined by 74.8%

Executing functions of electricity transmission system operator, during 2015, Litgrid transmitted 9,220 million kWh of electricity via high voltage electricity transmission network for the country needs – 1.3% less compared to 2014.

**Sales revenue of the Group decreased by 16%, down to EUR 100.5 million in 2015.** Revenue decrease was determined by the reduced tariffs of electricity transmission and system services following the decision of the National Commission for Energy Control and Prices. Revenue for electricity trade balancing and regulating decreased by 27%, down to EUR 14.6 million, due to the common balancing electricity market for Baltic countries and due to fulfilment of the needs of the balancing energy suppliers from other sources than transmission system operator.

**Group's expenses significantly decreased.** Since January 1, 2015, when electricity transmission system operators of Lithuania, Latvia and Estonia started common balancing of electricity demands of the systems and purchase of balancing electricity, electricity balancing (regulating) expenses decreased by 25%. After the revaluation of fixed tangible assets in 2014, depreciation and amortization expenses decreased by 43.8%, down to EUR 21.8 million.

**In 2015, the net profit of the Group amounted to EUR 1.8 million,** while in 2014 the net loss of EUR 111.6 million had been incurred. Profitable activities were mostly determined by the decline in depreciation and amortization as well as other expenses. Meanwhile, the normalized net profit of the Group was 74.8% lower compared to 2014. Group's EBITDA of 2015 amounted to EUR 24.6 million.

**In 2015, most of Litgrid investments were designated to the implementation of strategic energy projects, i.e. EUR 185.1 million.** Another EUR 22.9 million the Company invested into reconstruction and development of the transmission network.

The Normalized return on equity (after the elimination of the impact of asset revaluation executed at the end of 2014 and change of amortization caused by the revaluation) at the end of 2015 amounted to 0.8%, i.e. the result was 2.2 percentage points worse than at the end of 2014.

Profit (loss) statement (EUR '000)	2014	2015
Revenue	119,703	100,523
Expenses of core activities	250,207	97,828
Operating profit (loss)	-130,504	2,695
EBITDA	33,861	27,035
Net profit (loss)	-111,599	1,835
Net profit margin	-93.2%	1.8%
Minority share in the profit (loss)	-75	38
Normalised net profit (loss)	7,290	1,835

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	450,989	469,873
Current assets	112,759	84,501
Cash and cash equivalents	25,293	791
Total assets	563,748	554,374
Equity	239,573	241,744
Minority shareholder equity	57	133
Grants and subsidies	108,140	3,870
Liabilities	216,035	308,760
Financial liabilities	129,380	203,438
Total Equity and liabilities	563,748	554,374

Ratios	31 DEC 2014	31 DEC 2015
Normalised ROA	1.2%	0.3%
Normalised ROE	3.0%	0.8%
D/E	54.0%	84.2%

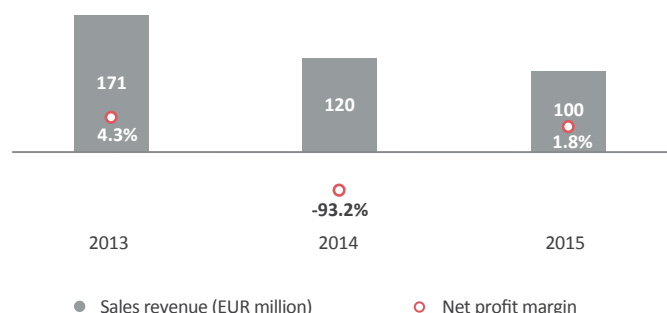
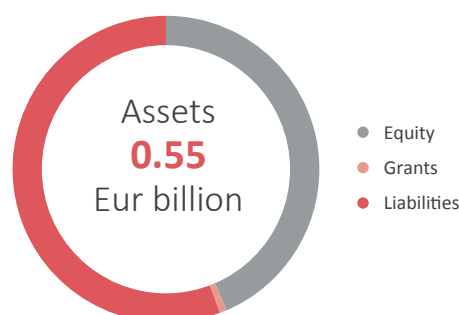
Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	0	4,589

Employee information	2014	2015
Number of employees	707	659
Numbers of employees holding managerial positions	15	15
Average monthly salary of employees holding managerial positions (gross, EUR)	3,653	4,056

Shareholders	
UAB EPSO-G (indirectly state-owned share)	97.5%
Other shareholders	2.5%

Management	
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 Division) Vidmantas Grušas (Director of Transmission Grid Management) Rolandas Masilevičius (Director of Information and Communications Division) Karolis Sankovskis (Director of Strategic Electricity Grid Division)

Members of the Supervisory Board	
	Audrius Misevičius (Government Office) Dr. Aleksandras Spruogis (Ministry of Energy) Rolandas Zukas (UAB EPSO-G Director General)



## Amber Grid

www.ambergrid.lt



Amber Grid is the operator of Lithuanian natural gas transmission system responsible for the transmission of natural gas (transportation through high-pressure pipelines) to system users, and operation, maintenance and development of natural gas infrastructure. Company's customers are large (operating in the sectors of electricity, district heating, industrial) and medium Lithuanian businesses, as well as companies supplying natural gas. Amber Grid is the associate member of The European Network of Transmission System Operators for Gas (ENTSO-G)

- The quantities of natural gas transmission in the country decreased by 1.8%
- The Company's normalized net profit rose by 121.3%
- More than EUR 49 million were invested

**During 2015 Amber Grid transported 26.2 TWh of gas to consumers of Lithuanian system.** During this period, nearly 21.8 TWh of gas was transported by transit to the Kaliningrad Region of the Russian Federation; 1 TWh of gas was transported towards the direction of Latvia-Estonia.

**During the accounting period the company's revenue amounted to EUR 55.8 million – 7.7% more than during the year 2014.** The largest share of revenue (89.3% of the total revenue) Amber Grid obtained from the natural gas transmission and transit via trunk gas pipelines within the territory of Lithuania to the system users.

**In 2015 company's expenses amounted to EUR 40.7 million and, compared to 2014, decreased by 4.6 times.** This change was caused by expenses of EUR 141.9 million incurred due to revaluation of fixed assets in 2014. The revaluation of fixed assets reduced the depreciation and amortization expenses, which at the end of 2015 amounted to EUR 15 million, 31.9% less than in 2014. Also, the repair and maintenance expenses decreased from EUR 6.2 million to EUR 6.0 million. In 2015 the consumption of natural gas increased the most, by 33.9% or EUR 2.2 million compared to the year 2014.

**In 2015 Amber Grid earned net profit of EUR 16 million,** while net profit margin reached 28.6%. Whereas in 2014 a loss of EUR 113.4 million had been incurred. The assessment of the normalized net profit revealed a 121.3% increase, from EUR 7.2 million in 2014 to EUR 16 million in 2015. During the normalization of the company's net profit, the impact of fixed assets revaluation executed at the end of 2014 was eliminated.

**The normalized return on equity increased by 4.9 percentage points, up to 7.4%.**

**During the accounting period the company allocated EUR 49.5 million for investments - EUR 23.6 million more than in 2014.** EUR 42 million of these funds were dedicated to the capacity enhancement of Klaipėda – Kiemėnai gas pipeline.

Profit (loss) statement (EUR '000)	2014	2015
Revenue	51,791	55,800
Expenses of core activities	187,201	40,671
Operating profit (loss)	-135,410	15,129
EBITDA	28,546	30,060
Net profit (loss)	-113,408	15,978
Net profit margin	-219%	28.6%
Normalised net profit (loss)	7,219	15,978

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets	321,762	354,911
Current assets	51,542	98,442
Cash and cash equivalents	1,714	26,969
Total assets	373,304	453,353
Equity	236,615	194,664
Grants and subsidies	43,836	62,885
Liabilities	92,853	195,804
Financial liabilities	39,133	138,010
Total Equity and liabilities	373,304	453,353

Ratios	31 DEC 2014	31 DEC 2015
Normalised ROA	1.6%	3.9%
Normalised ROE	2.5%	7.4%
D/E	16.5%	70.9%

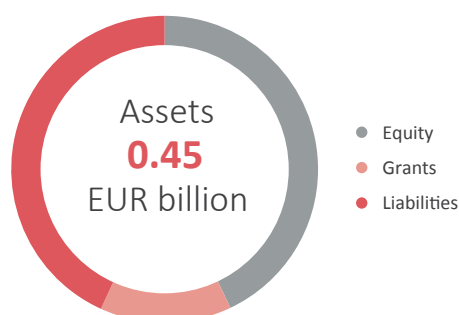
Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	57,997	12,782

Employee information	2014	2015
Number of employees	361	363
Numbers of employees holding managerial positions	5	5
Average monthly salary of employees holding managerial positions (gross, EUR)	5,588	5,884

Shareholders	
UAB „EPSO-G“ (indirectly state-owned share)	96.58%
Other shareholders	3.42%

Management	
Director General	Saulius Bilys
Chairman of the Board of Directors	Aleksandras Spruogis (Ministry of Energy)
Members of the Board of Directors	Dainius Bražiūnas (Ministry of Energy) Nerijus Datkūnas* (Independent expert) Agnė Petravičienė (Ministry of Energy) Rolandas Zukas (UAB „EPSO-G“ Director General)

\*Independent member



## The EPSO-G Group

www.epsog.lt

The main activities of the Group is to ensure continuous, stable transmission of electrical energy through high voltage lines and the transportation of natural gas through high pressure pipelines, also to ensure the management, maintenance and development of these transmission systems; trade organization in natural gas and biofuels exchange markets

The group consists of LITGRID (part of shares owned – 97.5%), Amber Grid (96.6%), and BALTPOL (67%).



- Sales revenue grew by 6.6%
- The company earned an operating profit of EUR 16.6 million
- Financial liabilities to equity ratio reached 297.3%

During the year 2015 the sales revenue of the group of companies grew by 6.6%, up to EUR 158.8 million. The growth of Group revenue was determined by the revenue from natural gas transmission and related services, which have been accounted for in the Group since July 2014, when the controlling block of shares of “Amber Grid” was obtained. Other revenue increased as well, which at the end of the accounting period were higher by 16.5% or EUR 2.6 million than in 2014. Whereas the revenue from electricity and related services in 2015 was 20.3% lower.

In 2015 Group expenses decreased by 48.2% compared to 2014. The decrease of expenses was mostly influenced by the decrease of electricity and related services expenses by 25.4%, to EUR 37.8 million. A significant reduction of expenses was also caused by the revaluation of fixed assets of EPSO-G subsidiary LITGRID at the end of 2014, due to which in 2014 one-off expenses had been incurred.

In 2015 EBITDA of the Group reached EUR 56.5 million. Compared to 2014, EBITDA rose by 13.9% or EUR 6.9 million. In 2015 the Group earned net profit of EUR 12.6 million, while at the end of 2014 had incurred net loss of EUR 13.3 million. Normalized net profit grew by 23.2% in 2015. During the normalization of the net result of 2014, the negative goodwill on acquisition of Amber Grid, revaluation of Litgrid assets, and the change in amortization expense due to valuation of assets were considered.

The normalized return on equity increased by 1.5 percentage points, up to 6.4%. Meanwhile, financial liabilities to equity ratio, which includes Group's commitment to Lietuvos Energija, at the end of 2015 amounted to 297.3%, 57.4 percentage points more than at the end of 2014. The value of D/E ratio significantly rose due to the financial liabilities of the Group that increased by 30.9% or EUR 142.2 million. The Financial liabilities increased mainly due to the investments of subsidiaries LITGRID and Amber Grid into the implementation of strategic energy projects.

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	147,105	156,837
Cost of goods sold	54,096	46,396
Gross profit (loss)	93,009	110,441
Operating expenses	216,850	93,856
Operating profit (loss)	-28,509	16,585
EBITDA	49,577	56,474
Net profit (loss)	-13,291	12,647
Net profit margin	-9.0%	8.1%
Minority share in the profit (loss)	-2,610	620
Normalised net profit (loss)	10,264	12,647

Balance sheet (EUR '000)	2014-12-31	2015-12-31
Non-current assets	726,434	948,674
Current assets	174,640	203,449
Cash and cash equivalents	27,517	33,655
Total assets	901,074	1,152,123
Equity	191,530	202,387
Minority shareholder equity	14,159	12,837
Grants and subsidies	108,140	190,609
Liabilities	601,404	759,127
Financial liabilities <sup>1</sup>	459,488	601,654
Total Equity and liabilities	901,074	1,152,123

Ratios	2014-12-31	2015-12-31
Normalised ROA	1.2%	1.2%
Normalised ROE	4.9%	6.4%
D/E	239.9%	297.3%

Return to the shareholders (EUR '000)	2014	2015
Allocated dividends (total)	172	425

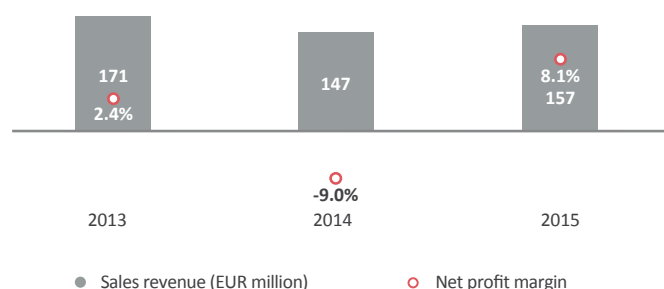
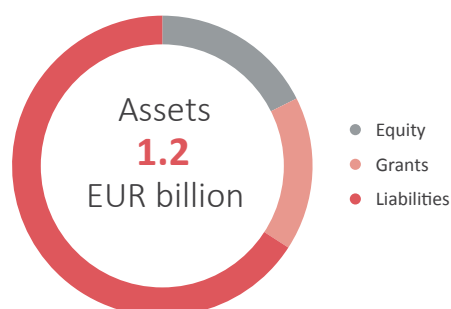
Employee information	2014	2015
Number of employees	1,072	1,030
Numbers of employees holding managerial positions	22	25
Average monthly salary of employees holding managerial positions (gross, EUR)	4,072	4,532

Shareholders	
State-owned share	100%

Management	
Director General	Rolandas Zukas
Members of the Supervisory Board	Audrius Misevičius (Office of the Government of the Republic of Lithuania) Inga Černiuk (Ministry of Energy) Agnė Amelija Petravičienė (Ministry of Energy) Raimondas Rapkavičius* (UAB General Financing) Viktorija Trimbel* (Quantum Capital)

<sup>1</sup> Financial liabilities include the liability to Lietuvos Energija for the amount of 209,975 thousand euro, for the purchase of LITGRID stocks.

\*Independent member



## Forest enterprises

www.gmu.lt



Forest maintenance and restoration, logging and timber trading

- The amount of sold round wood increased by 7%
- Average price of round wood decreased by more than 11%
- Sales revenue of the enterprises decreased by 5.7%
- Normalized net profit of the enterprises decreased by 18%

During 2015 the amount of round wood sold by the forest enterprises increased by 7% compared to 2014. During the accounting period forest enterprises collectively sold 3.7 million cubic meters of round wood, 241.1 thousand cubic meters more than during 2014.

Sales revenue of the forest enterprises decreased by 5.7% and amounted to EUR 156.2 million in 2015. Revenue decrease was determined by the declined selling price of round wood. The average price per cubic meter of round wood decreased by 11.8% - from EUR 43.8 in 2014 to EUR 38.6 in 2015. Revenue for the round wood is the main revenue of forest enterprises, in 2015 this revenue constituted 91.7% of total sales revenue generated by the enterprises.

In 2015 operating expenses of forest enterprises decreased by 7%, down to EUR 85.9 million. This change was mostly influenced by 8.3% decrease (EUR 3.5 million) in forest recovery and enhancement expenses, which at the end of 2015 amounted to EUR 39.3 million. Also a significant influence on the decrease in operating expenses had 4.9% lower expenses (down to EUR 24.3 million) for operating taxes. Cost price in 2015 amounted to EUR 64 million and, compared to 2014, increased by 4.2%; this change was determined by the increase of the sold amount of round wood, due to which cost of sales of wood increased by 6.4%, up to EUR 53.8 million.

The normalized net profit of the forest enterprises decreased by 18% and amounted to EUR 26.4 million. This change was determined by the decreased sales revenue and increased cost of sales. The decrease in operating expenses was not sufficient for the retention of the net profit margin of 2014. The decreased normalized net profit accordingly lessened the normalized net profit margin of the forest enterprises, which at the end of 2015 reached 16.9% and, compared to 2014, decreased by 2.6 percentage points.

At the end of 2015 the normalized return on equity of the forest enterprises reached 2.3%. The decreased normalized net profit lessened the normalized return on equity by 0.7 percentage points compared to the end 2014, when the rate of normalized ROE was 3%. The increase of own capital (by 4.6%) also influenced the decrease of the normalized ROE rate.

Profit (loss) statement (EUR '000)	2014	2015
Sales revenue	165,664	156,194
Cost of goods sold	61,495	64,049
Gross profit (loss)	104,168	92,145
Operating expenses	92,369	85,944
Profit (loss) from other activities	643	689
Operating profit (loss)	12,443	6,890
EBITDA	25,374	20,501
Net profit (loss)	10,902	6,138
Normalised net profit (loss)	32,232	26,420
Normalised net profit margin	19.5%	16.9%

Balance sheet (EUR '000)	31 DEC 2014	31 DEC 2015
Non-current assets <sup>1</sup>	1,064,519	1,111,548
Current assets	65,280	70,477
Cash and cash equivalents	16,152	22,340
Total assets	1,129,798	1,182,024
Equity <sup>1</sup>	1,105,028	1,156,311
Grants and subsidies	11,190	12,767
Liabilities	13,580	12,947
Financial liabilities	420	478
Total Equity and liabilities	1,129,798	1,182,024

Ratios <sup>1</sup>	31 DEC 2014	31 DEC 2015
Normalised ROA	2.9%	2.3%
Normalised ROE	3.0%	2.3%
D/E	0.0%	0.0%

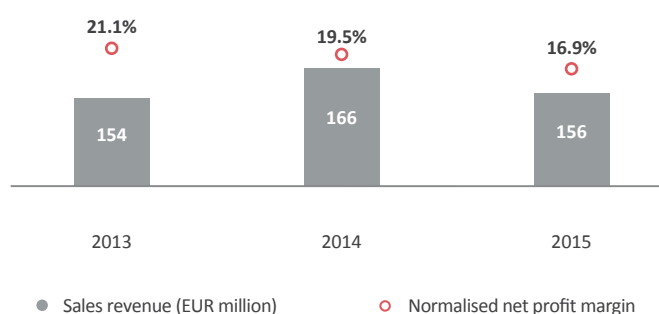
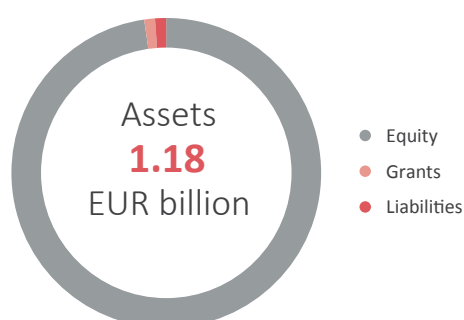
Return to the shareholders (EUR '000)	2014	2015
Assigned profit contributions	5,453	3,102
Property tax	2,183	2,232
Raw material tax	22,911	21,628
Total contributions and non-standard taxes to the state	30,547	26,963

Employee information	2014	2015
Number of employees	3,751	3,642
Numbers of employees holding managerial positions	84	84
Average monthly salary of employees holding managerial positions (gross, EUR)	1,921	1,904

### Management

Director of the Directorate General of State Forests	Rimantas Prūsaitis
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<sup>1</sup> – The consolidated book values of non-current assets and equity of the forest enterprises were increased by the forest value, which at the beginning of 2016 was estimated (using the discounted cash flow method) at EUR 1,003 million. The ratios were estimated according to the increased values of non-current assets and equity.



# Evaluation Methodology

The analysis of indicators of SOE portfolio 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 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 2015);
- 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 2016, the value of forests was adjusted to reflect a change in market conditions. It was estimated that the value of forests increased by 5.3% from EUR 952 million at the end of 2014 to EUR 1,003 million at the end of 2015;
- the book value of roads (EUR 1.9 billion at the end of 2015) 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).

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 2015 is calculated on the basis of profit earned by the company between 1 January 2015 and 31 December 2015. Accordingly, the equity average values are calculated on the basis of book values of equity on 1 January 2015 and 31 December 2015.

In 2015, financial indicators of SOEs were affected by the losses accounted for due to the bankruptcy of banks, revaluation of assets and other one-off events. As for the better comparability of the data, the normalised net profit after elimination of non-standard taxes and effects of bankruptcy of banks, and deduction of revaluation losses of Lietuvos Energija, EPSO-G and Geoterma as well as one-off results of non-typical factors of Lietuvos Energija and EPSO-G, is indicated in the overviews of the SOE portfolio and reports of sectors. The effect of bankruptcy of banks is eliminated by adding losses included in the financial or operating costs of the enterprises to the net profit after the elimination of non-standard taxes to the state, resulting from the reduction in value of financial assets (write-off). Since such expenses are not considered to be allowable deductions under the Law on Corporate Income Tax (i.e. the amount of revenue taxed by profit tax is not reduced by said expenses), the total amount of expenses is added when adjusting the net profit; i.e. it is not reduced by a share of profit tax. Normalized net result of Lietuvos Energija, EPSO-G and Geoterma is rated by companies by a separate request of Governance Coordination Centre.

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.

The purpose of disclosing normalised profits is to reveal financial results after eliminating the influence of one-off events. For example, normalised net profit of Lietuvos Energija Group was estimated by eliminating the following one-off events:

- Negative influence of LESTO revaluation of assets (EUR 406.8 million);
- Negative effect of declined depreciation costs (EUR 50 million) after estimating revaluation of LESTO assets at the end of 2014;
- Positive impact on the results of 2014 after the acquisition of Lietuvos Dujos (EUR 59.5 million);
- Negative effect on 2015 results due to applied discount for gas consumers reduced the net profit of 2015 by EUR 42.5 million;
- Negative effect on 2015 results caused by costs assigned to previous periods (EUR 4.5 million);
- Negative impact on the 2015 results by EUR 25.6 million due to decrease in Lietuvos Energijos Gamyba asset value;

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 2016, and the numbers of employees and employees holding managerial positions are presented as they were at the end of the reporting period (31 December 2015).

In the P/E Ratio subsection of the Overview of Portfolio Results, P/E ratio 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 Eastern Europe, Asian and Latin American 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 2015.

This Annual Report has been prepared by the State-Owned Enterprises Governance Coordination Centre of the State Enterprise Turto bankas 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; 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 BALTPPOOL, 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, Capital IQ, Bloomberg, 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 2015 (EUR '000)	Sales revenue in 2015 (EUR '000)	EBITDA in 2015 (EUR '000)	Net profit in 2015 (EUR '000)
1	Lietuvos energija, UAB Group	100.0%	Ministry of Finance	Energy	1B	I	2,339,230	1,095,766	226,010	55,296
1a	Lietuvos energijos gamyba, AB	96.1%	Lietuvos Energija UAB Group	Energy	-	-	833,474	214,395	50,272	-231
1b	AB LESTO <sup>1</sup>	94.4%	Lietuvos Energija UAB Group	Energy	-	-	881,503	581,783	124,830	72,547
1c	AB Lietuvos dujos <sup>2</sup>	96.6%	Lietuvos Energija UAB Group	Energy	-	-	197,297	56,442	24,082	12,935
2	UAB EPSO-G Group	100.0%	Ministry of Energy	Energy	1B	I	1,152,123	156,837	56,474	12,647
2a	LITGRID AB Group	97.5%	UAB EPSO-G Group	Energy	-	-	554,374	100,523	27,035	1,835
2b	AB Amber Grid <sup>3</sup>	96.6%	UAB EPSO-G Group	Energy	-	-	453,353	55,800	30,109	15,978
3	AB Klaipėdos nafta	72.3%	Ministry of Energy	Energy	1B	I	238,787	109,702	37,359	22,036
4	VĮ Energetikos agentūra	-	Ministry of Energy	Energy	2	V	951	0	-2	0
5	VĮ Ignalinos atominė elektrinė <sup>4</sup>	-	Ministry of Energy	Energy	2	III	571,282	192	-1,571	-2,385
6	VĮ Radioaktyviųjų atliekų tvarkymo agentūra	-	Ministry of Energy	Energy	2	V	370	15	10	-1
7	VĮ Visagino energija	-	Ministry of Economy	Energy	1A	II	52,415	13,923	1,787	76
8	UAB Geoterma	99.1%	VĮ Turto bankas	Energy	1A	IV	7,052	1,253	-3	-369
9	VĮ Lietuvos naftos produktų agentūra	-	Ministry of Energy	Energy	2	I	95,282	66,939	180	176
10	AB Lietuvos geležinkeliai Group	100.0%	Ministry of Transport and Communications	Transport and Communications	1B	I	2,077,793	429,521	120,498	669
11	AB Lietuvos paštas Group	100.0%	Ministry of Transport and Communications	Transport and Communications	1B	I	70,567	72,247	2,167	-268
12	AB Smiltynės perkėla	99.0%	Ministry of Transport and Communications	Transport and Communications	1B	IV	10,449	4,547	2,168	163
13	VĮ Oro navigacija	-	Ministry of Transport and Communications	Transport and Communications	2	II	46,852	27,990	5,403	1,227
14	VĮ Klaipėdos valstybinio jūrų uosto direkcija	-	Ministry of Transport and Communications	Transport and Communications	1B	I	527,315	54,546	39,698	23,771
15	VĮ Lietuvos oro uostai <sup>5</sup>	-	Ministry of Transport and Communications	Transport and Communications	1B	I	165,935	24,499	8,275	2,113
16	VĮ Vidaus vandens kelių direkcija	-	Ministry of Transport and Communications	Transport and Communications	2	IV	26,037	2,153	108	-236
17	AB Lietuvos radijo ir televizijos centras	100.0%	Ministry of Transport and Communications	Transport and Communications	1B	II	40,741	18,825	5,399	171
18	VĮ Automagistrėlė	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	336,206	9,086	1,110	255
19	VĮ Alytaus regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	97,452	4,656	803	21
20	VĮ Kauno regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	227,365	10,815	1,703	393
21	VĮ Klaipėdos regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	173,923	6,135	736	54
22	VĮ Marijampolės regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	142,957	4,923	820	41
23	VĮ Panevėžio regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	133,184	8,665	1,286	107

No	Enterprise	State Interest*	Accountability	Sector	Group	Category	Assets as of 31 Dec 2015 (EUR '000)	Sales revenue in 2015 (EUR '000)	EBITDA in 2015 (EUR '000)	Net profit in 2015 (EUR '000)
24	VĮ Šiaulių regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	271,827	12,630	2,222	584
25	VĮ Tauragės regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	80,825	4,695	913	270
26	VĮ Telšių regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	96,954	4,537	614	40
27	VĮ Utenos regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	147,005	7,571	1,126	186
28	VĮ Vilniaus regiono keliai	-	The Lithuanian Road Administration under the Ministry of Transport and Communications	Transport and Communications	2	II	347,065	8,963	1,001	27
29	AB Autoūkis	87.4%	VĮ Turto bankas	Transport and Communications	1A	V	2,264	927	110	3
30	VĮ Valstybinis miškotvarkos institutas	-	Ministry of Environment	Forestry	1A	V	1,756	2,482	238	148
31	VĮ Alytaus miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	3,324	2,625	344	129
32	VĮ Anykščių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	3,858	2,847	400	133
33	VĮ Biržų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,111	4,467	564	230
34	VĮ Druskininkų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,644	2,304	252	93
35	VĮ Dubravos eksperimentinė-mokomoji miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,565	3,029	292	29
36	VĮ Ignalinos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,438	2,691	259	48
37	VĮ Jonavos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,364	3,136	317	30
38	VĮ Joniškio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	3,258	2,539	372	111
39	VĮ Jurbarko miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	6,694	4,929	771	286
40	VĮ Kaišiadorių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,721	3,887	558	134
41	VĮ Kauno miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,917	3,200	399	106
42	VĮ Kazlų rūdų mokomoji miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,029	4,798	539	289
43	VĮ Kėdainių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	6,414	4,207	615	133
44	VĮ Kretingos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	8,632	4,895	486	24
45	VĮ Kupiškio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	1,388	1,810	130	27
46	VĮ Kuršėnų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,804	3,317	370	101
47	VĮ Marijampolės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,424	3,533	218	31
48	VĮ Mažeikių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,782	4,399	537	228
49	VĮ Nemenčinės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,740	4,208	560	295

No	Enterprise	State interest*	Accountability	Sector	Group	Category	Assets as of 31 Dec 2015 (EUR '000)	Sales revenue in 2015 (EUR '000)	EBITDA in 2015 (EUR '000)	Net profit in 2015 (EUR '000)
50	VĮ Pakruojo miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,353	3,225	279	82
51	VĮ Panevėžio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	III	7,532	6,521	883	277
52	VĮ Prienų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,695	3,419	521	163
53	VĮ Radviliškio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,217	3,525	304	105
54	VĮ Raseinių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,702	3,208	411	137
55	VĮ Rietavo miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,176	3,247	401	80
56	VĮ Rokiškio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,446	3,431	282	73
57	VĮ Šakių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,940	4,324	666	230
58	VĮ Šalčininkų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,074	3,115	324	161
59	VĮ Šiaulių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,576	3,738	672	201
60	VĮ Šilutės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,747	4,447	732	336
61	VĮ Švenčionių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,567	5,020	604	191
62	VĮ Tauragės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	7,607	5,767	1,043	312
63	VĮ Telšių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,520	4,400	697	153
64	VĮ Tytuvėnų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,625	2,627	162	-66
65	VĮ Trakų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,819	5,505	819	370
66	VĮ Ukmergės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,720	5,661	762	182
67	VĮ Utenos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	1,681	1,910	146	38
68	VĮ Valkininkų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,576	3,466	547	167
69	VĮ Varėnos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,038	3,340	478	172
70	VĮ Veisiejų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,104	3,064	324	164
71	VĮ Vilniaus miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,179	4,500	575	143
72	VĮ Zarasų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,058	1,916	133	10
73	UAB Projektų ekspertizė	100.0%	Ministry of Environment	Other	1A	V	732	513	74	57
74	VĮ Statybos produkcijos sertifikavimo centras	-	Ministry of Environment	Other	1B	V	1,156	1,009	141	76
75	UAB Būsto paskolų draudimas	100.0%	Ministry of Finance	Other	2	IV	23,783	1,098	-112	-268

No	Enterprise	State interest*	Accountability	Sector	Group	Category	Assets as of 31 Dec 2015 (EUR '000)	Sales revenue in 2015 (EUR '000)	EBITDA in 2015 (EUR '000)	Net profit in 2015 (EUR '000)
76	VĮ Indėlių ir investicijų draudimas	-	Ministry of Finance	Other	2	IV	15,762	620	20	581
77	VĮ Lietuvos prabavimo rūmai	-	Ministry of Finance	Other	2	V	3,495	528	48	-1
78	VĮ Turto bankas <sup>6</sup>	-	Ministry of Finance	Other	2	III	160,862	2,533	-654	-1,055
79	UAB Viešųjų investicijų plėtros agentūra	100.0%	Ministry of Finance	Other	-	III	41,100	1,682	803	654
80	VĮ Mūsų amatai <sup>7</sup>	-	Prison Department	Other	1B	III	7,019	7,251	323	88
81	UAB Lietuvos kinas	100.0%	Ministry of Culture	Other	1A	V	699	305	46	-35
82	VĮ Lietuvos paminklai	-	Department of Cultural Heritage	Other	2	IV	921	8,594	72	45
83	UAB Respublikinė mokomoji sportinė bazė	100.0%	Department of Physical Education and Sports	Other	1A	V	43	79	-15	-17
84	UAB Sportininkų testavimo ir reabilitacijos centras	100.0%	VĮ Turto bankas	Other	2	V	410	56	-8	-18
85	UAB Lietuvos monetų kalykla	100.0%	Bank of Lithuania	Other	1B	III	7,610	12,862	973	634
86	AB Informacinio verslo paslaugų įmonė	51.7%	Statistics Lithuania	Other	1A	V	865	616	129	100
87	VĮ distancinių tyrimų ir geoinformatikos centras Gis-centras	-	National Land Service	Other	2	V	3,427	441	-79	-99
88	VĮ Seimo leidykla Valstybės žinios	-	Office of the Parliament	Other	2	V	1,835	522	44	2
89	AB Detonas	100.0%	Ministry of Transport and Communications	Other	1B	V	3,824	2,245	354	119
90	AB Problematika	100.0%	Ministry of Transport and Communications	Other	1A	IV	7,466	3,809	807	458
91	UAB Universiteto vaistinė	100.0%	Ministry of Health	Other	1A	V	1,370	2,570	2,273	58
92	AB Mintis	80.7%	VĮ Turto bankas	Other	1A	V	257	33	-26	-51
93	UAB Kauno Petrašiūnų darbo rinkos mokymo centras	54.2%	Ministry of Education and Science	Other	2	V	1,183	1,168	440	353
94	VĮ Registrų centras	-	Ministry of Justice	Other	2	II	22,201	30,219	1,608	166
95	AB Giraitės ginkluotės gamykla	100.0%	VĮ Turto bankas	Other	1A	III	20,978	3,902	713	464
96	UAB Investicijų ir verslo garantijos	100.0%	Ministry of Economy	Other	2	IV	14,087	1,471	1,134	1,169
97	UAB Toksika	92.5%	Ministry of Economy	Other	1A	III	31,353	1,826	311	-516
98	UAB Lietuvos parodų ir kongresų centras LITEXPO	98.8%	Ministry of Economy	Other	1A	IV	13,675	5,597	1,392	665
99	UAB poilsio namai Baltija	100.0%	VĮ Turto bankas	Other	1A	V	5,792	759	349	4
100	AB Klaipėdos metrologijos centras	100.0%	Ministry of Economy	Other	1B	V	793	367	37	8
101	AB Šiaulių metrologijos centras	100.0%	Ministry of Economy	Other	1B	V	447	399	44	17
102	AB Vilniaus metrologijos centras	100.0%	Ministry of Economy	Other	1B	V	2,849	1,545	315	175
103	AB Kauno metrologijos centras	100.0%	Ministry of Economy	Other	1B	V	1,262	624	102	35
104	AB Panevėžio metrologijos centras	100.0%	Ministry of Economy	Other	1B	V	317	334	-20	-36
105	UAB Senevita <sup>8</sup>	100.0%	Ministry of Social Security and Labour	Other	1A	V	3,105	2,659	86	-183



No	Enterprise	State interest*	Accountability	Sector	Group	Category	Assets as of 31 Dec 2015 (EUR '000)	Sales revenue in 2015 (EUR '000)	EBITDA in 2015 (EUR '000)	Net profit in 2015 (EUR '000)
106	VĮ Infostruktūra	-	Ministry of Transport and Communications	Other	1B	III	7,447	8,419	963	144
107	VĮ Regitra	-	Ministry of the Interior	Other	2	II	18,818	23,888	4,364	2,270
108	AB Jonavos grūdai	70.1%	Ministry of Agriculture	Other	1B	III	6,237	6,134	1,040	448
109	AB Lietuvos veislininkystė	99.0%	Ministry of Agriculture	Other	2	V	1,609	1,087	100	59
110	AB Kiaulių veislininkystė	99.0%	Ministry of Agriculture	Other	2	V	1,670	1,253	31	-21
111	UAB Gyvulių produktyvumo kontrolė	100.0%	Ministry of Agriculture	Other	2	V	1,063	1,091	83	30
112	UAB Lietuvos žirgynas	89.6%	Ministry of Agriculture	Other	2	V	2,188	412	109	10
113	UAB Panevėžio veislininkystė	97.9%	Ministry of Agriculture	Other	1A	V	1,408	226	30	5
114	UAB Šėduvos avininkystė	100.0%	Ministry of Agriculture	Other	2	V	794	132	47	6
115	UAB Šilutės polderiai	81.0%	Ministry of Agriculture	Other	1A	V	1,172	4,328	140	38
116	UAB Šilutės veislininkystė	96.5%	Ministry of Agriculture	Other	2	V	1,493	205	65	7
117	UAB Valstybinė projektų ir sąmatų ekspertizė	100.0%	Ministry of Agriculture	Other	1A	V	102	126	2	1
118	UAB Aerogeodezijos institutas	99.8%	Ministry of Agriculture	Other	1A	V	1,420	652	104	10
119	UAB Dotnuvos eksperimentinis ūkis	100.0%	Ministry of Agriculture	Other	1A	V	3,835	1,542	107	-169
120	UAB Klaipėdos žuvininkystės produktų aukcionas	100.0%	Ministry of Agriculture	Other	2	V	2,803	3	-78	-89
121	UAB Uptytės eksperimentinis ūkis	100.0%	Ministry of Agriculture	Other	1A	V	2,577	1,299	196	94
122	UAB Žemės ūkio paskolų garantijų fondas	100.0%	Ministry of Agriculture	Other	2	IV	27,499	721	-261	128
123	VĮ Pieno tyrimai	-	Ministry of Agriculture	Other	2	IV	5,390	3,990	629	89
124	VĮ Lietuvos žemės ūkio ir maisto produktų rinkos reguliavimo agentūra	-	Ministry of Agriculture	Other	2	IV	24,557	480	18	-24
125	VĮ Valstybės žemės fondas	-	Ministry of Agriculture	Other	2	IV	4,605	7,000	405	100
126	VĮ Žemės ūkio informacijos ir kaimo verslo centras	-	Ministry of Agriculture	Other	2	V	3,724	554	-80	-480
127	VĮ Mašinų bandymo stotis <sup>9</sup>	-	Ministry of Agriculture	Other	-	-	146	41	-11	-13
128	UAB Mokslas ir technika	100.0%	Lithuanian Academy of Sciences	Other	-	V	10	52	7	7
<b>Enterprises undergoing liquidation or bankruptcy:</b>										
1	AB Lietuvos jūrų laivininkystė <sup>10</sup>	56.7%	AB Lietuvos geležinkeliai Group	Transport and Communications	-	-	N/A	N/A	N/A	N/A
2	VĮ Vilniaus pilių direkcija <sup>11</sup>	-	Ministry of Culture	Other	2	-	N/A	N/A	N/A	N/A

**\* Directly and indirectly; state enterprises (SE) are 100% owned by the state.**

<sup>1</sup>On 21 May 2014, Lietuvos Energija Group bought 11.76% of shares in LESTO from E.ON Ruhrgas International GmbH and currently owns 94.4% of LESTO shares

<sup>2</sup>On 21 May 2014, Lietuvos Energija Group bought 38.9% of Lietuvos Dujos shares from E.ON Ruhrgas. In June 2014, 37.1% of Lietuvos Dujos shares were bought from Gazprom, as well as a smaller part of shares from minority shareholders. After the buy up, Lietuvos Energija Group owns 96.6% of Lietuvos Dujos shares.

<sup>3</sup>On 21 May EPSO-G acquired 38.9% of Amber Grid shares from E.ON Ruhrgas. In June 2014, 37.1% of Amber Grid shares were bought from Gazprom, as well as a smaller part of shares from minority shareholders. After the buy up, EPSO-G owns 96.5% of Amber Grid shares.

<sup>4</sup>Ignalina Nuclear Power Plant is in the decommissioning stage (production was carried out until 31 December 2009).

<sup>5</sup>Lietuvos oro uostai was established on 1 July, 2014 by merging Kauno aerouostas and Tarptautinis Palangos oro uostas into Tarptautinis Vilniaus oro uostas.

<sup>6</sup>On 1 October 2014, the State Property Fund was merged into Turto bankas.

<sup>7</sup>On 1 June 2014, a new state-owned legal entity Mūsų amatai was established by merging Alytus, Marijampolė and Pravieniškės Penitentiaries

<sup>8</sup>On 1 April 2015, Baldžio šilas and Senevita were reorganised to a company Senevita.

<sup>9</sup>SE Mašinų bandymo stotis was established on 1 October 2015 by reorganising budget institution Valstybinė mašinų bandymo stotis.

<sup>10</sup>On 14 December 2015, bankruptcy proceedings were started against Lietuvos jūrų laivininkystė. On 30 May 2016, the company was declared bankrupt.

<sup>11</sup>On 14 August 2015, a liquidator was appointed to Vilniaus pilių direkcija. The company has been in liquidation process since then.

# Financial Results of SOEs Not Included Into the SOE Portfolio

## UAB poilsio namai Baltija

State-owned share 100.0%

<b>Profit (Loss) Statement (EUR '000)</b>	<b>2014</b>	<b>2015</b>
<b>Sales revenue</b>	<b>609</b>	<b>759</b>
Cost of goods sold	844	630
<b>Gross profit (loss)</b>	<b>-235</b>	<b>129</b>
Operating expenses	564	1,246
Profit (loss) from other activities	-1	1,200
<b>Operating profit (loss)</b>	<b>-800</b>	<b>83</b>
<b>EBITDA</b>	<b>-619</b>	<b>349</b>
Financial and Investment activities	-50	-78
<b>Profit (loss) before taxes</b>	<b>-850</b>	<b>5</b>
Profit tax	-359	1
<b>Net profit (loss)</b>	<b>-491</b>	<b>4</b>
<i>Net profit margin</i>	<i>-80.6%</i>	<i>0.5%</i>
<b>Normalised net profit (loss)</b>	<b>-487</b>	<b>28</b>

<b>Balance sheet (EUR '000)</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>
<b>Non-current assets</b>	<b>6,975</b>	<b>5,702</b>
<b>Current assets</b>	<b>45</b>	<b>90</b>
Cash and cash equivalents	1	23
<b>Total assets</b>	<b>7,020</b>	<b>5,792</b>
<b>Equity</b>	<b>4,664</b>	<b>4,676</b>
<b>Grants and subsidies</b>	<b>0</b>	<b>0</b>
<b>Liabilities</b>	<b>2,356</b>	<b>1,116</b>
Financial liabilities	1,401	270
<b>Total Equity and liabilities</b>	<b>7,020</b>	<b>5,792</b>

<b>Ratios</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>
Normalised ROA	-11.0%	0,4%
Normalised ROE	-18.8%	0.6%
D/E	30.0%	5.8%

<b>Return to the shareholders (EUR '000)</b>	<b>2014</b>	<b>2015</b>
Allocated dividends (total)	0	0
Property tax	5.2	28.2

<b>Employee information</b>	<b>2014</b>	<b>2015</b>
Number of employees	45	49
Number of employees in managerial positions	2	2

## UAB Viešųjų investicijų plėtros agentūra

State-owned share 100.0%

<b>Profit (Loss) Statement (EUR '000)</b>	<b>2014</b>	<b>2015</b>
<b>Sales revenue</b>	<b>474</b>	<b>1,682</b>
Cost of goods sold	119	569
<b>Gross profit (loss)</b>	<b>355</b>	<b>1,113</b>
Operating expenses	112	342
Profit (loss) from other activities	0	0
<b>Operating profit (loss)</b>	<b>243</b>	<b>771</b>
<b>EBITDA</b>	<b>248</b>	<b>803</b>
Financial and Investment activities	-38	0
<b>Profit (loss) before taxes</b>	<b>205</b>	<b>771</b>
Profit tax	34	117
<b>Net profit (loss)</b>	<b>171</b>	<b>654</b>
<i>Net profit margin</i>	<i>36.0%</i>	<i>38.9%</i>

<b>Balance sheet (EUR '000)</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>
<b>Non-current assets</b>	<b>8,947</b>	<b>29,184</b>
<b>Current assets</b>	<b>21,231</b>	<b>11,917</b>
Cash and cash equivalents	20,873	4,086
<b>Total assets</b>	<b>30,178</b>	<b>41,100</b>
<b>Equity</b>	<b>236</b>	<b>873</b>
<b>Grants and subsidies</b>	<b>0</b>	<b>0</b>
<b>Liabilities</b>	<b>29,943</b>	<b>40,227</b>
Financial liabilities	29,792	37,979
<b>Total Equity and liabilities</b>	<b>30,178</b>	<b>41,100</b>

<b>Ratios</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>
ROA	0.7%	1.8%
ROE	113.7%	118.0%
D/E	12,645.2%	4,349.9%

<b>Return to the shareholders (EUR '000)</b>	<b>2014</b>	<b>2015</b>
Allocated dividends (total)	0	17

<b>Employee information</b>	<b>2014</b>	<b>2015</b>
Number of employees	14	30
Number of employees in managerial positions	2	2

## VĮ Mašinų bandymo stotis

<b>Profit (Loss) Statement (EUR '000)</b>	<b>2015</b>
<b>Sales revenue</b>	<b>41</b>
Cost of goods sold	18
<b>Gross profit (loss)</b>	<b>23</b>
Operating expenses	36
Profit (loss) from other activities	0
<b>Operating profit (loss)</b>	<b>-13</b>
<b>EBITDA</b>	<b>-11</b>
Financial and Investment activities	0
<b>Profit (loss) before taxes</b>	<b>-13</b>
Profit tax	0
<b>Net profit (loss)</b>	<b>-13</b>
<i>Net profit margin</i>	<i>-31.2%</i>
<b>Balance sheet (EUR '000)</b>	<b>31 Dec 2015</b>
<b>Non-current assets</b>	<b>35</b>
<b>Current assets</b>	<b>111</b>
Cash and cash equivalents	5
<b>Total assets</b>	<b>146</b>
<b>Equity</b>	<b>68</b>
<b>Grants and subsidies</b>	<b>19</b>
<b>Liabilities</b>	<b>58</b>
Financial liabilities	0
<b>Total Equity and liabilities</b>	<b>146</b>
<b>Ratios</b>	<b>31 Dec 2015</b>
ROA	-17.4%
ROE	-37.2%
D/E	0.0%
<b>Return to the shareholders (EUR '000)</b>	<b>2015</b>
Total contributions and non-standard taxes to the state	0
<b>Employee information</b>	<b>2015</b>
Number of employees	32
Number of employees in managerial positions	2

# Abbreviations and definitions

AB	Public limited liability company
Asset turnover	Financial indicator, which shows the amount of sales generated per euro of assets
DGSF	Directorate General of State Forests under the Ministry of Environment
DuPont	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	Debt to equity ratio
EBITDA	Operating profit before depreciation and amortisation. The indicator is derived by adding depreciation and amortisation costs to the operating profit or loss (including the result of operating and other activities)
EBITDA margin	Indicator derived by dividing the EBITDA (operating profit before depreciation and amortisation) by net turnover of the enterprise
EU	European Union
Financial leverage	Financial indicator showing the proportion of equity and asset within a company
GDP	Gross domestic product
Governance Coordination Centre (GCC)	A legal entity or institution appointed by the resolution of the Government of the Republic of Lithuania to observe and analyse the implementation of state policy in SOEs. Under Resolution No. 665 of 6 June 2012 of the Government of the Republic of Lithuania, the corporate governance functions were assigned to the state enterprise State Property Fund, which on 1 October 2014 was merged into state enterprise Turto bankas
Government	Government of the Republic of Lithuania
LNG	Liquefied Natural Gas
LRA	Lithuanian Road Administration under the Ministry of Transport and Communications
NCC	National Control Commission for Prices and Energy
Net profit margin	Indicator derived by dividing the operational profit by net turnover
Non-commercial functions/Special obligations	Functions performed by an SOE that a company would not assume on a commercial basis (or would carry it out for a price higher than the set price) and that are assigned to enterprises by decisions of the shareholder/owner, i.e. the state
Non-standard taxes	Property tax and raw material tax
Normalised net profit	Net profit, following the elimination of non-standard state taxes, the effect of the bankruptcies of the bank Snoras and Ūkio Bankas, Lietuvos Energija and EPSO-G asset revaluation, as well as tax expenses incurred due to the acquisition of Lietuvos Dujos and Amber Grid, and Lietuvos Dujos unset reserves for the lower gas price for non-industrial consumers.
OECD	The Organisation for Economic Co-operation and Development
Operating profit margin	Indicator derived by dividing the operating profit by net turnover
Ownership Guidelines	Procedure for exercising property and non-property rights of the state at state-owned enterprises approved by Resolution No 665 of the Government of the Republic of Lithuania of 6 June 2012
Property tax	Tax paid by state enterprises for the use of entrusted state property
PSO	Public service obligations
P/E	Price to Earnings – an indicator showing the proportion of company's share price and profit per share
Raw material tax	Mandatory deductions from round wood and stumpage sales paid by forest enterprises
RES	Renewable energy sources
ROA	Return on assets – a financial indicator showing the efficiency of use of corporate assets. The indicator is calculated by dividing the net profit by the average value of total assets at the beginning and the end of the period
ROE	Return on equity – a financial indicator showing the efficiency of use of capital invested by shareholders. The indicator is calculated by dividing the net profit by the average value of Grants and subsidies at the beginning and the end of the period
SO	Special Obligations (see Non-commercial functions/Special obligations)
SOE	State-owned enterprise – a state enterprise or a public or private limited liability company in which the state holds shares which entitle it to more than ½ of all the votes at the general meeting of shareholders of the company
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
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 <sup>3</sup> Wh, terawatt = 10 <sup>12</sup> Wh)



