



Note by the OECD Secretariat on
**Lithuania's implementation of corporate
governance accession review recommendations**

This Secretariat Note considers Lithuania's progress in implementing the recommendations of the OECD Corporate Governance Committee's Corporate Governance Accession Review [published as OECD (2018), Corporate Governance in Lithuania <https://doi.org/10.1787/9789264302617-en>]. It was discussed by the Corporate Governance Committee and the Working Party on State Ownership and Privatisation Practices at their meeting in November 2020. For further information, contact Daniel.Blume@oecd.org.

Table of contents

Table of contents	2
1. Purpose and structure	4
2. Lithuania’s implementation of the priority recommendations related to the Principles of Corporate Governance	5
2.1. (i) Monitoring implementation of reforms to the company law and related laws	5
2.2. (ii) Medium-term plans to further strengthen board responsibilities	7
2.3. (iii) Recent company law amendments to strengthen independence criteria for listed company boards	8
3. Lithuania’s implementation of the additional recommendations related to the Principles of Corporate Governance	10
4. Lithuania’s implementation of the priority recommendations related to the SOE Guidelines	12
4.1. (i) Eliminating voting instructions	19
4.2. (ii) Further improving the board selection process	20
4.3. (iii) Corporatising commercially oriented statutory SOEs	23
5. Lithuania’s implementation of the additional recommendation related to the SOE Guidelines	27
6. Conclusions	28
6.1. Lithuania’s implementation of the priority recommendations	28
6.2. Lithuania’s implementation of the additional recommendations	30
6.3. Overall conclusions	30
Annex A. List of Lithuanian SOEs and SOE subsidiaries subject to GCC monitoring	32
Annex B. List of Lithuanian SOEs and other enterprises of importance to national security	35
Annex C. Letter of expectation example for Lithuanian Airports	36
Annex D. Return on equity targets established for 40 SOEs (2019-2021)	40
Notes	41
Tables	
Table 3.1. Number of restructuring and bankruptcy proceedings initiated in 2020	11

Table 4.1. Board type and composition in large Lithuanian SOEs (September 2020)	15
Table 4.2. Number of SOEs and SOE subsidiaries required to have boards	19
Table 4.3. SOE subsidiaries that are newly required to establish boards with 1/3 independent members	23
Table 4.4. Status of SOE corporatisation plans announced in 2018	24
Table B.1. Lithuanian enterprises of importance to national security	35
Table B.2. Return on equity targets for 40 Lithuanian SOEs	40

Boxes

Box 1. Summary of recent or ongoing relevant legislative reform initiatives in the Lithuanian Parliament	9
--	---

1. Purpose and structure

This document discusses Lithuania's progress in implementing the recommendations made by the Corporate Governance Committee as part of its 10 April 2018 Formal Opinion on Lithuania's accession to the OECD. To recall, the Formal Opinion communicated a positive assessment regarding Lithuania's ability and willingness to implement the *Recommendation on Principles of Corporate Governance* (the *Principles*) and the *Recommendation on Guidelines on Corporate Governance of State-Owned Enterprises* (the *SOE Guidelines*) and recognised that Lithuania's policies and practices were increasingly consistent with OECD "best policies and practices" in the field of corporate governance. However, it also identified areas where progress was recommended following Lithuania's accession to the OECD.¹

Lithuania was requested to report back on progress in implementing six "priority recommendations" by no later than 31 August 2020, to enable follow-up assessments by the Corporate Governance Committee (CGC) and the Working Party on State Ownership and Privatisation Practices (WPSOPP) in autumn 2020 and thereafter as necessary. Lithuania was also invited to report back on progress in implementing three "additional recommendations" in the context of regular reporting to the Committee and the Working Party. On 2 July 2020, Lithuania initiated the process of reporting back on related progress in a letter with annexes sent by the Minister of Economy to the Chairs of the Committee and the Working Party.

The information contained in this document is based on the content of the aforementioned letter, responses to related follow-up questions received in August 2020, multiple fact-finding interviews held on-line on 2-4 September 2020, as well as written exchanges with the Lithuanian authorities and relevant non-governmental counterparts throughout the process. The team conducting the fact-finding interviews consisted of WPSOPP Chair Lars Erik Fredriksson, OECD Secretariat Senior Policy Analyst Daniel Blume, and consultant to the OECD Korin Kane, who was the lead drafter of this document.

The document follows the same structure as the Formal Opinion, first discussing measures taken to implement the recommendations of the CGC related to listed companies and then discussing measures taken to implement the recommendations of the WPSOPP related to SOEs. The text of each recommendation is reproduced at the beginning of each section discussing the status of implementation. The numbering of the recommendations, not included in the Formal Opinion, has been added to facilitate reading and discussion of the document. A final section offers conclusions regarding Lithuania's overall progress in implementing all of the recommendations.

Concerning the additional recommendations referred to in paragraphs 43 and 45 of the Formal Opinion, the Committee recommended that Lithuania provide updates on its related progress in implementation in the context of regular reporting to Members to the Committee and Working Party. Related information was provided by the Lithuanian authorities, has been discussed throughout the fact-finding process and is therefore integrated into this document to provide context for the WPSOPP's and CGC's assessment of progress against the priority recommendations.

¹ See OECD (2018) "*Corporate Governance in Lithuania*" for the full report and recommendations at <https://www.oecd.org/publications/corporate-governance-in-lithuania-9789264302617-en.htm>.

This report served as a reference for the WPSOPP's and CGC's discussion and post-accession review of Lithuania's progress in addressing their priority recommendations, at their joint meeting of 10 November, 2020. The report was subsequently revised to take into account the conclusions of those discussions, approved via written procedure and declassified for publication on the OECD website.

2. Lithuania's implementation of the priority recommendations related to the Principles of Corporate Governance

Priority recommendation 1. Monitor implementation of reforms to the Law on Companies with a view towards clarifying and further strengthening the responsibilities of companies' boards of directors. Lithuania's Law on Companies and related laws have gone through several waves of recent reforms, making it important to work with market participants to ensure a common understanding of their implementation, and to identify areas where further clarification may be needed to ensure effective implementation in practice. In the medium term, there remains scope for further clarification and strengthening of board responsibilities within the Law on Companies with reference to relevant provisions of the *Principles* not only for listed companies, but also for non-listed and corporatised state-owned enterprises.

2.1. (i) Monitoring implementation of reforms to the company law and related laws

At the time of Lithuania's accession to the OECD, several important legal reforms had recently been enacted. These included legislative reforms to (i) strengthen the responsibilities of listed companies' boards of directors, by requiring that single-tier boards be accorded supervisory functions and comprise at least one third independent directors; (ii) improve review measures for related party transactions; and (iii) remove provisions from the company law that explicitly granted controlling shareholders privileged access to corporate information. Given the recentness of these reforms at the time of Lithuania's accession, it was recommended that Lithuania monitor their implementation going forward – with a focus on the reforms pertaining to the powers of boards of directors – with a view to clarifying their provisions with market participants as needed to address gaps in implementation¹.

Lithuania has taken steps to monitor implementation of its recent company law reforms to strengthen boards of directors, in line with this recommendation. In particular, the Bank of Lithuania recently undertook a review of 26 listed companies' compliance with the recently revised corporate governance code, which also assesses their implementation of new company law provisions on board responsibilities and procedures for review of related party transactions². To recall, the new procedures require board and audit committee review of material related party transactions, as well as their disclosure in annual reports. While the Bank of Lithuania review generally includes information on all 26 listed companies, based on their required disclosures regarding compliance with the code's provisions, the information on related party transactions is less comprehensive, based primarily on publicly disclosed information on such transactions, supplemented by responses to a separate electronic questionnaire sent out by the Bank of Lithuania, to which 11 companies responded. (The Bank of Lithuania sent the electronic questionnaire to all 26 companies, but only received responses from 11.) The review presents an overview of the 26 listed companies' board structures and supervisory responsibilities, identifying (i) which companies with single-tier boards have updated their articles of association to assign their boards supervisory functions in line with the new provisions of the company law and (ii)

which companies comply with the new company law requirement for 1/3 independent members on boards performing supervisory functions. It also summarises 11 companies' responses to the aforementioned electronic questionnaire, concerning compliance with the new company law procedures for related party transactions.

The Bank of Lithuania's monitoring report finds that several companies have not yet implemented company law requirements for stronger, more independent boards. The Bank of Lithuania review concludes that of the 15 listed companies operating under a single-tier board, six companies comply with the requirement to accord their boards supervisory functions and nine do not comply. Of all the 26 listed companies, 15 have the requisite 1/3 proportion of independent directors and nine do not. Nine companies operate under a two-tier board structure, while two companies have not established boards (and also therefore do not have the requisite 1/3 proportion of independent directors).

The report concludes that four companies do not implement the procedures of the Lithuanian company law related to the approval of related party transactions. This conclusion is based on the responses of 11 companies to the Bank of Lithuania's supplementary questionnaire, which gathered information on companies' compliance with the new company law requirements for review and approval of related party transactions. The four companies were determined not to be in compliance with the procedures owing to the absence of a supervisory body to approve such transactions. The report indicates that some other companies reported that they were compliant with the procedures, but they either had not entered into any related party transactions or had not established a supervisory body to approve them according to the new rules. This points to the possible need to clarify the new requirements with issuers.

Importantly, boards and board members serving prior to the July 2018 entry into force of the legislative reforms were to remain in place until the expiry of their terms. According to the Bank of Lithuania, some boards were elected in 2018 and will serve four-year terms, meaning that their compliance with the new requirements could take until 2022. The Bank of Lithuania reports that this is the main reason why several companies have still not implemented the new requirements on board supervisory functions and independence and that all listed companies should be in compliance just after their boards reach the end of their terms of office, at which point they may undertake another similar monitoring exercise. Concerning enforcement of the new provisions, the Bank of Lithuania's scope for intervention primarily consists of public announcements, which the authorities consider to be sufficiently effective in encouraging companies to comply with legislative requirements.

The majority of issuers on the Vilnius exchange still operate under a single-tier board, underscoring the importance of implementing the new legislation. Under the previously applicable company law, single-tier management boards (which were the most common board structure in Lithuanian listed companies) were not required to undertake supervisory functions. The 2017-18 company law amendments accorded these boards responsibility for approving company operating strategy and required that listed companies undertake some additional supervisory functions, including review of related party transactions. According to the aforementioned Bank of Lithuania monitoring report, the single-tier board ("management board" in national nomenclature) model remains the most popular, chosen by 15 out of 26 companies on the main and secondary lists, as of end-2019. Nine companies operate under a two-tier board comprising a supervisory board and a management board. The remaining two companies, which are collective investment companies, do not have boards of directors and are therefore not compliant with the company law provision requiring all listed companies to establish a board. However, these two companies are subject to a separate Law on Collective Investment Undertakings, which establishes that such undertakings must comply with the Law on Companies, unless the Law on Collective

Investment Undertakings provides otherwise. In this case, the Law on Collective Investment Undertakings does provide otherwise, stipulating that an investment company or collective investment undertaking that has designated certain functions to a management company (in the case of these two companies, an asset management company) is not required to establish a board. The designated management company is itself required to establish a board (a “management board” in Lithuanian nomenclature, or a “supervisory board” if the management company is large).

There are concerns among market participants regarding how transactions between related parties should be handled among SOEs and within company groups. To recall, amendments to the company law enacted in November 2017 require that listed companies’ board and audit committee (which, through separate Bank of Lithuania rules must comprise at least 1/3 independent members) review all material related party transactions and that they be disclosed. SOE legal and corporate governance professionals interviewed for this report highlighted some issues with implementation of the new procedures by both SOEs and company groups. Practices reportedly vary, with some SOEs considering all other SOEs to be related parties and others considering only SOEs under the remit of the same ownership ministry to be related parties. Another reported issue relates to lack of clarity on how transactions between subsidiaries and the related parties of parent companies should be handled.

2.2. (ii) Medium-term plans to further strengthen board responsibilities

There remains scope for further strengthening boards of directors through additional company law reforms. Although Lithuania took important steps in 2017-18 to strengthen the responsibilities of listed companies’ boards of directors, including, as mentioned above, according single-tier boards supervisory functions, the Formal Opinion identified scope for further improvements in line with the G20/OECD *Principles* and for expanding their application to non-listed companies, including SOEs. A private working group not affiliated with the government, but including some governmental officials acting in a private capacity, is currently undertaking work to assess the possibility of transposing (some of) the European Model Companies Act to Lithuanian law, with a view to proposing the reforms to the Ministry of Economy, which is the institution responsible for initiating company law amendments. It is expected that this group’s work could be completed by end-2020. Concerning the recommendation to expand the scope of application of the 2017-18 reforms to non-listed companies, including SOEs, this has partly been achieved through amendments to the state ownership guidelines requiring that the single-tier boards of fully corporatised SOEs be granted supervisory functions (see section on WPSOPP priority recommendation 2). The recommendation to consider expanding the board responsibilities of non-listed companies is not being formally pursued by the Lithuanian authorities, but they are aware of the private working group working on the issue and remain open to considering its proposals alongside any others. Given that the private working group’s proposals are still under development and have not been examined in the context of this progress report, further assessment would be required to confirm that their implementation would bring the Lithuanian company law more in alignment with the G20/OECD *Principles*, in line with the priority recommendation.

To recall, it was not until company law amendments passed in November 2017 that Lithuanian listed companies were required to have independent board members. Prior to this date (and the July 2018 entry into force date), the only related legal requirement was that at least half of the members of listed company boards performing supervisory functions must not have employment relations with the company. Separately, the comply-or-explain Nasdaq Vilnius Corporate Governance Code recommended that company boards comprise

a “sufficient number of independent members”, not establishing a recommended proportion, and noting in a footnote the potential difficulty of recruiting independent directors given the newness of the concept to Lithuanian corporate culture. In 2015, according to Nasdaq Vilnius data, only 7 out of 28 listed companies were considered to have complied with this provision on independence. The November 2017 company law amendments introduced a requirement for 1/3 independent directors on boards performing supervisory functions – together with a requirement that single-tier boards, the most common model, be granted supervisory functions – with independence defined as not having (i) any “family, kinship or partnership relations” with the company, its controlling shareholder or its board members or (ii) any “business relations” with the company in the year preceding their board appointment.

Boards’ formal supervisory functions vary depending on the type of board established. To recall, Lithuanian listed companies can choose whether to establish a two-tier or one-tier board structure, which are each accorded different formal responsibilities under the Law on Companies. Single-tier management boards of listed companies (the most popular model) are notably granted the authority to hire and dismiss the CEO, approve company strategy and approve annual and interim reports. Since the 2017-18 company law reforms, they are also accorded the following supervisory functions, which are those accorded to the supervisory boards in two-tiered structures:

- Supervise the activities of the CEO;
- Consider the suitability of the CEO if the company is loss-making;
- Propose to the CEO to revoke his or her decisions if they conflict with legal acts or with decisions of the board or general meeting of shareholders;
- Address other issues assigned to them by the articles of association or the general meeting of shareholders; and
- Approve related party transactions (this additional provision was enacted through 2017 company law reforms).

This flexibility of approaches points to the need to continue working with market participants to ensure that the system is well understood, and that boards have sufficient and clearly defined responsibilities. The company law’s related provisions are complex and many companies have yet to implement the newest provisions. An additional issue relates to the historically weak role of boards *vis-à-vis* company management, including the fact that many of the supervisory board’s enumerated responsibilities (in the bulleted list above) are largely advisory in nature. This makes it important to continue monitoring and assessing company practices, with a view to ensuring that Lithuanian legislation is sufficient to allow boards to fulfil their essential good-practice roles, including guiding corporate strategy, monitoring management and preventing abusive related party transactions.

2.3. (iii) Recent company law amendments to strengthen independence criteria for listed company boards

Amendments to the company law entering into force on 1 November 2020 expand the independence requirements applicable to listed companies’ board members. Although clarifying independence requirements was not explicitly recommended by the CGC in the context of Lithuania’s accession, the Lithuanian authorities report that the new criteria can be expected to increase independent oversight over listed companies, thus strengthening boards in line with this recommendation. The amendments were enacted by Parliament in

June 2020 and with timing to enter into force on 1 November 2020. The criteria contain more stringent provisions requiring that independent members: (i) not have business relations with the company or its subsidiaries (whereas earlier criteria applied only to business relations with the company), where business relations is defined as having acted as a supplier of goods or services; not having been employed for the past two years by the company's audit firm; and not have a total board service within the company for a period exceeding ten years. The amendments also broaden the criteria related to "family and kinship" relations, referring instead to "close persons" and detailing such relationships as cohabitation, adoptive family relations and grandchildren.

One of the reported motivations behind the amendments was to increase the state's oversight over SOE subsidiaries of strategic importance. Some of these SOEs are listed on the national stock exchange, although two subsidiaries of Ignitis Group were recently delisted in advance of the parent company's IPO (SOEs of strategic importance are those on the state list of enterprises of importance to national security, reproduced in Annex 2). The amendments were initiated by a group within Parliament and not by the Government. A Parliamentary representative interviewed for this report communicated that one motivation behind the new proposed independence criteria was to address a governance arrangement wherein the employees of state-owned company groups were serving as independent directors on the group companies' boards. The box below provides a summary of recent Parliamentary discussions or initiatives bearing on the corporate governance of listed companies and/or SOEs. These are also discussed in the relevant sections of the report, but summarised below to facilitate an understanding of the current legislative agenda and context.

Box 1. Summary of recent or ongoing relevant legislative reform initiatives in the Lithuanian Parliament

- Amendments to the company law enacted by Parliament in June 2020 and entering into force on 1 November 2020 introduce new criteria for a board member to be considered independent, which are expanded to include relationships with group subsidiaries and more detailed criteria for "close persons", e.g. including cohabitants. Currently the boards of listed companies – including some SOEs – are required by company law to comprise at least 1/3 independent members. (Non-listed SOEs and SOE subsidiaries are subject to separate independence requirements and criteria, elaborated in Government Resolutions³.)
- An initiative to ensure that strategic SOE subsidiaries have at least one civil servant on their board was proposed in the Lithuanian Parliament, through a discussion of possible amendments to the Law on the Protection of Objects of Importance to Ensuring National Security. No amendments were formally proposed. The motivation behind the proposal was reportedly to ensure that the state has access to information about strategic projects carried out by SOE subsidiaries.

3. Lithuania's implementation of the additional recommendations related to the Principles of Corporate Governance

Additional recommendation 1. Updating the Nasdaq Vilnius Corporate Governance Code. Update the Nasdaq Vilnius Corporate Governance Code to ensure consistency and complementarity between its voluntary recommendations and recent legislative reforms.

The Nasdaq Vilnius Corporate Governance Code, which listed companies must implement on a comply-or-explain basis, was updated in January 2019. Nasdaq Vilnius reported through interviews that the overarching goals of the revision were to ensure consistency with the recent company law reforms, to integrate updates made to the *G20/OECD Principles of Corporate Governance* and to eliminate provisions that were no longer considered practical in the Lithuanian company context. Additionally, in implementation of the European Commission Recommendation 2014/208/EU, Nasdaq Vilnius' management board updated the compliance form for issuers, which now consists of a free-form summary and a table allowing issuers to indicate which of the code's provisions are implemented and which are not, along with a space for comments on each provision.

Many of the revisions to the code do effectively ensure consistency with 2017-18 legislative reforms, in line with this recommendation. The code achieves such consistency by (i) restating the requirements established by separate legislation and/or (ii) referencing the applicable legal acts where relevant. For example, concerning the new requirement that single-tier management boards perform supervisory functions, the new code recalls this obligation in an introductory section discussing the different board arrangements permitted by Lithuanian law and also illustrates its practical implementation in the code's substantive sections where board duties are discussed. The section of the code recommending that supervisory boards oversee company strategy explains that if the company has not established a separate supervisory board, then the single-tier management board is responsible for approving the company's strategy. Similarly, the code states that board committee formation is the responsibility of the supervisory board or, if there is no supervisory board, the single-tier management board. As an example of how the code references relevant applicable legislation, in its section dedicated to company audit committees, their key functions are defined as those accorded by Lithuanian legislation, which are referenced in a footnote. The new code also reiterates the board independence requirements established by company law, and references the company law for certain definitions related to independence (e.g. regarding what constitutes "business relationships" with the company). While these changes appear to ensure consistency and complementarity with the new legislation, and to align market expectations more clearly around a single standard, one legal professional with experience with SOEs that was interviewed for this review expressed some concern about the removal of the previously strong independence criteria from the corporate governance code. As mentioned in the previous section, the Bank of Lithuania recently undertook an assessment of listed companies' compliance with the new code, which was, at the time of writing, expected to be published on 21 October 2020.

Additional recommendation 2. Reforming the insolvency framework. Move forward with reforms to establish an effective and efficient insolvency framework that enforces creditors' rights.

A New Law on Insolvency of Legal Persons came into force on 1 January 2020, introducing important positive changes to Lithuania's insolvency landscape. While it is too early to fully assess its impact, both the provisions of the law and preliminary data on enterprise restructurings and bankruptcy in early 2020 point to a more effective and efficient insolvency framework, in line with this recommendation. Improvements to the legal provisions include: new requirements to seek out-of-court settlements before initiating any restructuring or insolvency proceedings; newly imposed time limits for specific related court proceedings (ranging from 10 to 60 days); and the transfer of some supervision functions, for example professional qualification exams, to a self-regulatory body of insolvency professionals. The Lithuanian authorities expect that the transfer of these functions to the self-regulatory body, in which membership is now mandatory for all insolvency professionals, will help raise the prestige of the profession and the competencies of its participants. The new time limits on court procedures have the potential to make insolvency procedures, when they are deemed necessary, more efficient and speedy.

It is too early to fully assess the impact of the new insolvency legislation on companies, given the twin impact of the economic downturn associated with the COVID-19 pandemic and a related temporary lifting of the legislation's filing requirements. In March 2020, the Lithuanian Parliament temporarily lifted debtors' obligations, and restricted creditors' rights, to file for restructuring or bankruptcy until three months following an imposed quarantine period in Lithuania (16 March-16 June 2020). Therefore, the situation only returned to normal on 16 September, and there may be a backlog of cases in the courts moving forward.

Preliminary data suggests that the new framework might already have begun to have a positive impact on viable companies facing temporary financial distress, by encouraging restructuring instead of bankruptcy. The table below provides an overview of the number of restructuring and bankruptcy procedures initiated in Lithuania since the beginning of 2020. Prior to the quarantine period, the number of initiated restructuring procedures in the first 2.5 months of 2020 had increased by 80% compared to the corresponding 2019 period (although in numerical terms still only involved nine cases) and the number of initiated bankruptcy proceedings had decreased by 33% (involving 274 cases). Although both restructuring and bankruptcy procedures dropped significantly, as expected, during Lithuania's quarantine period, the decrease in bankruptcy proceedings of 47% compared to the previous year greatly exceeds the decrease in restructurings of only 6% compared to the previous year, perhaps indicating a general trend towards relatively more restructurings and relatively fewer bankruptcies, which would indicate better outcomes for both creditors and debtors.

Table 3.1. Number of restructuring and bankruptcy proceedings initiated in 2020

	1 January -16 March 2020	16 March-16 June 2020 (quarantine period)
Restructurings	9 (up by 80% compared to corresponding 2019 period)	16 (down by 6% compared to corresponding 2019 period)
Bankruptcy	274 (down by 33% compared to corresponding 2019 period)	536 (down by 47% compared to corresponding 2019 period)

Source: Information provided by the Lithuanian authorities.

4. Lithuania's implementation of the priority recommendations related to the SOE Guidelines

Priority recommendation 1. Strengthening the ownership function. Improve the GCC's capacity to effectively monitor compliance with – and support enforcement of – the state's SOE governance and disclosure standards. Its advisory role should also be strengthened, including through requirements for more systematic input to shareholding ministries' ownership decisions and actions, such as the preparation of shareholder letters of expectations. Move forward with appointing a permanent head of the institution and, promptly thereafter, hire additional staff so that the GCC can effectively fulfill its functions.

The Lithuanian authorities have implemented several important measures to strengthen the resources of the Governance Coordination Centre, in line with this recommendation. Concerning the GCC's staffing and financial resources, a permanent head of the institution was appointed in September 2018 and since then, eight additional staff members have been hired, bringing the total number of staff in 2020 to 14 people, an increase from six in 2018⁴. The GCC operates with a 2020 budget of 390 000 euros, up from 354 000 euros in 2018. (An earlier, more significant increase in the GCC's budget had already occurred prior to 2018, but the director and additional staff were not hired until later, explaining the apparently small increase in financial resources since 2018.)

Several steps have been taken to strengthen the GCC's advisory role and ensure it offers more systematic input on ownership decisions, both formally and in practice. Formally, amendments have been made to relevant Government Resolutions and legislation⁵ (i) requiring ownership ministries to seek the GCC's input on the preparation of shareholder letters of expectation, which ownership ministries are now required to develop for the SOEs under their remit; (ii) stipulating that the GCC participate in the new selection commission for SOEs' independent board members (discussed in more detail under the following WPSOPP priority recommendation; and (iii) explicitly allowing the GCC to analyse ownership ministries' decisions and share their views with ownership ministries and the Ministry of Economy. In practice so far, the GCC has reviewed approximately 40 shareholder letters of expectation, has participated in the selection commission for 18 independent members in seven SOEs, and as of September was participating in the selection commission for an additional nine independent members in four SOEs. The GCC also advises SOEs on their yearly strategy documents, which must be shared with the GCC for their feedback by 15 November of each year. Finally, the GCC also calculates return-on-equity targets for approximately 40 commercial SOEs, based on Ministry of Economy guidelines that use the capital asset pricing model. The proposed ROE expectations, which are three-year averages, are then submitted to the Government for final approval and communicated to SOEs through the letters of expectation. Annex 4 reproduces the list of ROE targets approved by the Lithuanian Government for 2019-2021.

The GCC also has a strengthened role in monitoring the performance of SOEs and their subsidiaries. According to the state ownership guidelines, the GCC must assess, on an annual basis, whether SOEs and their subsidiaries have achieved their profitability targets, which include the aforementioned ROE targets. If these targets are not met by the enterprises, then they are required to provide a written explanation outlining actions to be taken to improve performance. The GCC continues to prepare annual aggregate reports on SOEs that are of a high standard and, as a result of August 2019 amendments to the ownership guidelines, must include in its report an assessment of how SOEs and their subsidiaries comply with the provisions of the Nasdaq Vilnius Corporate Governance Code.

The introduction of shareholder letters of expectation has introduced greater clarity regarding the state's expectations of SOEs. It has also established a more formal process for communicating these expectations to SOE boards of directors and management. As a result of amendments to the state ownership guidelines made in June 2018, ownership ministries are required to prepare these letters of expectation for each SOE under their remit at least once every four years⁶. Letters of expectation are to be prepared in accordance with dedicated guidelines, elaborated by the Ministry of Economy and Innovation in August 2019, outlining their proposed content and the procedure for developing them. (The guidelines were developed in an effort to harmonise practices across ownership ministries, after approximately 40 letters of expectation had already been completed and shared with the GCC for comments.) The letters of expectation must outline the state's overarching expectations of the SOE, its main activities, operational priorities, key performance indicators, accountability expectations, any projects of national importance that the enterprise is expected to pursue and information on subsidiaries. Prior to submitting the letters to SOEs, they must be shared with the GCC for comments and suggestions, to be provided within seven working days. SOE independent board members interviewed for this review expressed generally positive views of the new letters of expectation, while highlighting that the process could still be improved, e.g. in cases where the letters were not updated and the state was communicating new expectations of the enterprise through informal channels. An example of a letter of expectation, for Lithuanian Airports, is provided in Annex 3.

The state's ownership responsibilities have been expanded to explicitly apply to the subsidiaries of SOEs and to municipality-owned enterprises. Amendments to the state ownership guidelines adopted in August 2019 establish that their provisions – which concern the governance practices to be implemented collectively by ownership ministries, the GCC and enterprises – apply also to SOE subsidiaries. More specifically, the text of the state ownership guidelines calls for state shareholding bodies to “seek to ensure” that the governance organs of SOEs and SOE subsidiaries implement their provisions. The application of individual provisions to SOE subsidiaries is also restated throughout the ownership guidelines, for example concerning the requirement to establish effective internal control systems. This development in itself does not necessarily contradict the *SOE Guidelines*, which are intended to apply to all enterprises in which the state is the ultimate beneficiary owner, which includes SOE subsidiaries. However, the state's involvement in implementing certain provisions, for example related to the board composition of SOE subsidiaries, could raise concerns regarding the responsibilities of SOE parent company boards. Details related to this development, including a new state-led process for nominating independent members to SOE subsidiary boards, are discussed in more detail under the WPSOPP priority recommendation 2 below on strengthening the operational independence and supervisory responsibilities of SOE boards of directors. As of the August 2019 amendments, the GCC also includes approximately 240 municipality-owned enterprises in its monitoring activities.

Priority recommendation 2. Strengthening the operational independence and supervisory responsibilities of SOE boards of directors. Ensure that the state's requirements on SOE board composition are fully and consistently implemented. To address remaining concerns regarding SOEs' limited autonomy from ownership ministries, priority should be given to (i) ensuring that the legal framework prevents the recurrence of voting instructions from ministries to public officials who serve on SOE boards; (ii) further improving the board selection process to enhance efficiency while maintaining requirements for transparency and to ensure that board members meet criteria based on experience and qualifications; (iii) proceeding with the corporatisation of statutory SOEs engaged in economic activities, recommended below; and (iv) ensuring that SOE boards are vested with supervisory functions in line with relevant provisions of the *Principles* and the *SOE Guidelines*.

Some important steps have been implemented in support of SOE boards' operational independence. This includes, as discussed in more detail below, compliance with the state's requirements for at least half of board directors to be independent, and a revision of the board nomination process to ensure that qualified professionals, nominated through a transparent process, constitute the majority of SOE board membership. The use of shareholder letters of expectation (discussed under WPSOPP priority recommendation 1) can also be considered to support SOE boards' increased operational independence, by creating a more formal channel through which the state communicates its expectations to SOE boards, allowing them to oversee SOE operations with a clear understanding of shareholder priorities. The planned corporatisations of economically important statutory SOEs (discussed under priority recommendation 3) would, if fully implemented, also increase the legal responsibilities of these SOEs' boards and significantly strengthen their operational independence.

Despite this progress, some recurrent practices by ownership ministries raise concerns regarding boards' operational independence. Several current or former independent SOE board members interviewed for this report highlighted practices such as: ministers holding meetings directly with CEOs and not involving the chair of the board; civil servants communicating (though not in written form) certain expectations of the state that may not be in the best interest of the enterprise, for example dividend expectations that are unrelated to business performance; and one case, involving Lithuanian Post, where the entire board was dismissed by the Ministry of Transport and Communications without a replacement board having been nominated to take over its functions. Related to the Lithuanian Post case, on 1 July 2020, the Government adopted amendments to the SOE board nomination guidelines allowing the vacant board positions of independent members to be filled by civil servants for a period not exceeding four months, if the board does not have enough members to function. On a separate but related issue, several independent board members interviewed for this review suggested that the state's maximum limits on SOE board member remuneration – and the fact that some ownership ministries impose hourly rates for board service – limit the possibilities for attracting the most qualified representatives to SOE boards. (SOE board member remuneration levels are capped at a certain percentage of CEO remuneration.) The *SOE Guidelines* recommend that the state's remuneration policy for SOE boards attract and motivate qualified professionals. With respect to the reported practice of informal meetings between ministers and CEOs, it bears mentioning that the state has taken steps to professionalise dialogue between the state shareholder and SOE boards and management. These steps include the shareholder letters of expectation discussed under WPSOPP priority recommendation 1, as well as board evaluation guidelines published by the GCC in December 2019, which notably state that the chair of the board should always be included in discussions related to SOE strategic directions or expectations⁷.

The state's requirements on SOE board composition are, for the most part, consistently implemented by SOEs, in line with this recommendation. The GCC reports that there is high SOE compliance with the state's requirement that boards comprise at least one half independent directors. A close examination of the board composition of Lithuania's largest SOEs and select large subsidiaries shows that nearly all of them comprise at least ½ independent directors (see table). It also shows that the majority of SOEs' independent board members are private sector professionals, as illustrated by their other professional roles, indicated in the table. The predominance of private sector professionals on SOE boards is a trend in line with good practice, to ensure that SOE board members collectively have the appropriate competencies to fulfil their board duties. An exception to the state's board independence requirements occurs on the board of the statutory SOE Regitra, which is currently missing two independent directors, but for which a selection process is underway. Another exception is the Lithuanian Radio and Television Centre, whose three-member board comprises only one independent member and is chaired by the head of the GCC. (The Lithuanian authorities report that a fourth member, who will be independent, is currently being recruited.) The requirement barring politicians from serving on SOE boards appears to be well implemented in Lithuania. However, the fact that the head of the GCC chairs the board of an SOE that the GCC is expected to monitor introduces a conflict of interest that would appear to go against the spirit of Lithuania's rules on the independence of SOE boards. The Lithuanian authorities are examining the possibility of the GCC participating directly in other SOE boards of directors, with the Lithuanian Radio and Television Centre being used as a pilot case in this context.

Table 4.1. Board type and composition in large Lithuanian SOEs (September 2020)

SOE name, legal form and responsible ministry	Board structure and composition (*=independent member)	
AB Ignitis grupė/Ignitis Group, formerly Lithuanian Energy Group (Public LLC) Ministry of Finance (MoF)	Two-tier	<p>Supervisory board: Chair: Darius Daubaras* (Chief adviser of Saudi Aramco Oil co.) Andrius Pranckevičius* (Deputy CEO and Member of the Board of AB Linas Agro Group; CEO and Chairman of the Board of PF Kekava) Daiva Lubinskaitė-Trainauskienė* (Director of Personnel of UAB Thermo Fisher Scientific Baltics) Aušra Vičkačkienė (Director of Assets Management Department, Ministry of Finance; Board Member of Būsto paskolų draudimas, UAB, an SOE under the MoF) Daiva Kamarauskienė (Director of Budget Department, Ministry of Finance)</p> <p>Management board: Chair: Darius Maikštėnas (CEO of Ignitis Group) Živilė Skibarkienė (Director of Organisational Development of Ignitis Group) Darius Kašauskas (Director of Finance and Treasury of Ignitis Group) Vidmantas Saliotis (Director of Commerce and Services of Ignitis Group) Dominykas Tučkus (Director of Business Development and Infrastructure of Ignitis Group)</p>
➤ AB Ignitis gamyba/Ignitis Production (Public LLC, subsidiary of Ignitis Group) (MoF)	Two-tier	<p>Supervisory board: Chair: Dominykas Tučkus (Director of Generation and Services of Ignitis Group) Živilė Skibarkienė (Director of Organisational Development of Ignitis Group) Edvardas Jatautas* (Owner and chairman of the board of Profectus novus, UAB; Founder and President of Addendum Group Inc.; Founder and board member of Addendum Solutions, UAB)</p> <p>Management board: Chair: Rimgaudas Kalvaitis (CEO of Ignitis Production) Darius Kucinas (Director of Production of Ignitis Production)</p>

SOE name, legal form and responsible ministry	Board structure and composition (*=independent member)	
<ul style="list-style-type: none"> ➤ AB Energijos skirstymo operatorius (ESO)/Energy Distribution Operator (Public LLC, subsidiary of Ignitis Group) (MoF) 	Two-tier	<p>Supervisory board: Chair: Darius Maikštėnas (CEO of Ignitis Group) Darius Kašauskas (Board member and director of finance and treasury of Ignitis Group) Kęstutis Betingis* (Lawyer at Betingio and Ragaišio law firm) Žaneta Kovaliova* (UP Consulting Group director, business consultant) Dalia Jakutavičė (Employee representative)</p> <p>Management board: Chair: Mindaugas Keizeris (CEO of ESO) Augustas Dragūnas (Director of Finance and Administration of ESO) Virgilijus Žukauskas (Director of network operations of ESO) Ovidijus Martinonis (Director of network operations of ESO) Renaldas Radvila (Director of services of ESO)</p>
UAB EPSO-G (Private LLC) Ministry of Energy	One-tier	<p>Chair: Gediminas Almantas* (Chairman of Open Lithuania foundation; Board Member and Head of audit committee of Air Navigation) Robertas Vyšniauskas* (Board member of UAB Vilniaus vystymo kompanija; Board member of UAB Valstybės investicinis kapitalas) Tomas Tumėnas* (Board member of JSC Nacionaline Farmacijos Grupe; Member of Innovation and Development Committee of UAB EPSO-G; Chief Financial Officer of JSC Limedika) Dainius Bražiūnas (Head of Energy Security Policy Group of Ministry of Energy) Gediminas Karalius (Member of Strategic Transitions Management Group, Adviser to the Ministry of Energy)</p>
<ul style="list-style-type: none"> ➤ Litgrid AB (Public LLC, subsidiary of EPSO-G) Ministry of Energy 	One-tier management board	<p>Chair: Algirdas Juozaponis (Director for Finance of EPSO-G) Jūratė Marcinkonienė (Temporarily replacing the director of Strategy and development of EPSO-G; Board member of UAB GET Baltic) Domas Sidaravičius* (Executive Director of SIA M.M.M. projektai DEVELOPMENT; Financial Consultant of UAB M.M.M. projektai) Artūras Vilimas* (Member of the Innovation and Development Committee to the Management Board of EPSO-G)</p>
<ul style="list-style-type: none"> ➤ AB Amber Grid (Public LLC, subsidiary of EPSO-G) Ministry of Energy 	One-tier management board	<p>Chair: Algirdas Juozaponis (Director for Finance of EPSO-G) Renata Damanskytė-Rekašienė (Director for Legal and Corporate Governance of EPSO-G) Sigitas Žutautas* (CEO of UAB Būsto paskolų draudimas, an SOE under the MoF) Ignas Degutis* (Board member at RB Rail AS – Rail Baltica)</p>
AB Klaipėdos nafta/Klaipėda Oil (Public LLC) Ministry of Energy	Two-tier	<p>Supervisory board: Chair: Eimantas Kiudulas* (Owner of Eimantas Kiudulas' company; CEO and shareholder of UAB iValue) Karolis Švaikauskas (Member of the Labour Council of the Ministry of Energy; Employee representative) <i>(A third member was being recruited at the time of writing, with the expectation to be confirmed by end-October 2020)</i></p> <p>Management board: Chair: Giedrius Dusevičius* (Board member of UAB ACC Distribution) Bjarke Pålsson* (Head of Mark & Wedell A/S) Ian Jonathan Bradshaw* (Owner of Contiguous Consulting Ltd.) Mantas Bartuška (CEO and Board member of Lithuanian Railways; Member of Lithuanian Confederation of Industrialists) Dainius Bražiūnas (Head of Oil and Gas Division of Ministry of Energy; Member of the Board of EPSO-G)</p>

SOE name, legal form and responsible ministry	Board structure and composition (*=independent member)	
VĮ Ignalinos atominė elektrinė/Ignalina Nuclear Power Plant (State enterprise) <i>Ministry of energy</i>	One-tier	Chair: Unassigned Laimonas Belickas* (Director General of SIA UniCredit Leasing Lithuanian branch; Member of the Board of SIA UniCredit Leasing Baltic States; Chairman of the Leasing Committee of Lithuanian Banking Association; Chairman of the Committee on Statistics and Markets of LEASEUROPE) Darius Jasinskis* (Director of Danske Bank A/S Baltic Development and Transformation; Member of the Baltic Management Committee of Danske Bank A/S; Deputy General Director of the Lithuanian branch of Danske Bank A / S) Jurgita Radzevičė* Rimvydas Štilinis (Infrastructure Director of EPSO-G; Member of the Board of AB Amber Grid; Chairman of the Board of LITGRID AB) Patricija Ceiko (Adviser to the Ignalina Nuclear Power Plant Decommissioning Division of Ministry of Energy)
AB Lietuvos geležinkeliai/Lithuanian Railways (Public LLC) <i>Ministry of Transport and Communications (MoTC)</i>	One-tier	Chair: Romas Švedas* (Member of the Heat Council under the Ministry of Energy; Member of the Implementation Committee of the UN Economic Commission for Europe Espoo Convention) Mats Bo Knut Hanson* (Chairman of The Board, Non-Executive Director and Strategic Advisor of MH&Co AB) Rolandas Zukas* (CEO of EPSO-G) Monika Rimkūnaitė-Bložė* (CEO of Mobilieji mokėjimai, UAB) Alditas Saulius* (Business and finance/risk management consultant)
AB Lietuvos pastas/Lithuanian Post (Public LLC) <i>Ministry of Transport and Communications (MoTC)</i>	One-tier	Chair: Mindaugas Kyguolis* (Former CEO and Chair of the Board of European Merchant Bank; former CEO of a law firm; held managerial roles in Bank Snoras and Unicredit) Saulė Balčiūnienė* (HR Director for distribution and retail business of Inchcape plc) Saulius Kerza (Director of Budget and Investment Department of the Ministry of Transport and Communications; Member of the Board of Klaipėda State Seaport Authority; Member of the Board of Lithuanian Post.) <i>Annex I.A. (An additional independent member was being recruited at the time of writing, with the expectation to be confirmed by end-October 2020.)</i>
AB Lietuvos radijo ir televizijos centras/Lithuanian Radio and Television Centre (Public LLC) <i>Ministry of Transport and Communications (MoTC)</i>	One-tier	Chair: Vidas Danielius (Governance Coordination Centre) Raimondas Geleževičius* (Director of Retail Sales Department and Board Member of Lietuvos draudimas, AB) Janina Laskauskienė (Adviser of State Property Management and Corporate Governance Division of Ministry of Transport and Communications)
AB Kelių priežiūra/Road Maintenance (Public LLC) <i>Ministry of Transport and Communications (MoTC)</i>	One-tier	Chair: Vygantas Sliesoraitis* (Chairman of the Board of Giraite Armament Factory, an SOE under the MoF; Chairman of The Board of Road Maintenance, an SOE under the MoTC; Board member of Alma Littera Group) Egidijus Vaišvilas* (General Manager of UAB Baltic Clipper; Chairman of the Board of Centre of Registers, an SOE under the Ministry of Economy) Audrius Vaitkus* (Director of Road Research Institute of Vilnius Gediminas Technical University) Lijana Geštaitaitė* (Owner and Organisational & Personal Development Consultant of HR Revisited) Henryk Surovič (Chief Advisor of Ministry of Transport and Communications)
VĮ Oro navigacija/Air Navigation (State enterprise) <i>Ministry of Transport and Communications (MoTC)</i>	One-tier	Chair: Dangirutis Janušas* (Director of UAB Verslo konsultacijų spektras; Chairman of the board of UAB Toksika, an SOE under the Ministry of Economy) Gediminas Almantas* (Chairman of Open Lithuania foundation; Chairman of the board of UAB EPSO-G, an SOE under the Ministry of Energy) Mikas Jovaišas* (Head of Project and Change Management Unit of Lithuanian Railways) Sergėjus Volkovas (Senior Adviser of Road and Air transport policy group of Ministry of Transport and Communications) Vytautas Vaižmužis (Air Navigation; Employee representative)

SOE name, legal form and responsible ministry	Board structure and composition (*=independent member)	
V Klaipėdos valstybinio jūrų uosto direkcija/Klaipėda State Seaport Authority (State enterprise) <i>Ministry of Transport and Communications (MoTC)</i>	One-tier	Chair: Nerijus Udrėnas* (Board Member of Lords LB Asset Management; Partnership Professor of Institute of International Relations and Political Science, Vilnius University) Vaidotas Rūkas* (Chief Investment Officer of INVL Asset Management) Eligijus Kajieta* (Director of MB Atlygio konsultacijos) Saulius Kerza (Director of Budget and Investment Department of the Ministry of Transport and Communications; Member of the Board of Klaipėdia State Seaport Authority and of Lithuanian Post, both SOEs under the MoTC) Edvardas Simokaitis (Klaipėda City Municipality)
V Lietuvos oro uostai/Lithuanian Airports (State enterprise) <i>Ministry of Transport and Communications (MoTC)</i>	One-tier	Chair: Arijandas Štiupas* (Head of Project Development of Skyways Technics A/S MRO; Member of the Board of Kaunas FEZ (Free Economic Zone) management company; Aviation Business Consultant) Eglė Čiužaitė* (Member of the Board of AB Vilniaus šilumos tinklai; Member of the Board of VŠĮ Jaunimo linija; Executive consultant) Tadas Arvydas Vizgirda* (CEO of Shift4 Payments Lithuania, LLC; Chairman of the Board of the American Chamber of Commerce in Lithuania; Honorary Chairman of Save the Children Lithuania) Saulius Kerza (Director of Budget and Investment Department of the Ministry of Transport and Communications; Member of the Board of Klaipėdia State Seaport Authority and of Lithuanian Post, both SOEs under the MoTC.)
V Valstybinių miškų urėdija/State Forest Enterprise (State enterprise) <i>Ministry of Environment</i>	One-tier	Chair: Ina Bikuvienė (GIS specialist of State Forest Enterprise) Gediminas Jasinevičius* (Independent) Mantas Šukevičius* (Chairman of the Board of AB Detonas, an SOE under the Ministry of Economy; Member of the Supervisory board of UAB Investicijų ir verslo garantijos, an SOE under the Ministry of Finance) Normantas Marius Dvareckas* (Founder and CEO of Ad ventum, UAB; SME expert of Research Executive Agency by European Commission) Alditas Saulius* (Business and finance / risk management consultant) Vilma Slavinskienė (Head of Division of European Union Investment Implementation Division of Ministry of Environment) Asta Čepienė (Economist of the Kazlų Rūda regional branch of the State Forest Enterprise, member of the Board and Council of the Lithuanian Forest and Forest Industry Workers' Trade Union Federation.)
V Registrų centras/Centre of Registers (State enterprise) <i>Ministry of the Economy and Innovation of the Republic of Lithuania</i>	One-tier	Chair: Egidijus Vaišvilas* (General Manager of UAB Baltic Clipper; Chairman of The Board of Road Maintenance, an SOE under the MoTC) Ina Bielskė* (Head of Customer Service of AB Telia Lietuva) Andrius Byčkovas* (Director of IT department of Cognizant Technology Solutions) Ingrida Miknevičienė (Head of Division and Deputy Chairman of the Works Council of Centre of Registers, an SOE under the Ministry of Economy) Arūnas Stašionis (Director of IT service of Vilnius University)
V Regitra (State enterprise) <i>Ministry of the Interior of the Republic of Lithuania</i>	One-tier	Chair: Ilona Smailienė (Director of Economics and Finance department; Ministry of Interior) Laimis Jančiūnas* (CEO of UAB Bonus socius; CEO of UAB buhalterės.lt; Board Member of AB Vilniaus metrologijos centras, an SOE under the Ministry of Economy) Gintaras Nakutis* (Head of the Lithuanian Passenger Transport Association) Aurimas Tomas Staškevičius* Vainius Butinas (Director of Regitra, Klaipėda branch) Povilas Ruškus (Senior Specialist of Avižieniai Group, Vilnius Branch of Regitra) Paulius Skardžius (Senior adviser of Public Administration and Local Government Policy Group of Ministry of Interior) Augustė Jucienė (Head of Division of Law and Personnel Division of Ministry of Interior) <i>Selection ongoing for two additional independent board members</i>

Source: Information provided by the Lithuanian authorities.

Some changes to the state's requirements related to SOE boards merit highlighting.

Firstly, as of amendments to the ownership guidelines adopted in June 2018, boards are no longer required for all large SOEs according to a size classification proposed in an earlier version of the ownership guidelines, but instead for all SOEs and SOE subsidiaries that are

considered public-interest entities and/or that are on a list of enterprises considered of importance to national security⁸. However, the practical impact of this change appears to be limited, because large enterprises are, according to Lithuania’s Law on Audit, considered public-interest entities. Currently, the requirement to establish boards applies to 19 of Lithuania’s 48 directly-owned SOEs and to 10 of Lithuania’s 28 SOE subsidiaries. Under previous requirements, 24 large directly-owned SOEs and 3 directly-owned SOEs of strategic importance to national security (and no SOE subsidiaries) were required to establish boards. According to the Lithuanian authorities, the apparent decrease in the number of SOEs required to establish boards is mostly related to corporate mergers in the road maintenance sector (some of the 11 road maintenance SOEs that have since been merged into one entity were individually considered large SOEs). Since public-interest entities are by definition large enterprises, all large SOEs – and, as of the new requirements, also large SOE subsidiaries – are required to establish boards. And 28 SOEs and SOE subsidiaries that are not required to establish boards have nonetheless done so in practice (see table for an overview of SOE board requirements and practices).

The amendment to the ownership guidelines highlights the rapidly evolving nature of SOE board requirements, underpinning the importance of keeping improvements in board composition requirements in place. The Lithuanian authorities report that the motivation behind the change in requirements was to ensure consistency across state guidelines in accounting, auditing and corporate governance concerning the criteria for determining whether an entity is a “large” enterprise. While all large SOEs are still required to establish boards, it merits mentioning that several prominent SOEs in the “medium” size classification are not required to establish boards. This includes, for example, the State Property Bank, Lithuanian Exhibition and Congress Centre LITEXPO and Smiltyne Ferry (all of which have nonetheless established boards in practice). In relation to this, there was an initiative in Parliament (mentioned under CGC priority recommendation 1), discussed but not ultimately adopted, to require that the boards of all SOEs and SOE subsidiaries of interest to national security comprise at least one civil servant.

Table 4.2. Number of SOEs and SOE subsidiaries required to have boards

	Directly-owned SOEs	SOE subsidiaries	Totals
Required to establish boards	19	10	29
Have established boards	35	22	57
Total number of enterprises	48	28	76

Source: Calculations based on information provided by the Lithuanian authorities.

4.1. (i) Eliminating voting instructions

The Lithuanian authorities maintain that voting instructions for SOE board members do not occur. Prior to Lithuania’s accession to the OECD, questions were raised regarding the practice of the state giving written instructions to SOE board members regarding how they should vote at board meetings. The Lithuanian authorities have confirmed that this practice is not explicitly permitted by existent legislation and does not occur. The perception that voting instructions are given by the state may stem from other practices where the state uses written decisions to execute its ownership rights and which are explicitly permitted by the ownership guidelines and relevant laws. One of these practices is the use of proxy holders to whom the state can give power of attorney to vote on its behalf at general meetings of shareholders and to exercise other state ownership rights outside of the general meeting of shareholders. These proxy holders can be career civil servants or other natural persons. The power of attorney documents include indications of

how the proxy holders should vote at the general meeting of shareholders, including on decisions related to board nominations. Another practice relates to the use of written decisions by ownership ministries, which according to the ownership guidelines can be considered equivalent to a general meeting of shareholders when the state is the sole owner of the SOE.

4.2. (ii) Further improving the board selection process

The new board selection process for SOEs' independent members appears to be transparent and professional, notably involving private recruitment agencies.

Amendments to the SOE board nomination guidelines adopted in September 2019 outline new criteria and procedures for ensuring that SOE boards are equipped with qualified and experienced professionals, in line with this recommendation. A new requirement that private recruitment agencies participate in the selection process appears to have introduced opportunities for greater efficiency and transparency, also in line with this recommendation. Of note, board vacancies must be publicly disclosed (on the websites of the concerned SOE, the GCC and the central registry) and the entire selection procedure is subject to strict requirements for record keeping. Private sector representatives interviewed for this review suggested that the criteria for selecting the private recruitment agencies could be strengthened to ensure that the agencies hired are best equipped to carry out the procedure. The authorities interviewed noted that the process could be made more efficient and speedy, for example by hiring the recruitment agencies in advance for a fixed amount of recruitment procedures (rather than hiring them for each individual recruitment), but they were generally satisfied with the new process. The authorities are currently in the process of establishing a centralised public procurement process with an aim to make the hiring process more efficient and to ensure that the most qualified agencies participate.

The selection process is initiated by responsible ownership ministries and then carried out by a state selection commission.

The procedure is as follows. The responsible ownership ministry establishes the specific criteria for the position and enlists a private recruitment agency to provide to a state selection commission the full applications of all candidates, with brief assessments of each, together with a shortlist of 3-5 candidates proposed in ranked order for each vacancy. The five members of the state selection commission are: one representative proposed by the Prime Minister; the head of the ownership entity; the Minister of Economy and Innovation; the Minister of Finance; and the Governance Coordination Centre⁹. External experts can also be invited to participate in the selection commission without voting rights. Based on the list sent by the private recruitment agency, the state selection commission then makes its own shortlist of candidates to be invited for interviews and conducts the interviews. After conducting the interviews, the state selection commission agrees on a final ranking of candidates to each vacant position and sends this list, together with all candidate application documents, to the responsible ownership entity. More than half of the selection commission members must agree on a candidate list for it to be considered agreed upon (this applies to both the shortlist of candidates to be interviewed and the final short list of candidates to be sent to the ownership ministry). The selection commission's shortlist can differ from that proposed by the private recruitment agency, but it can only include candidates who participated in the application process outlined in the nomination guidelines.

The final decision is the responsibility of the ownership ministry, which must respect the state's general requirements on SOE board composition. These general requirements are laid out in the SOE board nomination guidelines and include, notably: independent members must comprise at least ½ of the board (1/3 for the SOE subsidiaries that are required to establish boards); politicians cannot serve on SOE boards; each board

must have a diversity of competencies, including industry-specific expertise as well as experience in finance, strategic planning and management; and board members must have no conflicts of interest arising from relationships to the company, to related entities or to other members of the board. Together, these requirements constitute strong standards for ensuring that SOE boards are equipped with the appropriate qualifications to undertake their functions, in line with this recommendation.

The selection process only applies to independent members and not to civil servants.

The Lithuanian authorities report that there are approximately 50 civil servants on the boards of SOEs, most often employed by the relevant ownership ministry and usually serving on one SOE board, but with some civil servants on up to three boards. Civil servants are, according to the new process, appointed to SOE boards solely by their responsible ownership ministry without the involvement of a selection commission. Under the previous SOE board nomination guidelines, the same selection process applied to independent members and civil servants. Practices vary across ownership ministries regarding the appointment of civil servants to boards. Civil servants must nonetheless meet certain general and specific requirements that are, for fully corporatised SOEs, set forth in the nomination guidelines and, for statutory SOEs, set forth in the Law on State and Municipal Enterprises. For fully-corporatised SOEs, the requirements include having a university degree and professional qualifications necessary to ensure a certain diversity of competencies on the board (e.g. including industry-specific expertise and experience in finance and strategic planning). For fully corporatised SOEs, civil servants on boards must also fulfill certain independence requirements established in the nomination guidelines. They notably cannot have any significant business relationship with the SOE in question or with a related legal entity, where significant business relationship is defined as exceeding 1,000 EUR, but not including remuneration for board service¹⁰. For statutory SOEs, the Law on State and Municipal Enterprises requires that board members have a university degree, an “impeccable” reputation and no relationship to other legal entities that could constitute a conflict of interest. Another difference in treatment between independent members and civil servants concerns a requirement, only applicable to independent board members, to complete a declaration of interest form confirming that he or she, as well as his or her close persons, have no relations with the company or other persons or entities that could cause a conflict of interest in the performance board duties. While civil servants are not required to complete this particular form, they must meet the aforementioned general independence requirements and also abide by separate provisions concerning the avoidance of conflicts of interest established in the Law on the Coordination of Public and Private Interests.

A new requirement that a state commission select independent members for certain SOE subsidiaries raises concerns regarding the governance of state-owned groups.

The SOE board nomination guidelines establish that for SOE subsidiaries that have boards, they must comprise at least one-third independent members to be nominated by a dedicated state-led selection commission. According to interviews with the Lithuanian authorities, this applies to about 40 SOE subsidiaries that have boards, although the state’s *requirement* to establish boards only applies to ten SOE subsidiaries of Ignitis Group, EPSO-G and Lithuanian Railways (see table below for the list of SOE subsidiaries that are required to establish boards). At the time of writing, eight independent members in five SOE subsidiaries had been selected through the new process. The selection commission comprises three members, as follows: one proposed by the head of the ownership entity; one representative of the state-owned parent company and one representative of the GCC. The foreseen selection process is essentially the same as that established for directly-owned SOEs (e.g. it also requires the participation of private recruitment agencies), except that the selection commission is smaller and the final decision technically rests with the parent

company, rather than the ownership ministry. As in the board selection process for directly-owned SOEs, in cases where the selection commission does not reach a consensus about the shortlist of candidates to be interviewed or the final ranking of candidates to be shared with the parent company, agreement by at least one half of the members is sufficient for a decision to be reached. Hypothetically, since the selection commission only comprises three members, this means that the state ownership entity, together with the GCC, could decide on the final shortlists without the parent company's agreement. However, the Lithuanian authorities report that in practice the selection commission always takes into account the opinion of the shareholding parent company. According to private sector representatives interviewed for this review, although the group's parent company has the right, under company law, to appoint subsidiary board members, in practice they implement the decisions of the state in this regard. Current and former SOE board representatives interviewed for this review pointed to an inherent governance problem of this arrangement: the state communicates its expectations to the parent company and then does not allow the parent company to choose the subsidiary boards it needs to achieve those expectations. This being said, the process only applies to one third of board members, the other two thirds still being nominated directly by the parent company with no recommendation from the state selection commission.

The state's involvement in board nominations of SOE subsidiaries could be considered a means of bypassing SOE parent company boards. In this sense, the new board nomination process for subsidiaries is not aligned with the spirit of this recommendation calling for a strengthening of SOE boards' operational independence and supervisory responsibilities. While the *SOE Guidelines* establish that any enterprise where the state is the ultimate beneficiary owner – which includes SOE subsidiaries – should implement their strong governance requirements, this does not imply that the state should bypass parent-company boards in its exercise of the ownership function, which could be considered to constitute state interference in the operational decision-making of SOE parent companies. A member of Parliament interviewed for this review suggested that a major motivation behind the state's strengthened involvement in SOE subsidiaries is the fact that many of these subsidiaries manage the state's strategic assets important for national security (e.g. railway infrastructure and electricity and gas distribution networks). While this may be the case, there are other avenues for the state to exercise its legitimate national security protection role that do not necessitate a mixing of ownership and regulatory roles.

Additionally, some of the SOE subsidiaries are listed on the stock exchange, meaning that the state's process potentially bypasses minority shareholders. It bears mentioning that Ignitis Group (formerly Lithuanian Energy) recently undertook an IPO of 26.9% of its capital. As of 7 October 2020, shares and depository receipts were available for trading on, respectively, the Vilnius Stock Exchange and the London Stock Exchange. According to disclosures by Nasdaq Vilnius, the European Bank for Reconstruction and Development became the company's largest minority shareholder, with 4% of the listed shares¹¹. Two of Ignitis Group's subsidiaries subject to the state procedures for nominating 1/3 independent members were previously listed on the stock exchange (*Ignitis gamyba* and ESO), but in May 2020 their delisting was announced, together with a mandatory buy-out by the parent company Ignitis Group by 17 August 2020. According to an SOE board member interviewed for this review, the fact that the state proposes independent members on SOEs' subsidiary companies is not necessarily problematic, even if the parent or subsidiary companies are listed and have non-state minority shareholders. Mitigating factors reportedly include the fact that (i) it is not a unilateral decision, but a transparent process involving professional recruitment agencies and (ii) any potentially contentious issues between the state and minority shareholders can be addressed and clarified in advance through a shareholders' agreement.

Table 4.3. SOE subsidiaries that are newly required to establish boards with 1/3 independent members

Subsidiaries of Ignitis Group	Subsidiaries of UAB EPSO-G	Subsidiaries of Lithuanian Railways
Ignitis Production* (<i>Ignitis gamyba</i>) Energy Distribution Operator ESO (<i>Energijos skirstymo operatorius</i>)* Ignitis (<i>Ignitis</i>)	Litgrid Amber Grid	Vilnius Locomotive Repair Depot (<i>Vilniaus lokomotyvų remonto depas</i>) Railway Construction Centre (<i>Geležinkelio tiesimo centras</i>) LTG Cargo LTG Link Lithuanian Railway Infrastructure (<i>Lietuvos geležinkelių infrastruktūra</i>)

Note: For information, Ignitis Production and Energy Distribution Operator ESO were recently delisted in advance of Ignitis Group's IPO.

Source: Lithuanian Law on the Protection of Objects of Importance to Ensuring National Security.

4.3. (iii) Corporatising commercially oriented statutory SOEs

Progress in corporatising statutory SOEs is discussed under WPSOPP priority recommendation 3 on streamlining SOEs' legal and corporate forms.

4.3.1. (iv) Ensuring that SOE boards are vested with supervisory functions

Steps have been taken to clarify, if not necessarily to strengthen, the supervisory functions of SOE boards, in particular for fully corporatised SOEs. Following June 2018 amendments, the state ownership guidelines notably communicate the expectation that SOE boards undertake certain supervisory functions, including setting enterprise strategy, establishing the short- and long-term objectives of the SOE and outlining the financing sources for achieving those objectives. For the SOEs incorporated as limited liability companies that are required to establish boards, the ownership guidelines also stipulate that the board must either be a supervisory board or, if a single-tier management board is established, undertake supervisory functions. This clause effectively applies to SOEs the same requirements for stronger boards of directors that the 2017-18 company law amendments applied to listed companies. These steps to give SOE boards clearer responsibilities are in line with this recommendation. There nonetheless remains scope for further strengthening the responsibilities of SOE boards in Lithuania, through (i) corporatising commercially-oriented statutory SOEs (discussed under WPSOPP priority recommendation 3), whose legal framework accords boards very weak powers compared to the state; and (ii) pursuing more in-depth reforms to the company law so that company boards in general, including those of fully corporatised SOEs, in Lithuania are stronger (discussed under CGC priority recommendation 1).

Priority recommendation 3. Streamlining SOEs' legal and corporate forms. Move forward with plans to convert statutory SOEs engaged in economic activities to limited liability companies. As plans for corporatisation and other consolidation of statutory SOEs advance, the Lithuanian authorities are encouraged to consider corporatising any remaining statutory SOEs that undertake economic activities.

Planned corporatisations have been completed for three statutory SOEs, but delayed for four large transport SOEs and the State Property Bank. The corporatisation of Lithuania's large commercial SOEs, if implemented, would transfer many decision-making responsibilities from the state to these SOEs' boards of directors and greatly reduce risks

for politicisation of corporate decisions. It would also improve governance arrangements, for example ensuring that internal auditors report to the board rather than, as is currently the case for statutory SOEs, the CEO. The Lithuanian authorities appear committed to continuing with the planned corporatisations announced in 2018, but they will require more time. To recall, at the time of Lithuania’s accession to the OECD, 11 commercially-oriented statutory SOEs (“state enterprises” in national nomenclature) had been placed on a Government-approved list for conversion, by end-2019, to limited liability companies¹². The list is updated every six months, so some of the foreseen corporatisations have either undergone delays or have been completely reconsidered. Since the January 2018 list was communicated to the OECD, three of the SOEs on the list have been converted to LLCs: the Road Maintenance company, under the Ministry of Transport and Communications and two SOEs under the Ministry of Agriculture (see table). Four large transport SOEs, together with the State Property Bank, remain on the list but their corporatisations have been delayed to end 2022 for the transport SOEs and end 2024 for the State Property Bank. Two SOEs under the Ministry of Agriculture have been removed from the list: GIS-Centras and the State Land Fund; as has Visaginas Energy, under the Ministry of Economy, which was converted to a municipal enterprise. An additional two SOEs, both under the Ministry of Environment, have been added to the list: the state Forestry Enterprise, whose conversion is now planned for end 2022 and the Building Production Certification Centre, planned for end 2021. Concerning the reasons for the delays, the Lithuanian authorities have reported that for the four large transport SOEs, the consideration of the necessary legislative amendments was delayed in Parliament and shifted to the Autumn 2020 session. For the two SOEs that were removed from the list of planned corporatisations, the enterprises were previously slated to be merged with other SOEs and the Parliament rejected the plans because the concerned enterprises’ corporate functions were too different to justify merging them. Finally, concerning the newly planned corporatisation of the State Property Bank, the Ministry of Finance reports that the 2024 restructuring timeline is necessary to allow for a complete legal transfer of the administrative real estate currently under the purview of the enterprise.

Table 4.4. Status of SOE corporatisation plans announced in 2018

SOEs converted to limited liability companies (LLCs) as planned	SOEs whose conversion to LLCs has been delayed	SOEs no longer planned for conversion to LLCs	SOEs newly added to the list for conversion to LLCs
<ul style="list-style-type: none"> • Road Maintenance • Dairy Research • Machinery Testing Station 	<ul style="list-style-type: none"> • Air Navigation (end 2022) • Klaipeda State Seaport Authority (end 2022) • Lithuanian Airports (end 2022) • Inland Waterways Authority (end 2022) • State Property Bank (end 2024) 	<ul style="list-style-type: none"> • GIS-Centras • State Land Fund • Visaginas Energy (transformed into a municipal enterprise) 	<ul style="list-style-type: none"> • Forestry Enterprise (end 2022) • Building Production Certification Centre (end 2021)

Source: Information provided by the Lithuanian authorities, based on a Government-approved “Plan of Measures for the Reorganisation of SOEs and Centralisation of Governance of SOEs”, adopted in December 2018 and subsequently updated every six months.

Separately, several SOEs have been converted into other legal forms or have undergone mergers. Visaginas Energy, under the Ministry of Economy, was converted into a municipal enterprise. Two SOEs were converted to public institutions (“state budgetary institutions” in national nomenclature): Infostructure, under the Ministry Interior and Lithuanian Sights, under the Ministry of Culture. Two SOEs were liquidated, both under the Ministry of Energy: Energy Agency and Lithuanian Oil Products Agency.

Several SOEs also underwent mergers with other SOEs and/or are planned for future conversion to public institutions.

Lithuania abolished the classification of SOEs by commercial orientation, raising questions about the criteria for selecting future candidates for corporatisation. Under the previous ownership guidelines, all Lithuanian SOEs were classified into three broadly defined groups: purely profit-seeking, purely public-policy oriented; or a mixture of both. The classification system was problematic, in particular since the decision on how to classify them was not always based on objective criteria and was essentially left to ownership ministries, who may have had incentives to avoid the heightened governance requirements applicable only to fully or partly commercial SOEs. (Issues with the classification system were highlighted both by the OECD corporate governance review and by a 2017 report by the Lithuanian National Audit Office.) However, the effort to classify SOEs according to their objectives, if implemented in an objective and unbiased manner, could have helped the Lithuanian authorities identify which statutory SOEs should be converted to limited liability companies as a matter of priority. Abolishing the classification system, rather than improving it, raises some concerns regarding the criteria Lithuania may use going forward to determine which other SOEs to convert to limited liability companies.

Priority recommendation 4. Ensuring that SOEs are subject to high quality accounting and auditing standards. Ensure timely compliance with the state’s disclosure standards by the SOEs for which they have become mandatory. This includes completing the transition to International Financial Reporting Standards (IFRS) in financial statements for 2019 (to be published in 2020). The authorities should clarify and disclose the rationale for determining for which SOEs the disclosure standards are mandatory.

All 12 of Lithuania’s largest SOEs mandated to apply IFRS have done so, except the newly merged Forestry Enterprise, whose IFRS transition has been delayed to 2022. At the time of Lithuania’s accession to the OECD, four out of 12 large SOEs for which IFRS was mandatory were not yet in compliance with the requirement, but all were expected to transition to IFRS in financial statements to be published in 2020. This concerns the following four enterprises: Road Maintenance, Lithuanian Railways, Klaipėda State Seaport Authority and the State Forest Enterprise. The Lithuanian authorities report that IFRS is now implemented by all of these large SOEs, except for the Forestry Enterprise. At the time of Lithuania’s OECD accession, the Forestry Enterprise was still undergoing the structural changes necessary to operate as one single enterprise, but the expectation was that it would publish its financial statements in accordance with IFRS as of the year 2020 (for the financial year 2019, with 2018 as a comparison year). The Ministry of Environment, together with the management of the Forestry Enterprise, have since agreed that this plan was too ambitious, among others because of difficulties in standardising the separate accounting systems of the 42 regional forestry enterprises and the time it took to select a chief financial officer and a chief accountant to oversee the transition¹³. Another issue cited in the delayed transition is the difficulty of assigning a valuation to the state forests, which will require a significant investment of time and money. The Forestry Enterprise now plans to publish in accordance with IFRS as of 2022 (for the financial year 2021, with 2020 as a comparison year). According to interviews with senior management representatives, the transition plan to IFRS is in place and they are confident that the enterprise will be able to transition to IFRS in its 2022 financial disclosures.

The state’s SOE disclosure standards are now mandatory for all “public-interest” SOEs as defined in Lithuanian audit and accounting legislation. As noted previously, the use of the term “public-interest” SOEs instead of the previous “large SOEs” was apparently made to align SOEs’ size criteria with that of Lithuania’s accounting and audit legislation – and to use the same criteria in both the ownership guidelines and transparency

guidelines – and thus make standards more consistent. This effort to make standards more consistent is in line with the spirit of the recommendation that the authorities clarify and disclose the rationale for determining for which SOEs the disclosure standards are mandatory: implicitly, the rationale is that enterprises whose activities affect the public interest should be particularly transparent about their operations. The alignment of size definitions also addresses an issue identified in the corporate governance accession review, namely that the ownership guidelines and transparency guidelines used different criteria for determining which SOEs should be considered “large”. The category “public-interest entities” is as defined in the Law on Audit of Financial Statements and includes both listed and large SOEs¹⁴. An exception to mandatory compliance with the transparency guidelines’ requirement to publish financial statements in accordance with IFRS is (still) made for Ignalina Nuclear Power Plant, which has no positive cash flows, and this exception is now clearly stipulated in the transparency guidelines, also in line with this recommendation. All other SOEs are invited to implement the transparency guidelines on a comply-or-explain basis.

The Lithuanian authorities report that SOEs generally comply with the transparency guideline’s other mandatory disclosure standards. At the time of writing, the GCC had yet to publish its latest *Good Governance Index*, which tracks, among others, SOEs’ compliance with the state’s disclosure requirements and accords scores based on the quality of information made available by SOEs. The GCC provided some figures from the pre-publication version of the index, indicating that most SOEs have an overall satisfactory compliance with the transparency guidelines, and that there are continued signs of improvement among individual SOEs. For example, in 2019, 52% of SOEs achieved a high evaluation score (of at least A-) for their annual reporting practices, double the proportion from three years earlier. Most of the improvements were seen in medium- and large-sized SOEs, with only minor improvements among small enterprises. 30 out of 48 SOEs achieved a high score with respect to the dissemination of required information on their websites. The GCC reports that there is notably scope for improvement concerning the online disclosure of information related to SOEs’ special obligations (non-commercial objectives), with only 7 of 22 SOEs that perform special obligations fully making related information available on their websites. The fact that not all SOEs receive a high score for their annual reporting practices points to the importance of the GCC’s continued monitoring and advisory activities. The GCC notably provides recommendations to individual SOEs on how to improve their information disclosure practices in line with the state’s requirements and good practices.

Priority recommendation 5. Enacting amendments to the Law on Companies. Remove the provision in the Law on Companies stipulating maximum term limits and reappointment criteria for the CEOs of SOEs. In the medium term, as the Lithuanian authorities consider other ways to clarify and strengthen the roles and responsibilities of boards of directors within the Law on Companies, they are also encouraged to consider the scope for applying such changes to non-listed SOE boards.

Draft amendments to remove problematic legislative provisions placing five-year term limits on the CEOs of SOEs were rejected by Parliament in June 2020. The Government has postponed their resubmission to Parliament until February 2021. To recall, the problematic amendments were made to both the Law on Companies and the Law on State and Municipal Enterprises in April 2017 and stipulate that the CEOs of SOEs must be dismissed after five years if they do not fulfill their objectives and places a two-term limit on their employment within SOEs. As highlighted in the 2018 corporate governance accession review, these new limitations exacerbate differences in legal treatment between SOEs and private companies. It also constitutes a departure from good corporate

governance principles, as such a limitation takes away the power of the board to reappoint a CEO with good performance after the passage of five years, while reducing the incentive for the CEO to be responsive to the board when knowing that a reappointment is not possible (OECD, 2018).

As discussed above, efforts to clarify and strengthen board responsibilities in Lithuania are mostly limited to initiatives by a private sector working group. Some steps have, however, been taken to strengthen the supervisory functions of SOE boards without requiring further legislative reform to the company law. This includes notably (i) the aforementioned amendments to the state ownership guidelines requiring that the single-tier boards of fully corporatised SOEs be granted supervisory functions and (ii) the ongoing efforts to corporatise statutory SOEs, which will shift several decision-making responsibilities from the state to the boards of directors of the concerned SOEs. (See sections on WPSOPP priority recommendations 2 and 3 and CGC priority recommendation 1).

5. Lithuania's implementation of the additional recommendation related to the SOE Guidelines

Additional recommendation 1. Rationalisation of sectors with multiple SOEs. Ensure that the newly consolidated state-owned forestry and road maintenance enterprises are organised with a view to enhancing corporate efficiency, ensuring sufficient oversight and subjecting the concerned SOEs to high standards of governance and disclosure.

The recently merged State Forestry enterprise has made some administrative efficiency gains and, though delayed, its IFRS transition is moving forward. (Information on the Forestry Enterprise's IFRS transition is discussed under WPSOPP priority recommendation 4.) Current and former senior management representatives of the Forestry Enterprise interviewed for this review communicated generally positive impressions regarding the impact of the merger on the enterprise's administrative efficiency. They emphasised, among others: anticipated cost-savings associated with the now larger, centralised public procurement contracts (an estimated 5-7% decrease in prices per contract); a streamlining of administrative functions, such as accounting and legal functions (with an estimated reduction in related costs of 5%); and a unification of internal policies across the 26 regional branches (from the former 42 regional branches). The Lithuanian authorities did nonetheless report that it is difficult to isolate and/or assign a valuation to corporate efficiency gains purely associated with the merger in the state-owned forestry sector. The Forestry Enterprise had an important increase in net profits directly following the merger, allowing it for example to distribute dividends to the state of 22.1 million euros for 2018, up from 4.5 million euros for 2017. However, much of this can reportedly be attributed to an increase in the price of round wood. Separately, the merger resulted in a total staff size reduction of 18% (approximately 300 staff members chose to leave rather than join the new enterprise) but the potential cost savings related to this were mostly offset by a 31% increase in average wages and a 7% increase in the total wage bill, mostly attributed to forest workers, which was motivated by an effort to align disparate salary levels across the different regions. There were also costs associated with early retirements of some of the departing staff.

Concerning the governance arrangements of the Forestry Enterprise, its board complies with the state's independence requirements. The seven-person board complies with state requirements for independence, comprising four independent members, two employee representatives and one civil servant from the Ministry of Environment.

However, the current board is chaired by an employee representative, meaning that an employee both reports to the CEO and is expected to supervise him. Such governance arrangements could potentially raise concerns regarding the ability of the board to supervise the CEO. This being said, the Forestry Enterprise's legal status as a statutory SOE accords the state the power to hire and dismiss the CEO, so the board does not have strong powers to begin with. The Forestry Enterprise is, as of recently, on the state's list of enterprises planned for conversion to limited liability companies (see WPSOPP priority recommendation 3). If the corporatisation takes place as proposed, the board will have expanded legal powers over the enterprise. According to former senior management interviewed for this report, such a corporatisation could, among others, reduce political influence over corporate decision-making. However, the potential corporatisation of the Forestry Enterprise is a politically contentious issue, in part because of stakeholder concerns that it could lead to a privatisation of the state's forest assets. Some senior officials within the Ministry of Environment suggested that the form of statutory SOE is most appropriate for the enterprise, in particular given its important non-commercial activities such as protecting forests from fire and maintaining the forest road network used by both private and state enterprises. However, the government's new position calling for the corporatisation of the forestry enterprise is aligned with the Working Party's recommendation in that such a change would lead to a strengthening of the board and its capacity to provide professionalised oversight of the enterprise.

The recently merged Road Maintenance enterprise has also made efficiency gains and currently reports in accordance with IFRS. To recall, following the merger of the 11 road maintenance enterprises in 2017, the Road Maintenance enterprise was converted into a limited liability company at the end of 2017. According to interviews with former senior management, the company achieved important efficiency gains following the merger, guided by ambitious related KPIs that were communicated by the ownership ministry in its letter of expectation. The company streamlined processes across the different regions, for example harmonising accounting practices and asset management systems. Other cited improvements within the company include the establishment of a compliance and anti-corruption department as well as the introduction of more transparent public procurement procedures.

Concerning the governance arrangements of Road Maintenance, its board complies with the state's independence requirements. Four out of the board's five members, including the chair, are independent (see board composition table under WPSOPP priority recommendation 2). One board member is a chief advisor within the Ministry of Transport and Communications. (For information, the chair of the board also chairs the board of the state-owned Giraite Armament Factory, under the Ministry of Finance.) Despite these improvements, some corporate professionals interviewed for this report communicated a concern that certain corporate decisions remain undertaken by political leadership rather than the new company's board of directors.

6. Conclusions

6.1. Lithuania's implementation of the priority recommendations

Lithuania has taken steps to monitor implementation of the 2017-18 legislative reforms, in line with the CGC's priority recommendation 1. The most recent assessment undertaken by the Bank of Lithuania of listed companies' compliance with the Corporate Governance Code also monitors implementation of the 2017-18 company law reforms to strengthen board oversight of listed companies, in line with this recommendation. The assessment

identified several listed companies that were not in compliance with the new requirements for board supervisory authorities and independence, pointing to the need to identify and address reasons for non-compliance. The Bank of Lithuania reports that the main reason is that the concerned boards were elected prior to the entry into force of the new provisions and indicates an expectation that companies will comply with the requirements within two years (for those boards appointed in 2018, the expectation is that compliance will not occur before new board members are appointed in 2022).

While Lithuania has taken steps to implement the first part of this recommendation related to monitoring these earlier reforms, there remains scope for further clarification and strengthening of board responsibilities within the Law on Companies, in line with the priority recommendation's invitation to consider such medium-term reforms. The private working group dedicated to this issue continues its work and the Ministry of Economy remains open to receiving its proposals. The content of the working group's draft proposals has not been assessed in the context of this review and is highlighted herein primarily as an example of efforts underway to pursue more in-depth reforms to the company law.

Lithuania has mostly implemented the WPSOPP's first two priority recommendations related to strengthening the GCC's ownership and monitoring functions and improving the operational independence of boards. The GCC now has the leadership, staff and budget to perform its monitoring duties and the formal authority to consult on state ownership decisions. Lithuania's state ownership model remains predominantly decentralised, but the Ministry of Economy and the GCC continue to play an important role in harmonising and professionalising state ownership practices across the public administration. The SOE board nomination process for independent members involves private recruitment agencies and is underpinned by strong qualifications criteria, with the potential to support more professional and independent SOE boards. It must be noted, however, that the Lithuanian government no longer applies this more rigorous, structured and transparent process to the appointment of non-independent members from the government administration and/or civil service. While such appointees, appointed by the shareholding ministry, are still required to meet criteria for professional qualifications, skills that are complementary to other board members and to follow mechanisms intended to prevent conflicts of interest, the streamlined process may present risks to achievement of these objectives.

Despite progress on SOE board independence, the new procedure whereby the state nominates independent board members in SOE subsidiaries raises concerns regarding the governance of state-owned company groups and the responsibilities of their parent company boards. Although SOE subsidiaries are considered SOEs according to the SOE Guidelines, the state's direct intervention in the appointment of some subsidiary board members – normally the right of the holding company as part of its management responsibilities for the subsidiaries that it owns – is not consistent with the SOE Guidelines' recommendation that the state as shareholder avoid intervening in the operational decisions of (parent company) SOEs.

The authorities have initiated measures to implement the WPSOPP's other three priority recommendations on corporatisation, disclosure and company law amendments, but there have been important delays in their implementation, notably concerning:

- The planned corporatisations of four large transport SOEs and the State Property Bank (now delayed, respectively, to end-2022 and end-2024);
- The transition to IFRS of the State Forestry Enterprise (delayed until 2022 disclosure regarding the 2021 financial year, with 2020 as a comparison year); and

- The enactment of amendments to relevant legislation to remove the five-year maximum term limits for the CEOs of SOEs (which are planned for resubmission to Parliament in February 2021).

The Lithuanian authorities state that they are committed to following through on these plans. However, following Parliamentary elections held in October, 2020, additional steps are not likely to be taken before 2021, after the new Government is formed. Further efforts will be essential to ensure that these plans and recommendations remain on the agenda of the new Government, so that they are implemented as promised.

6.2. Lithuania's implementation of the additional recommendations

While Lithuania was only requested to report back after accession on the priority recommendations listed above, it is worth noting that Lithuania has also made substantial progress with respect to the additional recommendations of the CGC and WPSOPP cited below.

Lithuania has essentially implemented the CGC's two additional recommendations on updating the corporate governance code and the insolvency framework. The new Corporate Governance Code is broadly aligned with the 2017-18 company law reforms and the Lithuanian authorities report that they will continue to monitor consistency between the code and the company law with a view to making additional necessary revisions going forward. While it is too early to fully assess the impact of the new insolvency legislation on companies and creditors, its main elements and preliminary data on its implementation point to a positive impact favouring company restructuring to the benefit of creditors and debtors and improving the efficiency of insolvency procedures, in line with the CGC's related recommendation.

On the WPSOPP's additional recommendation on the efficiency, disclosure and governance of the forestry and road maintenance SOEs, both enterprises appear on track to achieve efficiency gains following their recent mergers. Both companies comply with the state guidelines on board independence. The Road Maintenance enterprise reports in accordance with IFRS and the Forestry Enterprise appears on track to transition to IFRS by its 2022 publications. Plans to convert the Forestry Enterprise to a limited liability company would significantly improve its corporate governance arrangements, transferring several decision-making powers from the state to the board of directors.

6.3. Overall conclusions

The CGC and WPSOPP welcome Lithuania's progress in implementing several of the CGC's and WPSOPP's priority recommendations, notably related to monitoring of the recent company law reforms applicable to listed companies' boards, strengthening the resources of the GCC and improving the SOE board nomination process. Regarding the CGC's priority recommendation 1, given that several companies were found to not be compliant with the company law requirements on board supervisory functions and independence – but that the main reason for this is that the boards were elected prior to the entry into force of the law – additional monitoring at a later date, in line with the Bank of Lithuania's plans, would be warranted.

The authorities have also taken preliminary steps to implement the remaining priority recommendations, but more time and continued commitment will be necessary to fully implement them. Moving forward, Lithuania is encouraged to continue monitoring listed companies' implementation of the company law reforms on board responsibilities and independence, with a view to ensuring that boards fulfil their essential good-practice roles

in line with the *G20/OECD Principles*; to prioritise efforts to fully implement IFRS in the Forestry Enterprise's disclosures; to abolish legislative provisions fixing term limits for SOEs' CEOs; and to proceed with the planned corporatisations of commercial SOEs. Additionally, as the state pursues expanded monitoring and ownership functions in SOE subsidiaries, it should ensure that these functions do not impede the operational decision-making and autonomy of SOE parent company boards. Board nominations in SOE subsidiaries should remain within the remit of their parent companies.

Lithuania is requested to give particular attention in the near term to advancing in the following areas, and to report back on related progress to the WPSOPP within two years, in the context of Lithuania's post-accession progress reporting:

Removing the legislative provisions within the Law on Companies and the Law on State and Municipal Enterprises fixing explicit dismissal criteria and term limits for the CEOs of SOEs;

Ensuring that the boards of SOEs' parent companies are able to fulfil their good-practice roles of overseeing subsidiaries' management, including by having full responsibility for subsidiary board appointments. Limited participation of the state in SOE subsidiary board appointments that the authorities deem necessary owing to strategic national-security concerns should be exceptional and temporary.

Providing for sufficient safeguards to ensure that non-independent appointees, including those from the government administration and/or civil service, act in the best interest of the enterprise, meet criteria for professional qualifications, have skills that are complementary to other board members and follow mechanisms intended to prevent conflicts of interest.

Proceeding with the planned corporatisations of statutory SOEs engaged in economic activities.

Annex A. List of Lithuanian SOEs and SOE subsidiaries subject to GCC monitoring

	Name in Lithuanian	Name in English	Ownership ministry	Size class	Legal form	Board structure	Board required (public interest entity or important to national security)
1	AB Ignitis grupė	Ignitis Group	Ministry of Finance	Large	Private LLC	Two-tier	Yes
1.1	AB Ignitis gamyba	Ignitis Production	Subsidiary of AB Ignitis grupė	Large	Public LLC	Two-tier	Yes
1.2	AB Energijos skirstymo operatorius	Energy Distribution Operator	Subsidiary of AB Ignitis grupė	Large	Public LLC	Two-tier	Yes
1.3	UAB Ignitis renewables	Ignitis Renewables	Subsidiary of AB Ignitis grupė	Medium	Private LLC	One-tier	
1.4	UAB Ignitis	Ignitis	Subsidiary of AB Ignitis grupė	Large	Private LLC	Two-tier	Yes
1.5	UAB NT Valdos	NT Valdos	Subsidiary of AB Ignitis grupė	Medium	Private LLC	One-tier	
1.6	UAB Ignitis grupės paslaugų centras	Ignitis Group Service Centre	Subsidiary of AB Ignitis grupė	Medium	Private LLC	One-tier	
1.7	UAB Energetikos paslaugų ir rangos organizacija	Organisation of Energy Services and Contracting	Subsidiary of AB Ignitis grupė	Small	Private LLC	No board	
1.8	Tuulenergija OÜ	Wind Energy OÜ	Subsidiary of AB Ignitis grupė	Medium	Private LLC	No board	
1.9	UAB Elektroninių mokėjimų agentūra	Electronic Payment Agency	Subsidiary of AB Ignitis grupė	Micro	Private LLC	One-tier	
1.10	UAB Vilniaus kogeneracinė jėgainė	Vilnius Cogeneration Power Plant	Subsidiary of AB Ignitis grupė	Small	Private LLC	One-tier	
1.11	UAB Kauno kogeneracinė jėgainė	Kaunas Cogeneration Power Plant	Subsidiary of AB Ignitis grupė	Small	Private LLC	One-tier	
1.12	UAB Transporto valdymas	Transport Management	Subsidiary of AB Ignitis grupė	Medium	Private LLC	No board	
1.13	UAB Gamybos optimizavimas	Production Optimisation	Subsidiary of AB Ignitis grupė	Micro	Private LLC	One-tier	
2	UAB EPSO-G	EPSO-G	Ministry of Energy	Large	Private LLC	One-tier	Yes
2.1	AB Litgrid	Litgrid	Subsidiary of UAB EPSO-G	Large	Public LLC	One-tier	Yes
2.2	UAB TETAS	TETAS	Subsidiary of UAB EPSO-G	Medium	Private LLC	One-tier	

	Name in Lithuanian	Name in English	Ownership ministry	Size class	Legal form	Board structure	Board required (public interest entity or important to national security)
2.3	AB Amber Grid	Amber Grid	Subsidiary of UAB EPSO-G	Large	Public LLC	One-tier	Yes
2.4	UAB BALTPPOOL	BALTPPOOL	Subsidiary of UAB EPSO-G	Small	Private LLC	One-tier	
3	AB Klaipėdos nafta	Klaipėda Oil	Ministry of Energy	Large	Public LLC	Two-tier	Yes
3.1	UAB SGD logistika	LNG Logistics	Subsidiary of AB Klaipėdos nafta	Micro	Private LLC	No board	
3.2	UAB SGD terminalas	LNG Terminal	Subsidiary of AB Klaipėdos nafta	Micro	Private LLC	No board	
4	VĮ Ignalinos atominė elektrinė	Ignalina Nuclear Power Plant	Ministry of Energy	Large	SE	One-tier	Yes
5	AB Lietuvos geležinkeliai	Lithuanian Railways	Ministry of Transport and Communications	Large	Public LLC	One-tier	Yes
5.1	UAB Vilniaus lokomotyvų remonto depas	Vilnius Locomotive Repair Depot	Subsidiary of AB Lietuvos geležinkeliai"	Large	Private LLC	One-tier	Yes
5.2	UAB Geležinkelio tiesimo centras	Railway Construction Centre	Subsidiary of AB Lietuvos geležinkeliai"	Large	Private LLC	One-tier	Yes
5.3	UAB Gelsauga	Iron Protection	Subsidiary of AB Lietuvos geležinkeliai"	Medium	Private LLC	One-tier	
5.4	UAB Rail Baltica statyba	Rail Baltica Construction	Subsidiary of AB Lietuvos geležinkeliai"	Micro	Private LLC	One-tier	
5.5	AB LTG Cargo	LTG Cargo	Subsidiary of AB Lietuvos geležinkeliai"	Large	Public LLC	One-tier	Yes
5.6	UAB LTG Link	LTG Link	Subsidiary of AB Lietuvos geležinkeliai"	Large	Private LLC	One-tier	Yes
5.7	AB Lietuvos geležinkelių infrastruktūra	Lithuanian Railway Infrastructure	Subsidiary of AB Lietuvos geležinkeliai"	Large	Public LLC	One-tier	Yes
5.8	UAB Saugos paslaugos	Security Services	Subsidiary of AB Lietuvos geležinkeliai"	Small	Private LLC	One-tier	
6	AB Lietuvos paštas	Lithuanian Post	Ministry of Transport and Communications	Large	Public LLC	One-tier	Yes
7	AB Lietuvos radijo ir televizijos centras	Lithuanian Radio and Television Centre	Ministry of Transport and Communications	Large	Public LLC	One-tier	Yes
8	AB Smiltynės perkėla	Smiltynė Ferry	Ministry of Transport and Communications	Medium	Public LLC	One-tier	

	Name in Lithuanian	Name in English	Ownership ministry	Size class	Legal form	Board structure	Board required (public interest entity or important to national security)
9	AB Kelių priežiūra	Road Maintenance	Ministry of Transport and Communications	Large	Public LLC	One-tier	Yes
10	VĮ Oro navigacija	Air Navigation	Ministry of Transport and Communications	Large	SE	One-tier	Yes
11	VĮ Klaipėdos valstybinio jūrų uosto direkcija	Klaipėda State Seaport Authority	Ministry of Transport and Communications	Large	SE	One-tier	Yes
12	VĮ Lietuvos oro uostai	Lithuanian Airports	Ministry of Transport and Communications	Large	SE	One-tier	Yes
13	VĮ Vidaus vandens kelių direkcija	Inland Waterways Authority	Ministry of Transport and Communications	Medium	SE	One-tier	Yes
14	AB Detonas	Detonas	Ministry of Transport and Communications	Medium	Public LLC	One-tier	Yes
15	AB Problematika	Problematika	Ministry of Transport and Communications	Medium	Public LLC	One-tier	Yes
16	VĮ Valstybinių miškų urėdija	State Forest Enterprise	Ministry of Environment	Large	SE	One-tier	Yes
17	VĮ Statybos produkcijos sertifikavimo centras	Production Certification Centre	Ministry of Environment	Small	SE	No board	
18	UAB Būsto paskolų draudimas	Mortgage Insurance	Ministry of Finance	Small	Private LLC	One-tier	
19	VĮ Indėlių ir investicijų draudimas	Deposit and Investment Insurance	Ministry of Finance	Small	SE	No board	
20	VĮ Lietuvos prabavimo rūmai	Lithuanian Assay Office	Ministry of Finance	Small	SE	No board	
21	VĮ Turto bankas	State Property Bank	Ministry of Finance	Medium	SE	One-tier	
22	UAB Viešųjų investicijų plėtros agentūra	Public Investment Development Agency	Ministry of Finance	Small	Private LLC	Two-tier	

Source: Information provided by the Lithuanian authorities.

Annex B. List of Lithuanian SOEs and other enterprises of importance to national security

The state-owned enterprises under the first and second categories of the below table are, together with all large SOEs, required to established boards whose independent members are to be selected by a state selection commission (for directly-owned SOEs, a five member commission and for SOE subsidiaries, a three-member commission). This list is laid out in the Law on the Protection of Objects of Importance to Ensuring National Security. Since the 2018 corporate governance accession review, the following SOEs have been added to the second category, dedicated to SOEs whose capital can be shared, but in which the state must retain power of decision: Problematika; Road Maintenance; as well as the railway infrastructure manager and carriers granted exclusive access rights to access public railways, as established in the Railways Transport Code. The Lithuanian Road Administration was added to the first category, dedicated to enterprises that must be fully owned by the state, a municipality or a majority state-owned company.

Table B.1. Lithuanian enterprises of importance to national security

Category 1: Enterprises that must be fully owned by the state, a municipality or a majority-owned SOE	Category 2: Limited liability companies in which the state, municipality or majority-owned SOE must hold at least 2/3 of voting shares	Category 3: Other enterprises of importance to national security, whose shares do not belong to the state, a municipality or a majority-owned SOE
V Ignalina Nuclear Power Plant V Klaipėda State Seaport Authority V Air Navigation V Inland Waterways Authority V Lithuanian Airports V Centre of Registers Šiauliai Airport (MOE) Public drinking water suppliers and waste water extraction service (approximately 60 MOEs); V Forestry Enterprise V Lithuanian Road Administration	UAB EPSO-G AB Ignitis Group AB Ignitis Production (subsidiary of Ignitis Group) AB LITGRID (subsidiary of EPSO-G) AB ESO (subsidiary of Ignitis Group) National investor specified in the Law on the Nuclear Power Plant; AB Amber Grid; Appointed supplier specified in the Law on the Liquefied Natural Gas Terminal; UAB Ignitis Liquefied Natural Gas (LNG) terminal operator; AB Klaipėda Oil AB Lithuanian Railways Railway infrastructure manager and carriers granted exclusive rights of access to the public railways; AB Giraitė Armament Factory AB Jonava Grains AB Lithuanian Radio and Television Centre AB Lithuanian Post UAB Geoterma AB Detonas AB Problematika AB Road Maintenance	AB ORLEN Lietuva* AB Achema* Project implementation company defined in the Law of the Nuclear Power Plant AB Telia Lietuva*

Note: *Companies which are not majority-owned by the Lithuanian state or municipal governments. UAB indicates private limited liability company; AB indicates public limited liability company; V| indicates state enterprise (statutory SOE); MOE indicates municipality-owned enterprise.

Source: Lithuanian Law on the Protection of Objects of Importance to Ensuring National Security.

Annex C. Letter of expectation example for Lithuanian Airports

MINISTER OF TRANSPORT AND COMMUNICATIONS OF THE REPUBLIC OF LITHUANIA

ORDER

REGARDING THE APPROVAL OF THE LETTER ON THE OBJECTIVES PURSUED BY THE STATE AND THE EXPECTATIONS WITH RESPECT TO THE STATE ENTERPRISE LIETUVOS ORO UOSTAI

_____ 2020, No. 3.
Vilnius

Acting in accordance with Point 12⁶ of the Description of the Procedure for the Exercising Property and Non-Property Rights of the State in State-Owned Enterprises, approved by Resolution No. 665 “On the approval of the Description of the Procedure for the Exercising Property and Non-Property Rights of the State in State-Owned Enterprises” of the Government of the Republic of Lithuania:

1. I hereby approve the Letter regarding the objectives pursued by the State and the expectations with respect to the state enterprise “Lietuvos oro uostai” (attached).
2. I propose the Letter regarding the objectives pursued by the State and the expectations with respect to the state enterprise “Lietuvos oro uostai” to be presented to the Board and the CEO of the state enterprise “Lietuvos oro uostai”.

Minister of Transport and Communications

Jaroslav Narkevič

APPROVED

Order No. 3 of ___ _____ 2020 of the
Minister of Transport and Communications of
the Republic of Lithuania

LETTER

REGARDING THE OBJECTIVES PURSUED BY THE STATE AND THE EXPECTATIONS WITH RESPECT TO THE STATE ENTERPRISE LIETUVOS ORO UOSTAI

I. Objective

The present Letter regarding the objectives pursued by the State and the expectations (hereinafter –the Letter) presents the expectations of the Ministry of Transport and Communications regarding the directions of operations of *SE Lietuvos oro uostai* (hereinafter –the Company), the objectives prescribed to the Company and its operational principles. Such expectations are defined for a period of four years, however, the Letter can be renewed as necessary. The Letter is designed to promote cooperation between the Company and the Ministry of Transport and Communications (hereinafter –Ministry of Transport).

By this Letter, the Ministry of Transport does not intend to restrict or unreasonably extend the rights or obligations of the Company or its bodies. The Company and its management bodies must first of all follow the applicable legal acts, the Articles of Association and other decisions adopted by the Company's shareholder, good corporate governance practices and take responsibility for the decisions made thereby. For the purpose of implementing the expectations laid down in the present Letter the management bodies of the Ministry of Transport shall follow the principles of reasonableness, transparency efficiency and cost-efficient management of the assets.

II. The purpose of the Company

The purpose of the Company is to manage the infrastructure of three international airports - Vilnius, Kaunas and Palanga, to coordinate the commercial activities of these airports, to offer a wide range of services ensuring high quality of services to passengers and partners, to ensure that the airport network provides opportunities for diversification giving priority to the most important parts of the activity, and the whole network would complement the Lithuanian transport system in a coordinated manner.

The objectives of the commercial activities of the Company consistent with the State interest and compliant with the provisions of the Law on Objects Important for Ensuring National Security and the task of the National Transport Development Programme for 2014-2022 –to ensure sustainable mobility of freight and passengers by air, modernise Vilnius, Kaunas and Palanga airport infrastructure are the following:

1. develop a safe and efficient infrastructure of the airports;
2. improve accessibility by expanding the network of competitive directions and the variety of the services;
3. improve the image of the State by creating a business-friendly environment.

The Ministry of Transport expects that the expectations specified with respect to the Company will become part of the strategic operational plan of the Company, and that the Company will be developing its operations in the directions specified in the Letter, and that the target indicators and their values will be reflected in the strategic activity plan of the Company.

III. Non-financial expectations

Planning and development of the airport infrastructure. The Company must regularly update the long-term infrastructure demand forecast and investment infrastructure development plan. The investment plan for infrastructure development must include an analysis of all reasonable alternatives. The Company is required to ensure that the airports have the capacity to handle the ever-growing flow of passengers and

cargo. The development of airports must be in line with the national security interests of the state.

Improvement of investment environment. The development of the aviation sector directly depends on the access to the infrastructure and its quality, so when developing the infrastructure, the Company must take into account the overall added value for the state. A company can make investments and incur costs that do not meet the requirements for commercial returns, provided the investments create positive long-term value added at the state level. Lithuania faces social challenges, therefore the Company should actively develop and promote aircraft repair and maintenance (MRO) and other operations creating a basis for creation of many well-paid high value-added jobs.

Accessibility of Lithuania by air transport. The Company must, within the limits of its competence, contribute to the improvement of air transport sector. In cooperation with the Ministry of Transport and Communications, the Ministry of Economy and Innovation the Company is looking for solutions for attracting attractive routes with major business and other centres of attraction.

Customer service quality. The Company must increase the value of services provided to customers, improve the quality of services provided by rail transport and enhance customer satisfaction with services. The company must ensure that the airport infrastructure, including the infrastructure of airport users, is adapted and friendly to people with special needs.

Innovations. The Company should prioritize innovative technological solutions relied upon when creating added value for customers of the Company and for the Company itself.

Leadership. The Ministry of Transport expects that by investing in new modern labour technologies and methods, the Company will become a leader in its airport category in Europe.

Change in the legal form. In order to increase operational efficiency and implement the recommendations of the Organization for Economic Co-operation and Development (hereinafter - OECD), the Company is planned to be reorganised into a joint-stock company. The reorganisation of the Company is scheduled to be started not before 2022, therefore the Company should be planning its activities and complete all the preparatory operations by that date.

Transparency and risk management. The Company must implement such corruption resistance measures and processes that would ensure that its activities are carried out transparently and in good faith, and that public procurement is carried out in accordance with the provisions of the Law on Public Procurement of the Republic of Lithuania and other legal acts. The Company is required to ensure that the entire public information is included in the Guidelines for Securing Transparency of State-Owned Enterprises.

Efficiency. In order to ensure efficient management in accordance with the best governance practices, the Company must optimize the provision of services required at all airports and the management of their internal processes, seek synergies by jointly coordinating the activities of all airports, and increase operational efficiency. The company should follow good practices for sustainable and balanced development, integrate the United Nations principles of sustainable development into its strategy from an environmental, social and economic perspective, and seek to ensure the use of technologies and the development of infrastructures resilient to climate changes. The Company shall ensure that the same provisions are applied to users of the airports. Furthermore, the Company is obliged to follow the guidelines and the best practices of the OECD.

Good governance. Having regard to the guidelines for the improvement of best governance produced by the PI Stebėsenos ir bendrovių agentūra (*Public Institution Monitoring and Prognosis Agency*) the Company shall ensure the governance compliant with the best governance practice, and that in the annual reports on the best governance index at State-owned enterprises the Company is rated no less than at A.

Social responsibility and employee inclusion. The Company must carry out its activities in accordance with the highest standards of transparency, governance, ethics and social responsibility. The Company is required to ensure the conditions for people with special needs to arrive to the airport, by implementing the standards for assistance for disabled and limited mobility people, and arrange training for its personnel. The Ministry of Transport trusts that the Company will make every effort to increase employee involvement, employee motivation and professional growth, and will provide employees with a fair and market-compliant compensation and the respective working environment. The Board and the

management of the Company will in all cases maintain a continued and constructive dialogue with the representatives of the employees.

The Ministry of Transport expects that in the event of emergencies or other unforeseen circumstances in the State that have a significant impact on public welfare and security, the Company will be socially responsible and will seek opportunities to contribute to the State's actions to combat such situations and their consequences.

IV. Financial expectations

The Company's return on equity (ROE) must be not lower than the value set forth by the Government of the Republic of Lithuania.

The profit margin must be no less than 80 per cent of the corporate profit available for distribution for a specific year.

The Company is required to maintain an optimal share of a debt in its capital structure, and ensure that the financial ratio and equity ratio is maintained at 1-1.5.

V. General expectations regarding the performance principles

The ultimate owners of the Company are taxpayers, so that the Company's governing bodies are required to make all efforts to ensure that the Company is managed having regard to the interests of the country's residents, and in compliance with the Law on the Protection of Objects of Importance to Ensuring National Security of the Republic of Lithuania.

The Chairman of the Board and the CEO of the Company should periodically submit to the management of the Ministry of Transport the strategic plan, annual budgets and outcomes, the annual conclusions of self-assessment of the Board.

The Board of the Company should act independently, but the Ministry of Transport expects the Board to assess the situation in the field of COVID-19 in civil aviation and to provide measures to manage it, as well as to inform in advance about the Company's critical decisions. The critical decisions of the Board shall be the following:

- potential conflicts of interest on the part of the members of the Board;
- potential judicial disputes;
- alleged fraud of employees or related parties of the Company;
- essential changes in the Company's activities;
- employee redundancies of major scale;
- major acquisitions and disposals;
- damage which could be caused to the public, to the nature, economy or security of the State;
- press releases which may require commentaries of the Ministry of Défense of commentaries;
- corruption and political intervention of any kind;
- other material risks posing threat to the continuity of the Company's operations;

The Board of the Company should follow the principle of reasonableness, and inform the Ministry about any other decisions that are important to the interests of the Company's shareholder.

Annex D. Return on equity targets established for 40 SOEs (2019-2021)

Table 6.2. Return on equity targets for 40 Lithuanian SOEs

SOE name in Lithuanian	SOE name in English	Target annual average cost of equity (three-year average)
VĮ Mašinų bandymo stotis	Machinery Testing Station	13.3
AB Jonavos grūdai	Jonova Grains	11.3
AB Lietuvos paštas	Lithuanian Post	9.0
AB Problematika	Problematika	8.7
UAB Lietuvos parodų ir kongresų centras Litexpo	Lithuanian Exhibition and Congress Centre LITEXPO	8.3
AB Vilniaus metrologijos centras	Vilnius Metrology Centre	7.8
AB Kelių priežiūra	Road Maintenance	7.6
UAB Geoterma	Geoterma	7.2
UAB poilsio namai Baltija	Resort Baltija	7.2
UAB Klaipėdos žuvininkystės produktų aukcionas	Klaipėda Fishery Products Auction	7.1
UAB Projektų ekspertizė	Project Expertise	7.1
UAB Šilutės polderiai	Šilutė polders	6.7
UAB Universiteto vaistinė	University Pharmacy	6.7
VĮ Lietuvos oro uostai	Lithuanian Airports	6.7
Lietuvos energija. UAB	Lithuanian Energy	6.6
UAB Žemės ūkio paskolų garantijų fondas	Agricultural Loan Guarantee Fund	6.5
AB Detonas	Detonas	6.3
AB Smiltynės perkėla	Smiltynė ferry	6.2
VĮ Distantinių tyrimų ir geoinformatikos centras GIS-Centras	Remote Sensing and Geoinformatics Centre GIS-Centras	6.2
AB Giraitės ginkluotės gamykla	Giraite Armament Factory	6.1
VĮ Klaipėdos valstybinio jūrų uosto direkcija	Klaipėda State Seaport Authority	6.0
AB Klaipėdos nafta	Klaipėdia Oil	5.8
UAB Lietuvos monetų kalykla	Lithuanian Mint	5.8
VĮ Lietuvos paminklai	Lithuanian Monuments	5.8
UAB EPSO-G	EPSO-G	5.7
AB Lietuvos geležinkeliai	Lithuanian Railways	5.5
UAB Dotnuvos eksperimentinis ūkis	Dotnuva experimental farm	5.4
AB Lietuvos veislininkystė	Lithuanian Breeding	5.3
UAB Panevėžio veislininkystė	Panevėžys breeding	5.3
VĮ Mūsų amatai	Our Crafts	5.3
UAB Lietuvos žirgynas	Lithuanian Stables	5.2
UAB Genetiniai ištekliai	Genetic Resources	5.2
AB Kiaulių veislininkystė	Pig Breeding	5.0
UAB Šilutės veislininkystė	Šilutė Breeding	5.0
VĮ Statybos produkcijos sertifikavimo centras	Production Certification Centre	5.0
VĮ Valstybės žemės fondas	State Land Fund	4.8
UAB Pieno tyrimai	Dairy Research	4.7
AB Lietuvos radijo ir televizijos centras	Lithuanian Radio and Television Centre	4.5
VĮ Oro navigacija	Air Navigation	3.7
UAB Toksika	Toksika	3.2

Source: Information provided by the Lithuanian authorities, based on a Government Resolution adopted on 9 January 2019.

Notes

¹ The three reforms summarised here were implemented by the Lithuanian authorities primarily in response to the Corporate Governance Committee’s earlier priority recommendations, which were communicated to Lithuania prior to the conclusion of the CGC’s accession review. They are outlined in the published corporate governance accession review (OECD, 2018). This progress report focuses primarily on monitoring implementation of the reforms to strengthen boards of directors (granting them supervisory functions and approval rights for related party transactions), in keeping with the wording of the final priority recommendation of the CGC that concluded the accession review, inviting Lithuania to “monitor implementation of reforms to the Law on Companies with a view towards clarifying and further strengthening the responsibilities of companies’ boards of directors”.

² A draft, pre-publication version of the Bank of Lithuania report entitled “Overview of the Compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius” was shared with the OECD Secretariat on 6 October 2020. It was scheduled to be published on 21 October.

³ SOEs that have established boards of directors are required by Government Resolution to include at least one half independent directors on their boards. SOE subsidiaries that are considered of strategic importance are newly required, also by Government Resolution, to include at least one third independent directors on their boards. In both cases, the independent directors are nominated by state selection commissions discussed in more detail under WPSOPP priority recommendation 2.

⁴ One of the GCC’s 14 employees performs functions that are not related to SOE monitoring and governance.

⁵ Amendments to the Law on the Management, Use and Disposal of State and Municipal Assets, passed on 26 June 2020, introduced the possibility for the GCC to analyse ownership decisions and monitor and report on the governance and profitability of SOE subsidiaries. Amendments passed in 2018 expanded its monitoring activities to municipality-owned enterprises.

⁶ The “ownership guidelines” are the Government Resolution “On the approval of the description of the procedure for implementation of property and non-property rights of the state in state-owned enterprises”. Revisions to the ownership guidelines made in August 2019 give responsibility for outlining the content and procedures for SOE letters of expectation to the Ministry of Economy and Innovation, which adopted the related guidelines in August 2019.

⁷ The guidelines on board evaluation are available online, in Lithuanian, here: https://governance.lt/wp-content/uploads/2020/04/Kolegialiu-organu-veiklos-vertinimo-gaires_2.pdf.

⁸ Public interest entities are as defined in the Law on the Audit of Financial Statements and include all large SOEs. Enterprises of importance to national security are listed in the Law on the Protection of Objects of Importance to Ensuring National Security of the Republic of Lithuania.

⁹ The SOE board nomination guidelines refer to the “Monitoring and Forecast Agency” as a member of the selection commissions for board members of SOEs and their subsidiaries. This report uses “Governance Coordination Centre” instead, in keeping with the terminology used in the 2018 corporate governance accession review. The GCC can be considered to refer to Lithuania’s SOE monitoring function that is currently undertaken by the Monitoring and Forecast Agency.

¹⁰ The SOE board nomination guidelines outline that civil servants selected for the boards of statutory SOEs must comply with the general and SOE-specific requirements laid out in the Law on State and Municipal Enterprises. The nomination guidelines make no mention of independence requirements for civil servants on statutory SOE boards.

¹¹ More information on the listing of Ignitis shares is available on the Nasdaq website: <https://nasdaqbaltic.com/news/nasdaq-welcomes-ignitis-group-to-the-nasdaq-baltic-main-list/#:~:text=The%20IPO%20was%20the%20largest,company's%20total%20issued%20share%20capital> .

¹² The list of SOEs planned for conversion to limited liability companies was presented in a “State Enterprise Reorganisation Plan”, approved by the Government in January 2018 and shared with the OECD prior to Lithuania’s accession. The names of enterprises presented are the English translations used in OECD (2018).

¹³ 43 entities were actually merged to create the new Forest Enterprise, but there were 42 individual regional forestry enterprises that were merged with one central forestry entity.

¹⁴ Specifically, the Law on Audit of Financial Statements defines public-interest entities to include any state or municipal enterprises (statutory enterprises) or any limited liability companies in majority state ownership that are considered large enterprises under the Law on Financial Reporting by Undertakings.