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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
CORPORATE GOVERNANCE COMMITTEE**

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

This Secretariat Note discusses Lithuania's progress in implementing the recommendations made by the OECD Corporate Governance Committee and Working Party on State Ownership and Privatisation Practices reflected in the Formal Opinion on Lithuania's accession to the OECD [DAF/CA/CG/ACS(2018)1/FINAL] and in the corporate governance accession review [published as OECD (2018), Corporate Governance in Lithuania, <https://doi.org/10.1787/9789264302617-en>].

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1 Purpose and structure

1. This document has been prepared in the context of Lithuania's corporate governance post-accession reporting requirements. It assesses Lithuania's continued progress in implementing the priority recommendations related to state ownership set forth in the 10 April 2018 Formal Opinion of the Corporate Governance Committee [DAF/CA/CG/ACS(2018)1/FINAL] on Lithuania's accession to the OECD. To recall, the Formal Opinion communicated a positive overall 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, and requested that Lithuania report back on progress in addressing its priority recommendations by no later than 31 August 2020 to enable follow-up assessments by the CGC and the Working Party on State Ownership and Privatisation Practices (WPSOPP) in autumn 2020 and thereafter as necessary.¹

2. A first of those follow-up assessments was considered at a joint meeting of the CGC and the WPSOPP on 10 November 2020 [DAF/CA/CG/ACS/M(2020)1]. The CGC and WPSOPP agreed that Lithuania had made sufficient progress to conclude the review process with respect to the priority recommendation related to implementation of the G20/OECD Principles of Corporate Governance, but that Lithuania should report back to the WPSOPP on further progress in implementing three priority recommendations related to state ownership by 2022. To support satisfactory implementation of these remaining three priority recommendations, the WPSOPP communicated specific areas for follow-up action in the near term and requested Lithuania to report back on those areas within two years.

3. Lithuania initiated the latest process of reporting back to the WPSOPP with a letter from the Minister of Economy and Innovation addressed to the Chair of the WPSOPP on 23 June 2022 (see Annex A for a copy of the letter and its most relevant annex summarising Lithuania's recent SOE reform efforts). The information contained in this document is based on the content of that letter and its annexes, responses to related follow-up questions sent by the Lithuanian authorities on 25 August 2022, interviews held during a fact-finding visit to Vilnius on 30 August-1 September 2022, as well as written exchanges and discussions with the Lithuanian authorities and relevant non-governmental counterparts throughout the process. The team conducting the fact-finding visit comprised OECD Secretariat Senior Policy Analyst Daniel Blume and consultant to the OECD Korin Kane, who was the lead drafter of this document.

4. This document is structured as follows. Section 2 recalls Lithuania's previous progress in implementing the SOE-related post-accession priority recommendations and highlights challenges with implementation related to three of the priority recommendations, which are described in the conclusions of the first post-accession progress review in 2020.² To provide context for the current SOE-focused review,

¹ See OECD (2018) "*Corporate Governance in Lithuania*" for the full corporate governance accession review which formed the basis for the recommendations included in the Formal Opinion <https://www.oecd.org/publications/corporate-governance-in-lithuania-9789264302617-en.htm>.

² A more complete overview of Lithuania's earlier progress in implementing the corporate governance accession review recommendations is available in the 2020 "Note by the OECD Secretariat on Lithuania's implementation of

brief updates on implementation of the previously addressed priority recommendations related to SOEs are also provided in Section 2. Section 3 reviews Lithuania's most recent progress in implementing the remaining three priority recommendations requiring follow-up, on which Lithuania was invited to report back within two years following the November 2020 discussions. Section 4 offers overall conclusions, including the Working Party's conclusions agreed on 26 October, 2022, as set out in paragraphs 51 and 52. Annexes provide supporting information.

corporate governance accession review recommendations" [DAF/CA/CG(2020)19/FINAL] and online at [https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/CA/CG\(2020\)19&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/CA/CG(2020)19&docLanguage=En).

2 Recap of the results of Lithuania's first post-accession progress review in 2020 and related updates

5. **As context for the current review, this section recalls the main SOE-related findings of Lithuania's first post-accession progress review**, which were discussed at a joint meeting of the Corporate Governance Committee and the Working Party on State Ownership and Privatisation Practices on 10 November 2020. It opens with a brief background section on Lithuania's SOE governance arrangements. It then gives an overview of Lithuania's (earlier) progress in implementing the 2018 OECD post-accession priority recommendations on state ownership, provides updates as relevant, and describes, under the relevant sections dedicated to each priority recommendation, the remaining areas of concern that led the WPSOPP to request that Lithuania report back again on related progress within two years. The specific areas of concern, as set forth in the 2020 progress review report, are also summarised in Box 2.2. Lithuania's most recent progress in addressing them is the subject of Section 3 that follows. Complete information on Lithuania's earlier progress in implementing OECD recommendations related to general corporate-governance policies and practices (under the purview of the Corporate Governance Committee) can be found in the 2020 progress review [report](#).

Background on SOE ownership and governance arrangements in Lithuania

6. Lithuania's central government is the direct owner of 47 SOEs operating notably in the primary sectors (such as forestry), as well as the transportation, energy and agricultural sectors. Lithuania has a predominantly decentralised ownership architecture, with line ministries exercising shareholder functions in the portfolio of SOEs under their purview, but with strong elements of central coordination and harmonisation introduced over the past decade. Lithuania has notably established a robust monitoring and coordinating function, housed in the Governance Coordination Centre (GCC) under the Ministry of Economy and Innovation. The GCC collects and publishes extensive information on the performance and governance practices of Lithuania's SOEs and plays an integral role in some fundamental shareholder functions, including notably through its participation in SOE board nomination processes and its role as a consultative/advisory body, established by law, in other shareholder functions such as the development of shareholder letters of expectation.

7. The Lithuanian SOE portfolio has been streamlined over the past decade or so, with the number of SOEs falling from over 100 in 2015 to 47 by mid-2022 (not including SOE subsidiaries, which in some sectors have actually increased). SOE governance and disclosure requirements are set forth in dedicated Government Resolutions, the three main ones being the state's (1) ownership guidelines (2) transparency guidelines and (3) SOE board nomination guidelines. These documents have served to professionalise ownership practices in Lithuania, to strengthen the independence of SOE boards of directors and to make SOEs more transparent. Concerning their legal framework, most SOEs in Lithuania operate as limited liability companies, but some economically important SOEs, for example in the transport sector, still

operate under a separate law under which boards are essentially advisory bodies to ownership ministries, rather than supervisory bodies over management. Lithuania has corporatised many statutory SOEs in recent years and has announced plans to abolish this separate legal form by end 2025.

Priority recommendation 1: Strengthening the ownership function

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 fulfil its functions.

8. **Following its accession to the OECD, Lithuania continued to strengthen its state ownership function in line with this recommendation**, notably by appointing a permanent head of its Governance Coordination Centre (GCC) and hiring additional staff to allow the agency to more effectively fulfil its monitoring and ownership coordination functions. The 2020 progress report concluded that the GCC was operating with adequate leadership, staff and budget to effectively perform its monitoring duties. It also concluded that the GCC had strengthened its advisory role through more systematic input into state ownership decisions, both formally and in practice. An example of this was the explicit requirement that shareholder letters of expectation, addressed by ownership ministries to SOEs, be reviewed by the GCC. Another example was the GCC's formal participation in the state's selection commission for independent board members of SOEs, institutionalising the GCC's input into this important shareholding decision. The GCC had also strengthened its role in monitoring the performance of SOEs and their subsidiaries, including through the development and monitoring of return-on-equity targets, elaborated as three-year averages approved by the Government and included in SOE letters of expectation. Since then, the GCC has continued its work in all of these areas and has also expanded upon its performance-monitoring functions, elaborating more specific financial and non-financial KPIs for individual SOEs.

9. **The GCC continues to produce regular aggregate reports of a high quality on the activities, performance and governance practices of SOEs.** Box 2.1 offers selected highlights on the evolution and performance of the SOE portfolio, based primarily on the GCCs 2021-22 aggregate report, but also including other information collected in the context of this review.

10. **Overall, the performance of the SOE portfolio has suffered in recent years, owing to a confluence of factors** such as the economic and trade repercussions of the COVID-19 pandemic, Russia's full-scale invasion of Ukraine and energy-price increases. Drops in net profitability were particularly acute from 2020 to 2021 among several of Lithuania's transport and energy SOEs. For example, Lithuanian Railways Group experienced a 13% drop in net profits in 2021 compared to 2020, owing largely to increases in costs (including those related to energy, but also other sources such as security services). Ignitis Group (formerly Lithuanian Energy) posted 10% less net profit during that same period, due largely to significant increases in the price of electricity, natural gas and other services. By contrast, the net profit of the State Forestry Enterprise increased fourfold in that period.

Box 2.1. SOE portfolio highlights

- **The SOE portfolio** comprises 47 directly owned enterprises and 24 SOE subsidiaries*. The ten SOEs operating in the transport sector account for over half of all SOE employment and, as of 2021, 23% of the total SOE portfolio's sales revenue.
- **Rates of return** for the SOE portfolio dropped in 2021 compared to 2020, from 3% to 2% for return on assets and from 5.6% to 3.6% for return on equity.
- **Profitability indicators** similarly dropped. Nearly one third of SOEs did not meet their established profitability targets in 2021, with the transport sector being the hardest hit, owing in part to COVID-related travel restrictions as well as the economic and trade repercussions of the war in Ukraine, including the impact of sanctions on transport contracts. SOEs' net profit margins have also been strongly impacted by increases in energy prices. SOEs' aggregate net profit margins dropped from 13.1% to 7.2% in that same period.
- **SOEs' overall returns to the state**, comprising both dividends and taxes, remained broadly stable from 2020 to 2021, reaching 184 million EUR in 2021 up from 176 million EUR the year before. The state has adopted a new procedure for determining performance indicators for individual SOEs. This will notably impact dividend pay-outs as of the 2022 financial year, for example causing SOEs with higher return-on-equity rates to face lower dividend pay-out ratios and *vice versa*.
- **SOE restructuring** efforts have continued in recent years, with a total of 12 state shareholdings (including 10 with controlling shares) having been privatised since 2015. As of August 2022, an additional four enterprises under the Ministry of Agriculture were slated for either privatisation (3 SOEs) or liquidation (1 SOE).
- **The number of employees** in SOEs decreased by 6% from 2020 to 2021, reaching ~29300. Employment levels have notably fallen in Lithuanian Railways (-13.3%) and the State Forestry Enterprise (-4.3%).

Source: Author summary based on information set forth in (1) the Governance Coordination Centre's annual aggregate report on SOEs (2021-22), available in Lithuanian language here: https://governance.lt/wp-content/uploads/2022/09/VKC-VVI-Metine-Ataskaita_2022_LT_09.pdf and (2) the Government-approved plan for reorganisations of SOEs, last updated in August 2022.

Note: The figure does not include subsidiaries of subsidiaries.

11. **The GCC has continued expanding its functions and has notably established a dedicated governance department.** A new head of this governance department was appointed in 2022 through a public hiring process. At the time of writing, the GCC had announced its ambition to expand the governance department by hiring several professional board members, who could be appointed directly as state representatives on SOE boards in the future. The GCC's budget has accordingly increased, from 486 500 EUR in 2021 to 625 100 EUR in 2022. This development is discussed in greater detail under priority recommendation 2 in section 3, in the sub-section that discusses follow-up actions to strengthen the qualifications of state representatives on boards.

Priority recommendation 2. Empowering independent SOE boards

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*.

12. **Several steps were taken following Lithuania's OECD accession to strengthen SOE boards' independence, including improvements in the nomination process.** At the time of the 2020 post-accession review, most large SOE boards remained in compliance with the state's requirement for at least ½ independent directors. Furthermore, a new selection process for independent members of SOE boards, involving a selection commission and private recruitment agencies, had been implemented in about 40 SOEs and had introduced greater transparency and professionalism to the process. The Lithuanian authorities reported that voting instructions to SOE board members were no longer occurring. Steps had also been taken to clarify SOE boards' supervisory functions, including through June 2018 amendments to the state's ownership guidelines requiring that SOE management boards operating in a single-tier structure undertake certain supervisory functions.

13. **The 2020 review found some shortcomings in boards' operational independence, including notably the following:**

- The aforementioned board selection process only applied to independent members of SOE boards. State representatives on boards were appointed solely by ownership ministries without a harmonised or transparent selection process. The WPSOPP identified this as an issue of concern and recommended further action, in implementation of priority recommendation 2, to ensure that non-independent appointees to SOE boards be sufficiently qualified and free of conflicts of interest and to report back on related progress within two years.
- The state had also established a process through which new independent board members on SOE subsidiary boards were nominated through a state selection commission, comprising one representative each of the parent company, the ownership ministry and the GCC. Although parent-company boards maintained the legal right to nominate all subsidiary board members, the fact that the state was involved in proposing independent members raised concerns regarding the corporate governance arrangements of state-owned company groups and the risk for undue state intervention in parent companies' management of subsidiaries. The WPSOPP identified this as an area of concern for the full implementation of priority recommendation 2 and requested that Lithuania report back on remedial follow-up actions within two years.
- The 2020 review, while recognising efforts to strengthen SOE boards' responsibilities, nonetheless identified scope for additional improvements, including through (i) corporatising the remaining statutory SOEs, for which applicable laws accord boards weak powers compared to the state and (ii) pursuing additional company-law reforms to accord boards of directors in Lithuanian companies, including in fully corporatised SOEs, greater supervisory functions. The WPSOPP requested that Lithuania give priority to completing the corporatisation plans announced in 2018 and to report back on related progress within two years.

Priority recommendation 3: Corporatising statutory SOEs

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.

14. **Several SOE corporatisations previously announced at the time of Lithuania's OECD accession had been delayed in 2020.** At the time of the 2020 post-accession progress review, three statutory SOEs (Road Maintenance, Dairy Research and Machinery Testing Station) had been converted to limited liability companies in accordance with earlier plans announced in 2018. However, the planned corporatisations of four statutory SOEs in the transport sector, as well as the State Property Bank, had been delayed until end-2022 and end-2024, respectively. At the time of writing, these planned corporatisations were proceeding according to the schedule announced in 2020. They are discussed in more detail under priority recommendation 3 in the following section.

Priority recommendation 4: Applying stronger accounting and auditing standards

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.

15. **Most large Lithuanian SOEs were fully in compliance with the state's disclosure standards at the time of the 2020 post-accession progress report.** Of the four large SOEs that had not yet transitioned to IFRS in 2018, three had done so by end-2020, and the transition to IFRS was underway (albeit delayed until end-2022 instead of the planned end-2020) in the State Forestry Enterprise. The Lithuanian authorities have since confirmed that the State Forestry Enterprise has completed its transition to IFRS and published its financial statements in accordance with IFRS in 2020. This was not the subject of any post-accession follow-up recommendation since the State Forestry Enterprise's IFRS transition was considered to be on track at the time of the 2020 review.

Priority recommendation 5: Eliminating CEO term limits

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.

16. **Draft amendments to remove problematic legislative provisions placing five-year term limits on the CEOs of SOEs were rejected by Parliament in June 2020.** To recall, legislative amendments passed in 2017 introduced proscriptive five-year term limits on the CEOs of SOEs, allowing for their reappointment only once and only if all operational goals set at the beginning of their terms had been reached. During the post-accession progress review in 2020, amendments to remove the problematic provisions had been drafted by the Ministry of Economy and Innovation, but without a supportive member of Parliament to propose their adoption, they were not ultimately placed on the Parliament's legislative agenda for discussion and possible adoption. At the time of writing, these term limits for SOEs' CEOs remained in place, but the authorities indicated the possibility of pursuing related legislative amendments in the future. Related developments are discussed in greater depth under priority recommendation 5 in the following section.

17. **No formal steps have been taken by the authorities to enact broader changes to the Law on Companies to strengthen boards of directors in Lithuania.** However, an inter-governmental working group, including representatives of several government ministries and departments as well as non-governmental stakeholders, was established in 2022, at the initiative of the Government, with a view to informing future work on company law reforms. The working group, which is led from the Prime Minister's Office, has not formally begun its work, but the Lithuanian authorities report that future company-law reforms to be considered by the group are likely to include issues related to company board models and responsibilities. The work of crafting the related draft legislative amendments will be the purview of the Ministry of Economy and Innovation. In the meantime, other company law reforms, related notably to capital markets and stock-exchange listed companies, have been prepared by the Ministry of Economy and Innovation and are to be considered by the Parliament during its Autumn 2022 session.

Box 2.2. Summary of remaining areas of concern identified in the 2020 post-accession progress review

To recall, Lithuania's first post-accession progress review, undertaken jointly by the CGC and WPSOPP on 10 November 2020, assessed Lithuania's progress in implementing six priority recommendations on corporate governance and state ownership (under the purview, respectively, of the CGC and the WPSOPP) that were set forth in the 2018 Formal Opinion of the Corporate Governance Committee on Lithuania's accession to the OECD. The 2020 review concluded that Lithuania had made sufficient progress to conclude formal post-accession reporting related to the CGC's only priority recommendation on monitoring recent reforms to the Law on Companies, as well as on two of the WPSOPP's recommendations related to state ownership: priority recommendation 1 on strengthening the ownership function and priority recommendation 4 on applying stronger accounting and auditing standards.

The WPSOPP also identified several areas where follow-up actions were recommended in the near term in order to achieve a more satisfactory implementation of the three remaining priority recommendations: priority recommendation 2 on empowering independent SOE boards; priority recommendation 3 on corporatising statutory SOEs; and priority recommendation 5 on eliminating CEO term limits. These recommended follow up actions, on which Lithuania was invited to report back to the WPSOPP within two years, are outlined below.

Priority recommendation 2: Empowering independent SOE boards

- 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.

Priority recommendation 3: Corporatising statutory SOEs

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

Priority recommendation 5: Eliminating CEO term limits

- 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.

Source: Edited excerpt from OECD (2020), "Secretariat Note on Lithuania's Implementation of Corporate Governance Review Recommendations", [https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/CA/CG\(2020\)19&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/CA/CG(2020)19&docLanguage=En).

Note: For clarity, the recommended follow-up actions have been reordered and the associated post-accession priority recommendations have been added as headings.

3 Lithuania's continued implementation of post-accession recommendations related to the SOE Guidelines

18. **This section provides an overview of Lithuania's progress in implementing the three priority recommendations** that were identified for additional follow-up reporting after Lithuania's first post-accession progress review in 2020. These are: priority recommendation 2 on empowering independent SOE boards (with specific follow up actions recommended on the appointment process for independent SOE subsidiary board members and for state representatives on boards), priority recommendation 3 on corporatising statutory SOEs and priority recommendation 5 on eliminating CEO term limits. Prior to discussing in detail Lithuania's progress on priority recommendation 2 (empowering independent SOE boards), the section that follows provides some background on SOE board requirements and practices in Lithuania, an overview of the current board composition in the largest SOEs and an update on how the state's selection process for independent board members is progressing. This information is provided as general context for the subsequent sections assessing Lithuania's follow-up actions regarding the selection process for SOE-subsidary board appointments and for state representatives on SOE boards.

Background on SOE board requirements and practices in Lithuania

19. **To recall, all directly owned large SOEs in Lithuania are required to establish boards, which must comprise at least 1/2 independent directors and at least one civil servant.** Beyond these basic requirements, SOE board requirements differ somewhat depending on the type of SOE. Related requirements are laid out via several separate legal acts. In brief, boards are required for all SOEs and SOE subsidiaries that are public-interest entities – which notably applies to all large enterprises – or that are considered important to national security.³ This applies to 28 enterprises, of which 19 are directly owned by the state and nine are SOE subsidiaries (see Annex B for details on Lithuanian SOEs, including which ones are required to establish boards.) For enterprises that have established boards – including those that are not required to do so – the state requires that they comprise at least 1/2 independent

³ Public-interest entities are as defined in the Law on the Audit of Financial Statements and include nearly all large SOEs, the two exceptions being the State Property Bank and Railway Construction Centre, a subsidiary of Lithuanian Railways. Enterprises of importance to national security are listed in the Law on the Protection of Objects Important for Ensuring National Security, which also contains provisions restricting, for example, the privatisation of certain state-owned assets.

members for directly owned SOEs and at least 1/3 for SOE subsidiaries.⁴ A total of 50 SOEs and SOE subsidiaries have established boards (36 directly owned SOEs and 14 subsidiaries) and therefore must implement these compositional requirements. Independent members in both cases are nominated by a selection commission, with the state shareholding entity⁵ having the final say on board appointments for directly owned SOEs and the parent company having the final say for subsidiaries (more details on the composition of these selection commissions are provided under priority recommendation 2, in the section on SOE-subsidary board appointments, that follows). Separately, the boards of all directly owned SOEs as well as all SOE subsidiaries that are of national-security interest must include at least one civil servant.⁶ Civil servants are nominated by the shareholding ministry for directly owned SOEs and by the parent company for subsidiaries, in both cases involving input from the GCC on the job-specific requirements that are included in the public job announcement. The board-selection process is always initiated by the ownership ministry for directly owned SOEs and by the parent company for subsidiaries. Table 3.1 provides a summary of these requirements. Annex C lists all the SOEs that are considered important to national security.

20. **All company shareholders in Lithuania, including state shareholders of fully corporatised SOEs, can choose the type of board that they establish.** To recall, the company law allows company owners, through the articles of association, to choose either the two-tier system (with a supervisory board and a management board) or the one-tier system (with only a management board). Statutory SOEs are subject to a separate law which allows for the establishment of a unitary board but grants the state ownership entity key supervisory functions – notably CEO hiring, dismissal and remuneration, as well as approval of strategy and financial statements – that are legally the purview of the board in limited liability companies. Statutory SOE boards also must comprise at least 1/5 employee representatives. In line with earlier recommendations from the WPSOPP to strengthen SOE boards, the Lithuanian authorities require that any fully corporatised SOEs operating under a single-tier management board accord that board certain supervisory functions. This does not apply to statutory SOEs, for which boards of directors serve a primarily advisory, rather than supervisory, role.

⁴ The requirement to include at least 1/3 independent members in SOE subsidiaries is set forth in the Law on the Management, Use and Disposal of State and Municipal Assets. Selection procedures for independent board members are laid out in the SOE board nomination guidelines, which were adopted by Government Resolution 631.

⁵ More precisely, in statutory SOEs the state ownership ministry makes the decision directly, whereas in fully corporatised SOEs the ownership ministry makes its decision on how to vote at the general meeting of shareholders, which has final authority. Where an SOE is not 100% state-owned, the general meeting of shareholders can include non-state investors, but where an SOE is 100% state-owned, the ownership ministry performs the function of the general meeting of shareholders.

⁶ The requirement for civil servants on the boards of all directly owned SOEs is set forth in the Law on the Management, Use and Disposal of State Assets for fully corporatised SOEs and in the Law on State and Municipal Enterprises for statutory SOEs. SOEs and SOE subsidiaries considered of national-security importance are listed in the Law on the Protection of Objects Important for Ensuring National Security.

Table 3.1. Overview of board requirements in Lithuanian SOEs and their subsidiaries

Type of SOE	Requirements for directly owned SOEs	Requirements for SOE subsidiaries
Public interest enterprises (includes all large SOEs and subsidiaries)	- Must establish a board	- Must establish a board
Enterprises of importance to national security	- Must establish a board - Board must include at least one civil servant	- Must establish a board - Board must include at least one civil servant
Enterprises that have established a board (even if not required to) <u>(In practice: 50 SOEs and subsidiaries)</u>	- Board must include at least 1/2 independent members - Board must include at least one civil servant <u>(In practice: 36 directly owned SOEs)</u>	- Board must include at least 1/3 independent members <u>(In practice: 14 SOE subsidiaries)</u>

Source: Based on information provided by the Lithuanian authorities.

21. **The authorities report generally positive outcomes of the nomination process for independent members to SOE boards of directors.** The state selection commission for independent members of directly owned SOE boards continues work already underway in 2020 to appoint independent members to directly owned SOE boards. The selection commission comprises five members, nominated respectively by the Prime Minister, the ownership Minister, the Minister of Finance, the Minister of Economy and Innovation and the head of the GCC. The recruitment process is initiated by the responsible ownership ministry and first involves a private recruitment agency responsible for publishing the job vacancy, interviewing candidates and proposing a short-list (as well as details on all candidates) to the selection commission. The selection commission chooses one top candidate, plus an alternative, and reports its selection to the responsible ownership minister who makes the final decision.⁷ Members of the selection commission interviewed for this review conveyed their positive impressions regarding the efficiency, transparency and professionalism of the process and indicated that there was always a sufficient number of candidates – sometimes upwards of 100 – for each published vacancy. At the time of writing, 29 selection processes (either for an entire board of directors, or for an individual vacancy) had already been completed in 2022, while 38 were undertaken in 2021. Approximately ten private recruitment agencies have been involved in the process so far, with varying reported levels of efficiency. Members of the selection commission interviewed for this review indicated that the process is becoming more efficient with time, in particular since many SOE board candidates who participated in an earlier selection process are applying to more recent vacancies, making the commission more familiar with their profiles.

22. **Lithuania’s large SOEs also continue to be broadly compliant with requirements for at least 1/2 independent members (or 1/3 for SOE subsidiaries).** Table 3.2 provides an overview of the board composition of Lithuania’s largest SOEs and SOE subsidiaries, illustrating the high proportion of independent members in nearly all of the boards examined. Information provided by the GCC confirms this trend for the SOE portfolio as a whole: whereas in 2016, 70% of all SOE board members were either civil servants from the shareholding ministries, other state representatives, or employee representatives, by end-2021, independent professionals represented almost 60% of all SOE board members. In a similar vein, by end-2021, the majority of board chairs nominated directly by the state were independent members. Additionally, independent board positions are open to foreign candidates and several of Lithuania’s SOEs have foreign members on their boards. This extends the range and diversity of experiences brought to bear in Lithuanian SOE boards. Current and former SOE executives interviewed for this review conveyed

⁷ The ownership minister must select a candidate from among those proposed by the selection commission and can only select the alternative on grounds of national security (following a review of the final selection by relevant national agencies and commissions). For fully corporatised SOEs, the final decision is made by the general meeting of shareholders (a function fulfilled by the ownership ministry in 100% state-owned companies) in accordance with the Law on Companies.

generally positive impressions regarding the growing independence and improving qualifications of board members in Lithuania's large SOEs.

Table 3.2. Board type and composition in large Lithuanian SOEs and subsidiaries (Sept. 2022)

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: Alfonso Faubel* (Former CEO - Onshore, Siemens Gamesa) Judith Buss* (Member of the Supervisory Board of Uniper SE) Bent Christensen* Christensen Management Consulting Holding ApS, Chief Executive Officer and owner; Christensen Management Consulting ApS, Chief Executive Officer and owner; Chairman of the Supervisory Board of Wind Estate A/S) Lorraine Wrafter* (Consultant and owner at "THE PROBLEM") Tim Brooks* (Vice President, Corporate Responsibility at LEGO System A/S; Board Trustee, the Global Action Plan; Member of the Board, the Honnold Foundation) Aušra Vičkačkienė (Ministry of Finance of the Republic of Lithuania, Director of Asset Management Department) Ingrida Muckutė (Director of the Reporting, Audit, Property Valuation and Insolvency Policy Department at the Ministry of Finance of the Republic of Lithuania)</p> <p>Management board: Chair: Darius Maikštėnas (Chief Executive Officer) Živilė Skibarkienė (Chief Organisational Development Officer) Jonas Rimavičius (CFO of Ignitis Group) Vidmantas Saliėtis (Chief Commercial Officer) Mantas Mikalajūnas (Group Head of Regulated Activities)</p>
AB Ignitis gamyba/Ignitis Production (Public LLC, subsidiary of Ignitis Group) (MoF)	Two-tier	<p>Supervisory board: Chair: Unassigned Mindaugas Šeštokas* (Managing Director & VP Central Eastern Europe at UAB Kitron) Vilmantas Vitkauskas (Head of the Threat Management and Crisis Prevention Group) Edvardas Jatautas* (Founder/President at Addendum Group Inc.; CEO and Member of the Board at UAB Addendum Solutions)</p> <p>Management board: Chair: Rimgaudas Kalvaitis (Chief Executive Officer) Darius Kucinas (Director of Production) Andrius Valivonis (Chief Finance and Administration Officer)</p>
AB Energijos skirstymo operatorius (ESO)/Energy Distribution Operator (Public LLC, subsidiary of Ignitis Group) (MoF)	Two-tier	<p>Supervisory board: Chair: Nerijus Datkūnas* (Partner at Metateam) Eligijus Kajieta* (Founder and Principal Consultant at the Reward consulting) Jonas Skardinskas (Head of the Cyber Security and Information Technology Policy Group, Ministry of National Defence) Dalia Jakutavičė (Representative of the employees, President of the Lithuanian Industry Trade Union Federation)</p> <p>Management board: Chair: Renaldas Radvila (Head of Services Division, acting CEO) Audrius Ruseckas (Head of Finance and Administration Division) Virgilijus Žukauskas (Head of Network Operation Division) Ovidijus Martinonis (Head of Network Development Division)</p>
UAB EPSO-G (Private LLC) Ministry of Energy	One-tier	<p>Chair: Robertas Vyšniauskas* (CEO UAB Valstybės investicinis kapitalas) Dainius Bražiūnas (Head of Energy Security Policy Group of Ministry of Energy of the Republic of Lithuania) Gediminas Almantas* (Compliance and Mediation Committee member International Federation of Red Cross and Red Crescent Societies - IFRC) Tomas Daukantas (Head of Law and Personnel Group of Ministry of Energy of the Republic of Lithuania)</p>

Litgrid AB (Public LLC, subsidiary of EPSO-G) <i>Ministry of Energy</i>	One-tier management board	<p>Chair: Algirdas Juozaponis (Finance Director of UAB EPSO-G) Tomas Varneckas (Infrastructure director at UAB EPSO-G) Gediminas Karalius (Senior Adviser of the Energy Security Group at Ministry of Energy of the Republic of Lithuania) Domas Sidaravičius* (CEO of UAB Tuvlita) Artūras Vilimas* (Rail Baltica ENE Engineer-Joint Venture, Stakeholder Manager at IDOM Consulting, Engineering, Architecture S.A.U., Member of the Innovation and Development Committee to the Management Board at UAB EPSO-G)</p>
AB Amber Grid (Public LLC, subsidiary of EPSO-G) <i>Ministry of Energy</i>	One-tier management board	<p>Chair: Vytautas Bitinas (Director of Strategy and Development at UAB EPSO-G) Sigitas Žutautas* (Member of the Council Vilnius University Faculty of Economics and Business Administration, Chairman of Innovation Committee to the Board at UAB EPSO-G) Dalius Svetulevičius (Technical director at UAB EPSO-G) Karolis Švaikauskas (Head of Energy Competitiveness Policy Group at Ministry of Energy of the Republic of Lithuania) Ignas Degutis* (CFO, Executive Board Member at RB Rail SA (Rail Baltica))</p>
AB Klaipėdos nafta/Klaipėda Oil (Public LLC) <i>Ministry of Energy</i>	Two-tier	<p>Supervisory board: Unassigned</p> <p>Management board: Chair: Edvinas Katilius* (PMI (Philip Morris International), VP PMI Global Duty Free) Guy Mason* (Windward Limited member of the board) Jūratė Lingienė* (SEB (Sweden) CFO for Technology and Staff functions) Alfonso Morriello* (AXEGAZ Trading & Technologies S.A.S. Chief Executive Officer) Karolis Švaikauskas (Head of the Energy Competitiveness Group of the Ministry of Energy of the Republic of Lithuania)</p>
VĮ Ignalinos atominė elektrinė/Ignalina Nuclear Power Plant (State enterprise) <i>Ministry of Energy</i>	One-tier	<p>Chair: 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) Rimvydas Štilinis (Energy cells, Director General) Patricija Ceiko (Adviser to the Ignalina Nuclear Power Plant Decommissioning Division of the Ministry of Energy of the Republic of Lithuania) Laimonas Belickas* (Orion Leasing, Director General / Chairman of the Board) Jurgita Radzevičė* (UAB SBA Home, Business Development Director)</p>
AB Lietuvos geležinkeliai/Lithuanian Railways (Public LLC) <i>Ministry of Transport and Communications (MoTC)</i>	One-tier	<p>Chair: Kęstutis Šliužas* (CEO IPI srl/COESIA group (Italija)) Bernard Guillelmon* (JJM vice-president and member of the board; Ermewa Group member of the board) Dalia Andrušionienė* (UAB Omberg group CEO) Aurimas Vilkelis* (Head of transport at Swiss Post) Eugenijus Preikša* (UAB European Merchant Bank Head of risk management, UAB Imlitex Holdings adviser to the board) Agnė Amelija Mikalonė (Senior adviser of the Ministry of Transport and Communications of the Republic of Lithuania) Romus Švedas (Head of Governance division of GCC; MB Romus Švedas and partners CEO, VU TSPMI associate professor)</p>
AB Lietuvos pastas/Lithuanian Post (Public LLC) <i>(MoTC)</i>	One-tier	<p>Chair: Mindaugas Kyguolis* (Independent member of the board of JV "Regitra", public consultant of the mayor of the Kaunas district municipality) Saulius Kerza (Director of Budget and Investment Department of the Ministry of Transport and Communications) Alditas Saulius* (Chairman of the board of UAB "Investicijų ir verslo garantijos" (INVEGA); independent member of the board and chairman of the audit committees of VĮ "Valstybinių miškų urėdija) Arnold Schroven* (Chairman of the board Night star express, owner Schroven Consulting)</p>
AB Lietuvos radijo ir televizijos centras/Lithuanian Radio and Television Centre (Public LLC) <i>(MoTC)</i>	One-tier	<p>Chair: Aušra Pranckaitytė* (UAB "Vidaus audito konsultacijos" CEO) Roma Andruškevičienė (Head of State Property Management and Corporate Governance Division of the Ministry of Transport and Communications of the Republic of Lithuania) Ramūnas Markauskas* (Head of Business Enablement Nord Security, Vilnius University associate professor of partnership)</p>

<p>AB Kelių priežiūra/Road Maintenance (Public LLC) (MoTC)</p>	<p>One-tier</p>	<p>Chair: Vygantas Sliesoraitis* (Board member, Alma Littera Group) Živilė Valeišienė* (Western Union People Strategy Partner for Global Operations and Talent Centers) Nerijus Datkūnas* (Member Of The Supervisory Board AB "Energijos skirstymo operatorius") Audrius Vaitkus (Director of Road Research Institute Vilnius Gediminas Technical University) Agnė Amelija Mikalonė (Senior adviser of the Ministry of Transport and Communications of the Republic of Lithuania)</p>
<p>VĮ Oro navigacija/Air Navigation (State enterprise) (MoTC)</p>	<p>One-tier</p>	<p>Chair: Jūratė Stanišauskienė* (Expert in strategy and governance, professional board member) Mantas Šukevičius* (Board member of UAB Victory Funds, Member Of The Supervisory Board JSCB "Qishloq Qurilish Bank") Gediminas Almantas* (Compliance and Mediation Committee member International Federation of Red Cross and Red Crescent Societies - IFRC) Darius Stravinskas (Head of the Future Transport Policy Group, Ministry of Transport and Communications) Vytautas Vaižmužis (Employee representative, VĮ Oro navigacija, Head of the Aeronautical Rescue Coordination Centre)</p>
<p>VĮ Klaipėdos valstybinio jūrų uosto direkcija/Klaipėda State Seaport Authority (State enterprise) (MoTC)</p>	<p>One-tier</p>	<p>Unassigned</p>
<p>VĮ Lietuvos oro uostai/Lithuanian Airports (State enterprise) (MoTC)</p>	<p>One-tier</p>	<p>Chair: Eglė Čiužaitė* (AB Vilniaus šilumos tinklai independent board member, VĮ Jaunimo linija board member; Executive consultant) Tadas Arvydas Vizgirda* (CEO at Shift4 Payments Lithuania, LLC; Chairman of the Board at the American Chamber of Commerce in Lithuania; Honorary Chairman at Save the Children Lithuania) Saulius Kerza (Director of Budget and Investment Department of the Ministry of Transport and Communications; Member of the Board at state enterprise "Klaipėdos valstybinio jūrų uosto direkcija"; Member of the Board at AB "Lietuvos paštas") Darius Makauskis* (Head of HR Stafa Industrier Group) Gediminas Almantas* (Compliance and Mediation Committee member International Federation of Red Cross and Red Crescent Societies - IFRC)</p>
<p>VĮ Valstybinių miškų urėdija/State Forestry Enterprise (State enterprise) Ministry of Environment</p>	<p>One-tier</p>	<p>Chair: Paulius Martinkus* (Head of strategy and development division AB Vilniaus šilumos tinklai) Normantas Marius Dvareckas* (UAB "Ad ventum" Founder and CEO, Chairman Of The Board, Member of Investment Committee Valstybės investicijų valdymo agentūra; Member of the Board UAB Toksika; Financial Expert Innovation Fund & Horizon 2020 managing agencies (REA & CINEA) by European Commission) Ina Bikuvienė (VĮ Valstybinių miškų urėdija, GIS and geodesy department specialist) Marius Aleinikovas* (Deputy Director for Institute of Forestry Activities, Senior Researcher Lithuanian Research Centre for Agriculture and Forestry) Aurimas Saladžius (Ministry of Environment of the Republic of Lithuania Head of Sustainable Development and Strategic Change Group)</p>
<p>VĮ Registrų centras/Centre of Registers (State enterprise) Ministry of Economy and Innovation of the Republic of Lithuania</p>	<p>One-tier</p>	<p>Chair: Egidijus Vaišvila* (UAB "Executive advisors" partner, UAB "Baltic Clipper" CEO, AB Baltic Underwriting Agency member of supervisory board) Laurynas Pacenka* (MB "Finit" CEO, UAB "FSQUARE" COO, chairman of the board) Dangirutis Janušas* (UAB "Verslo konsultacijų spektras" CEO, UAB "Glass" independent board member) Redvita Četkauskienė* (VĮ Žemės ūkio informacijos ir kaimo verslo centras, CEO) Ieva Bacytė (VĮ Registrų centras Head of the asset information systems (IS) department, employee representative) Nerijus Šeputis* (AB "Telia Lietuva" Head of the remote customer service department)</p>
<p>VĮ Regitra (State enterprise) Ministry of the Interior of the Republic of Lithuania</p>	<p>One-tier</p>	<p>Chair: Orijana Mašalė* Giedrė Blazgienė* Indrė Gasperė (Adviser, Law enforcement division Administration department, Ministry of interior of Republic of Lithuania) Povilas Ruškus (VĮ "Regitra" Vilnius branch Avižieniai group senior. specialist) Tomas Tumėnas*</p>

Source: Information provided by the Lithuanian authorities.

23. **Anecdotal evidence suggests that a more robust governance system may be developing in Lithuania to counter undue state interference in board decisions.** Previous reviews have highlighted individual cases where the state has taken decisive action to over-rule decisions by SOE boards. For example, the 2020 progress review highlighted the example of Lithuanian Post, whose entire board was dismissed by the Ministry of Transport and Communications in 2020 without a replacement board nominated to take over its functions. An interim board comprising only ministry staff was then established, creating a situation in which the ownership ministry effectively took over the functions of the board. The Lithuanian authorities report that it is now very unusual for an entire board to be dismissed before the end of its term; what is more common is for one board member to resign, triggering the need to launch a new selection process. One board chair interviewed for this review noted nonetheless that very often all board members are replaced after the end of their terms, leading to gaps in institutional knowledge and efficiency losses.

24. **The recent case of Lithuanian Railways offers an illustrative example of how the government and one board navigated a complex political and legal situation, while remaining intact.**⁸ In this particular case, at the end of 2021, Lithuanian Railways was subject to public criticism for not implementing U.S.-led sanctions by continuing to transport imports from a Belarusian state-owned company, Belaruskali. In response to both public and government pressure, the board of directors and the CEO eventually came to a mutual agreement that he would step down to de-escalate the situation. (The former CEO indicated that legally the company was not able to simply cancel contractual transport agreements with Belarusian clients who had already paid in advance; the company was reportedly awaiting a formal decision from the state to clarify their legal obligations before moving forward. The Lithuanian government ultimately issued a Government Resolution on 12 January 2022 to cancel the transport agreement between Lithuanian Railways and the state-owned Belarusian company on national security grounds, which took effect as of 1 February.⁹ While some non-governmental representatives interviewed for this review suggested that this case illustrates SOE boards' limited independence (the CEO's resignation decision was not based solely on corporate objectives, but also took into account political pressure), others considered that the mutual agreement between the board and the CEO was evidence of a solutions-oriented approach that ensured continuity and minimised reputational damage for both the company and the state shareholder.

25. **Corporate-governance experts interviewed for this review nonetheless underlined some shortcomings in SOE board effectiveness.** These include notably the fact that (i) SOEs sometimes operate several months without a board in place and (ii) as mentioned above, boards that reach their term are more often than not completely replaced, with re-hiring of individual board members not a common practice. Both issues can contribute to boards' limited institutional knowledge and thus reduce their effectiveness. At the time of writing, one large SOE was operating without its single-tier board in place (Klaipeda State Seaport Authority), while one large SOE with a two-tier board structure (Klaipeda Oil) was operating without its supervisory board in place.

26. **Gaps in board service among SOEs do occur, but usually not exceeding three months.** According to information collected by the GCC, from January 2021 to July 2022, 15 SOEs that usually operate under boards operated without a board at some point during this period, the longest period being five months without a board for two SOEs and the shortest being one month without a board for six SOEs (see Annex D for additional details on the board status of SOEs, which also provides information on boards which operated with an individual board member missing, e.g. following a resignation, and for how long). Local press highlighted this issue after the Government announced SOEs' profitability targets in May 2022,

⁸ For more information on the Lithuanian Railways case, see <https://www.reuters.com/markets/commodities/lithuania-railways-ceo-resign-over-belarus-potash-transport-2021-12-14/>.

⁹ See Reuters (2022), "Lithuania says state railway will cease to transport Belarus potash", 12 January 2022, [<https://www.reuters.com/business/energy/lithuania-terminates-state-owned-railways-contract-transport-belarus-potash-2022-01-12/>].

noting that for the SOEs without boards in place, it would be difficult to establish accountability mechanisms to ensure that those targets would be achieved.¹⁰ As of 7 July 2022, seven SOEs were operating without a board in place, but of those only four SOEs are required to establish boards (the two large SOEs referenced earlier, Air Navigation and Klaipeda State Seaport Authority, as well as two medium-sized SOEs considered important to national security, Viamatika and Detonas).

Priority recommendation 2: Empowering independent SOE boards

Follow-up action on subsidiary board appointments recommended in the context of Lithuania's first post-accession progress review in 2020: 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.

27. **The state has changed the required composition of the state selection commission that nominates independent members to SOE subsidiary boards, giving parent companies the majority vote.** The state has amended its SOE board selection guidelines¹¹ to give the representatives of SOE parent companies the majority vote within the state selection commission for independent members of SOE subsidiary boards. (To recall, for all SOE subsidiaries that have established boards, they must comprise at least 1/3 independent members.) As was already the case in 2020, parent-company boards maintain the legal right to appoint all members of their subsidiary boards, while the selection commission is responsible for proposing qualified candidates to the parent-company board, following a transparent selection procedure that involves private recruitment agencies. Previously, the selection commission comprised one member each from the parent company, the GCC and the ownership ministry, giving the state a majority and raising concerns regarding parent-company boards' perceived right to decide on the appointments of all subsidiary board members. Now, parent companies can appoint three representatives to the selection commission, giving them a majority over the two other state representatives (from the GCC and the relevant ownership ministry). This constitutes an improvement in the arrangements for SOE subsidiary board appointments with respect to the related recommendation. Still, the fact that the state remains involved in the nomination process for subsidiary board members weakens the perceived power of the parent-company board and may heighten the risk of inappropriate intervention in parent companies' management of their subsidiaries. The Lithuanian authorities have not taken steps to make this process temporary or only applied in the interest of national security; the independence requirements and related selection processes are applicable to all SOE subsidiaries that have established boards.

28. **Separately, the state has introduced a requirement that SOE subsidiaries of importance to national security also include one civil servant on their board.** This requirement was established via legislative amendments to the Law on the Protection of Objects Important for Ensuring National Security, which also applies the requirement to several directly owned SOEs that appear on the list¹². At the time of

¹⁰ See Verslo Žinios (2022), "SOEs have set new targets, and the winds are whistling in the boards" (in Lithuanian language), <https://www.vz.lt/finansai-apskaita/2022/05/19/nuleido-vvi-naujus-tikslus-o-valdybose-svilpauja-vejai&e1eafe71ab194>.

¹¹ "Resolution of the Approval of the Description of the Procedure for the Selection of Candidates to the Collegial Supervisory Body or Management Body of a Municipal Enterprise, State or Municipal Company or Subsidiary Thereof".

¹² The requirement for civil servants on the boards of SOEs and SOE subsidiaries of importance to national security is set forth in Article 15, paragraph 7 of the Law on the Protection of Objects Important for Ensuring National Security.

writing, this list included 19 directly owned SOEs and 9 subsidiaries, many of which operate in the transport, energy and communications or information-technology sectors. While this requirement is not problematic from a corporate-governance perspective when it comes to directly owned SOEs, placing such fixed requirements on SOE subsidiary boards may increase the risk of undue state intervention in subsidiary-level management.

29. **Parent-company board members interviewed for this review conveyed two broad impressions regarding the requirement for civil servants on subsidiary boards.** On the one hand, civil servants on SOE-subsidary boards can provide useful background information on the priorities of the state as the (ultimate) shareholder to other board members. Because civil servants constitute a minority on the board, the risk of them being a vector for excessive state influence on board decisions, at the expense of corporate priorities, is limited. On the other hand, there may be limitations to how much value-added a civil servant will bring to the subsidiary board's work, as well as efficiency concerns regarding the decision-making processes in the company group. As highlighted by one parent-company SOE board member, under normal circumstances, material issues of importance to the state shareholder would be reported by subsidiary board members to parent-company management and then to the state shareholder anyway, making this additional channel of information flow between subsidiaries and the state redundant. There may be scope to clarify the respective roles of the state shareholder and parent-company boards within state-owned groups of companies in Lithuania. The Lithuanian authorities underlined that the Lithuanian company law currently does not define the concept of "company groups" or stipulate specific governance rules for this particular corporate arrangement.

Follow-up action on the qualifications of state representatives on boards recommended in the context of Lithuania's first post-accession progress review in 2020: 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.

30. **The process for appointing state representatives to SOE boards has been made more transparent, with strengthened criteria and a stronger role for the GCC¹³.** The state has introduced an entirely new process for appointing state representatives (civil servants and other non-independent appointees) to SOE boards of directly owned SOEs, as of amendments to the SOE board nomination guidelines adopted on 11 August 2021¹⁴. These are supported by implementing guidelines subsequently adopted by ownership ministries through ministerial orders. Whereas state representatives were previously appointed by the relevant ownership ministry and subject only to basic general qualifications criteria, today ownership ministries are explicitly required to also establish vacancy-specific qualifications criteria which are shared with the GCC for input. The GCC then has seven days to provide input on the qualifications criteria, after which the job vacancy must be published on the websites of both the ownership ministry and the SOE, introducing greater transparency to the process. Any civil servant can apply to a relevant board position, regardless of the ministry in which they are employed. Additionally, since August 2022, civil

The related amendment was adopted by the Seimas on 17 September 2020 and entered into force on 1 November 2020.

¹³ State ownership ministries can appoint both civil servants and "other persons" to the boards of SOEs, as long as the board-composition requirements are respected, i.e., for directly owned SOEs, ½ independent directors and at least one civil servant on the board. Throughout the text, the expression "state representatives" is used to apply to both civil servants and "other persons" that are appointed by the state shareholder and are not independent board members.

¹⁴ "Resolution of the Approval of the Description of the Procedure for the Selection of Candidates to the Collegial Supervisory Body or Management Body of a Municipal Enterprise, State or Municipal Company or Subsidiary Thereof".

servants can now be remunerated for their board service, which introduces new incentives to attract more applicants to civil-servant board positions¹⁵. Board remuneration for civil servants is subject to caps based on a percentage of CEO remuneration. In the context of this review, the Lithuanian authorities shared two representative job-vacancy announcements concerning the selection of civil servants for the board of Inland Waterways Authority and Lithuanian Post. Both vacancy announcements included very precise requirements concerning candidates' professional experience and expertise, including for example knowledge of the legal and regulatory framework applicable to SOEs¹⁶.

31. **The selection process for state representatives on SOE boards does still differ from that applicable to independent members.** Non-governmental representatives interviewed for this review expressed some concern with this situation: state representatives are not interviewed by an inter-governmental selection commission and are not vetted by private recruitment agencies, although they face the same liabilities and have the same responsibilities as other board members. Still, the Lithuanian authorities have clearly taken steps to make improvements in this regard.

32. **State representatives, like other SOE board members, must fulfil certain requirements concerning their qualifications and freedom from conflict-of-interest.** These requirements are set forth in several legislative acts. Concerning individual candidate requirements, for fully corporatised SOEs all board candidates must notably hold a university education, must not have any relationship to other natural or legal persons which would lead to a conflict of interest and must not have been dismissed from the company during the preceding five years due to improper performance of duties (these requirements are set forth in the Law on the Management, Use and Disposal of State Assets). For statutory SOEs, all board candidates must have a university degree or equivalent education, have an impeccable reputation and not have any relationships with other legal entities that would constitute a conflict of interest (these requirements are set forth in the Law on State and Municipal Enterprises). Both laws further establish that ownership ministries must elaborate job-specific qualifications for board vacancies. Box 3.3 reproduces the related excerpts from each of these laws. As mentioned earlier, the state's SOE board nomination guidelines establish that the job-specific qualifications developed by ownership ministries must be shared with the GCC for their input prior to publishing the vacancy online.

¹⁵ Although civil servants can now be paid for SOE board service, practices vary across ownership ministries.

¹⁶ The job-vacancy announcements (in Lithuanian language) are available at <https://www.post.lt/lt/apie-mus/naujienos/skelbiama-valstybes-tarnautojo-atranka-i-lietuvos-pasto-valdybos-narius> for Lithuanian Post.

Table 3.3. General requirements for SOE board candidates established by law

Fully corporatised SOEs	Statutory SOEs
<p>A candidate for membership of a collegial body must meet the following general requirements:</p> <ol style="list-style-type: none"> 1. must have a university education or an equivalent education; 2. must not be related to other natural and legal persons, which would lead to a conflict of interest while serving as an independent member of a collegial body; 3. he must not be deprived or restricted of the right to perform the relevant positions for which he is applying, or to perform the functions assigned to those positions; 4. during the last 5 years must not have been removed from the legal entity as an individual or a collegial body due to improper performance of duties. <p>Special requirements for a member of a collegial body are determined by the entity initiating the selection.</p>	<p>Only a natural person who meets all of the following general requirements can be a member of the board:</p> <ol style="list-style-type: none"> 1. has a university degree or an equivalent education; 2. have an impeccable reputation; 3. not related to other legal entities, which could lead to a conflict of interest. 4. A candidate for board members or a member of the board of a company is not considered to have an impeccable reputation for the purposes of this Law, if he is found guilty of a serious or very serious crime, a criminal offense against property, property rights and property interests, the economy and business order, the financial system, public service and public interests, justice, public safety, governance order and has an unexpired or unexpunged criminal record. <p>Special requirements for board members are determined by the institution implementing the rights and duties of the company owner.</p>

Source: Law on the Management, Use and Disposal of State Assets and Law on State and Municipal Enterprises (unofficial translations).

33. **The SOE board nomination guidelines also establish requirements concerning the diversity of competencies that must be achieved within the board as a whole.** They set forth that SOE boards must have a certain diversity of professional experiences and skills, including notably industry-specific expertise, experience in finance, as well as strategic planning competencies. The guidelines also bar politicians from serving on the board of any SOE¹⁷. Finally, the SOE board nomination guidelines reinforce provisions established by other legislation by stating that no board members can have any relationship to the SOE in question that would give rise to any conflicts of interest.

34. **The GCC is taking other steps to professionalise state representation on SOE boards, with plans to directly employ qualified professionals who can then be appointed to SOE boards.** As already noted in Section 2, the GCC has established a dedicated governance department, entirely separate from its monitoring and analysis department, with the stated intention to hire up to five staff members who would subsequently serve on SOE boards on behalf of the state. Each staff member would be responsible for up to five SOEs, allowing the GCC to appoint board members in up to 25 SOEs. As mentioned in Section 2, the GCC has already appointed a new head of the governance department with relevant corporate expertise (the position required at least five years of board service or senior management experience, in an enterprise with a staff of at least 250 people). SOE board members and private-sector representatives interviewed for this report conveyed a positive opinion of this initiative and noted that it could help strengthen the qualifications and professionalism of state representatives on SOE boards. According to the GCC, the new setup could also allow for a streamlining of the appointment process for state representatives on boards: the staff members would undergo a transparent selection process similar to the one applicable to all state representatives on boards, but once they are hired they could be considered pre-qualified and their subsequent board appointments could proceed subject to a less cumbersome process. Because the appointment of state representatives to SOE boards remains the legal purview of ownership ministries, the GCC currently relies on their collaboration to appoint the GCC representative. The initiative is currently being piloted on the board of Lithuanian Railways.

¹⁷ Specifically, the Law on the Management, Use and Disposal of State Assets bars from SOE board service “state politicians and civil servants of political [personal] trust”.

Priority recommendation 3: Corporatising statutory SOEs

Follow-up action on corporatising statutory SOEs recommended in the context of Lithuania's first post-accession progress review in 2020: Proceeding with the planned corporatisations of statutory SOEs engaged in economic activities.

35. **The planned corporatisations of four transport SOEs and the State Property Bank are proceeding according to schedule.** One of the transport SOEs, Inland Waterways Authority, was transformed into a limited liability company on 12 September 2022. The corporatisations of the remaining transport SOEs are expected to be completed by end-2022, and end-2024 for the State Property Bank. Table 3.3 provides an overview of the status of the planned corporatisations announced at the time of Lithuania's accession to the OECD. Since the plans are updated every six months, some entities are no longer planned for corporatisation, while others have been added to the list, but the corporatisations of those enterprises identified as priority at the time of the 2020 progress review (Air Navigation, Klaipeda State Seaport Authority, Lithuanian Airports, Inland Waterways Authority and State Property Bank) have advanced according to plan. The plan was last updated in August 2022. Lithuanian Airports had actually, in the meantime, moved up its corporatisation deadline to mid-2022, but following some issues with asset valuation has since had to revert to the earlier announced deadline of end-2022. Of note, the State Forestry Enterprise and Ignalina Nuclear Power Plant have been added to the list of planned corporatisations and are targeted to be transformed into limited liability companies by end-2023 and end-2024, respectively. Additionally, several SOEs under the purview of the Ministry of Agriculture are currently planned for either privatisation (three enterprises) or liquidation (one enterprise, which is currently undergoing bankruptcy proceedings).

36. **The Lithuanian authorities have also announced their ambition to fully abolish the legal form of "State Enterprise" (*Valstybės įmonė*).** According to the corporatisation plans in place at the time of writing, all statutory SOEs are expected to be converted into limited liability companies or another legal form by the end of 2024. At the time of writing, the Ministry of Economy and Innovation was also planning to submit to the Government a draft law that would repeal the Law on State and Municipal Enterprises, with entry into force of 1 January 2025. Corporatising Lithuania's remaining commercially oriented statutory SOEs will significantly improve their governance arrangements, notably by transferring many supervisory functions from the state to boards of directors. These efforts may also help to attract more qualified candidates to the boards of these enterprises; according to a representative of one ownership ministry, there is often a larger pool of board-position applicants when the SOE is a limited liability company. Since the state's plans for statutory SOEs also allow for their conversion into public institutions, the authorities should take care to ensure that all statutory SOEs with commercial activities are transformed into limited liability companies.

Table 3.4. Status of SOE corporatisation plans announced in 2018

SOEs converted to limited liability companies as planned in 2018	SOEs whose conversion was delayed compared to 2018 plans (and new deadline)	SOEs no longer planned for conversion to LLCs	SOEs newly added to the list for conversion to LLCs (and new deadline)
Road Maintenance Dairy Research Machinery Testing Station	Air Navigation (end 2022) Klaipeda State Seaport Authority (end 2022) Lithuanian Airports (end 2022) Inland Waterways Authority (end 2022 – completed on 12 September 2022) State Property Bank (end 2024) Building Production Certification Centre (May 2022)	GIS-Centras State Land Fund Visaginas Energy (transformed into a municipal enterprise)	State Forestry Enterprise (Sept 2022) Lithuanian Road Administration (Dec 2022) Centre of Registers (Dec 2023) Ignalina Nuclear Power Plant (Dec 2024)

Source: Information provided by the Lithuanian authorities.

Notes: Building Production Certification Centre is planned for privatisation in December 2022. A merger is planned for the following three statutory SOEs prior to their transformation into a public institution: GIS-Centras, State Land Fund and Agricultural Information and Rural Business Centre.

Priority recommendation 5: Eliminating CEO term limits

Follow-up action on eliminating CEO term limits recommended in the context of Lithuania’s first post-accession progress review in 2020: 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.

37. **Legislative amendments to remove provisions fixing explicit dismissal criteria and term limits for the CEOs of SOEs have not been enacted.** As mentioned previously, amendments to abolish the problematic provisions were already submitted to Parliament at the initiative of the Ministry of Economy and Innovation in 2020, but without the support of a Parliament member to propose their adoption, they were not placed on the Parliamentary agenda. The legislation currently in force fixes five-year term limits on SOEs’ CEOs, allowing for their reappointment only once and only if all “operational goals” set at the beginning of his or her term of office have been reached. To recall, amendments to the Law on Companies and the Law on State and Municipal Enterprises, which entered into force on 1 July 2017, introduced these CEO term limits and reappointment criteria in 2017, in an apparent effort to address concerns related to potential risks associated with entrenched CEOs within SOEs. The legislation allowed for the transformation of existing CEOs’ open-ended contracts into fixed-term contracts, with staggered timelines for their dismissal according to how many years they had already served (e.g. those having served between 5 and 10 years could remain in office for a second five-year term commencing at the date of entry into force of the amendments, while those having served more than 10 years could only remain in office for 1 additional year from the date of entry into force).

38. **The legislation foresees the development of a Government Resolution outlining the exact process for determining whether the condition for CEO reappointment is met** (i.e. whether the enterprise has achieved the operational goals set for it at the beginning of the CEO’s term of office). However, no such Government Resolution has been adopted since the legislation was enacted. The Lithuanian authorities report that, in practice, CEO reappointment decisions are based on the results of the board’s evaluation of the CEO’s performance, which may take account of both the CEO’s and the company’s achievement of established KPI targets. In practice, three-year KPIs are set for all SOEs, with

input from the GCC, and usually include financial performance indicators expressed as yearly averages, such as return-on-equity targets, the debt-to-equity ratio or EBITDA minimum targets. SOEs' three-year KPI targets, together with individual yearly performance indicators, are published on the GCC's website.

39. **The Lithuanian authorities have communicated several reasons for establishing these CEO term limits.** In Lithuania's written submission made in the context of the current review, reference was notably made to the value of rotation in the public sector and the need to replace long-serving CEOs who could be either not equipped to adapt to changing market circumstances, or, in the worst of cases, could facilitate irregular or non-transparent corporate practices such as nepotism in hiring practices or economically suspect (non-profitable) transactions. Concerning the choice to introduce CEO term limits through broadly applicable legislation (rather than by allowing boards to simply dismiss CEOs with established cause), one former SOE board chair interviewed for this review noted that the legislative framework accords CEOs with avenues for recourse in case of dismissal that may allow them to threaten or embark the SOE in protracted legal disputes. It was suggested that boards (and ownership ministries, for statutory SOEs) may be reluctant to perform their function of CEO dismissal even when deemed in the corporate interest, particularly if they have developed long-term and dependent relationships with management. However, some private sector stakeholders interviewed for this report suggested that in practice, management entrenchment had been a visible concern with respect to certain public agencies but that for commercial SOEs, such problems have not been evident. Although the Lithuanian authorities agree that the fixed term limits are not ideal from a corporate-governance perspective, they have indicated that the legislative amendments offered the most expedient solution available to the problem of entrenched and/or under-performing CEOs.

40. **Proscribing CEO term limits and reappointment criteria in law diminishes the board's strength and can hamper efforts to incentivise SOE management.** Fixing term limits and reappointment criteria in broadly-applicable legislation greatly limits the power of the board to hire and dismiss the CEO, taking into account both the CEO's performance and the long-term interest of the enterprise. Additionally, the requirement that CEOs must achieve operational goals set at the beginning of their terms in order to be reinstated for a second term may create an incentive for boards and management to set less ambitious KPIs, leading to a non-optimal incentive system for SOE management. It also limits the board's flexibility to take into account external factors, unrelated to management performance, that can influence the achievement of operational goals. One former SOE board chair interviewed for this review suggested that in a context in which talent is scarce, these legislative provisions went too far; in attempting to weed out under-performing CEOs, too little consideration was given to rewarding those that perform well. Another independent SOE board chair suggested that the fixed term limit for CEOs also exacerbates challenges related to attracting and retaining top talent for SOE executive positions.

41. **The Lithuanian authorities have nonetheless indicated the possibility to pursue related legislative amendments in the future.** Although Lithuania's formal reporting in the context of this review¹⁸ conveyed that no progress had been made in this area, it also noted that regulatory issues related to the dismissal criteria and term limits for SOEs' CEOs "will be considered in the future". Representatives of the Ministry of Economy and Innovation have further indicated, during discussions with the Secretariat held in the context of this review, the possibility of pursuing legislative amendments to either (1) remove the five-year term limits on SOEs' CEOs currently fixed by law or (2) maintain the five-year term limits but explicitly allow for the board to decide on CEOs' reappointment(s), which would not be limited in number, based on their own evaluation of CEO performance. The authorities report that there is political will to move forward with legislative amendments, but that in the presence of other policy priorities it could take some time for such legislation to be considered by Parliament.

¹⁸ As communicated through the letter from the Lithuanian Minister of Economy and Innovation and its first annex, reproduced in Annex A.

4 Conclusions

Overall conclusions on Lithuania's continued commitment to SOE reform

42. Since its first post-accession progress report in 2020, Lithuania has maintained its commitment to improving state ownership practices in line with the WPSOPP's earlier recommendations. The authorities have continued strengthening the ownership functions of the Governance Coordination Centre, made improvements to the process for appointing both independent members and non-independent state representatives to SOE boards and even increased their reform ambitions related to SOE corporatisations. While issues remain concerning the state's role in SOE subsidiary board appointments and the continued existence of proscribed term limits for the CEOs of SOEs, on the whole the SOE reform trend in Lithuania is positive.

43. Lithuania's continued commitment to reform is all the more noteworthy given the mix of other pressing challenges facing the country's policy makers since 2020. These have included notably the COVID-19 pandemic, the national security and trade repercussions of Russia's full-scale invasion of Ukraine and tensions with neighbouring Belarus, strained economic relations with China and a challenging domestic economic context, with current inflation rates exceeding 20%.¹⁹ The SOE sector has not been spared the economic impacts of this confluence of events, with aggregate rates of return and profit margins dropping in 2021 compared to 2020. SOEs in the transport sector have been hit particularly hard by reductions in passenger transport and cargo freight linked to the global economic and security context, as well as spikes in energy and other costs. Despite this, SOEs' financial contributions to the state (comprising both dividends and taxes) have remained broadly stable from 2020 to 2021. The Lithuanian state continues to fine-tune SOEs' profitability targets, and to recruit qualified board professionals tasked with ensuring that those targets are met.

44. Under its new leadership, the Governance Coordination Centre has continued to undertake its strong and consistent performance-monitoring functions, regularly providing publicly available information of a high quality on the state's ownership objectives, SOE performance indicators and governance practices. The GCC's website offers to the public a transparent and information-rich resource on state ownership in Lithuania (www.governance.lt). The GCC has also expanded its contributions to shareholding decisions, notably through its participation in selection commissions for independent board members and its feedback on the job-specific requirements for non-independent state representatives on boards.

45. Current and former SOE executives and board members interviewed for this review conveyed a generally positive impression regarding the growing qualifications, professional diversity and independence of Lithuanian SOEs' boards. The boards of Lithuania's largest SOEs continue to comprise a majority of independent professionals, selected through a transparent selection process that involves private recruitment agencies. Although stakeholders interviewed for this review have expressed concerns about state intervention in board matters in one publicised case involving a CEO's resignation (see

¹⁹ For more information on Lithuania's strained economic relations with China see Reuters (2021), "Exclusive: Lithuania braces for China-led corporate boycott", 9 December 2021, <https://www.reuters.com/world/china/exclusive-lithuania-braces-china-led-corporate-boycott-2021-12-09/>.

paragraph 24 above), the trend towards a more robust governance system, underpinned by stronger and more professional boards, is evident.

Lithuania's implementation of the priority recommendations

Priority recommendation 2 on empowering independent SOE boards

Recommended follow-up action on state representatives on SOE boards

46. Building on its progress in introducing a larger proportion of independent directors on SOE boards, Lithuania has also recently improved the process through which state representatives, including civil servants, are selected for SOE board service. Importantly, ownership ministries are now required to share their vacancy-specific job qualifications with the GCC for feedback. The vacancies must then be published online, making the process more transparent. Any civil servant, regardless of his or her place of employment, can apply to an SOE board vacancy. Additionally, civil servants can now be paid for their board service, a measure that could help attract more qualified candidates to open positions. Finally, a promising initiative to employ professional board members in a new governance department of the GCC, to be deployed directly in SOEs in the future, could further professionalise state representation on boards.

Recommended follow-up action on SOE subsidiary board appointments

47. Although the state's involvement in SOE-subsidary board appointments for independent members has not ceased, steps have been taken to ensure that parent-company boards have a majority vote in the related selection commission. As was the case before, parent companies still have the final say in the selection of all board members to their subsidiaries, while the selection commission is responsible only for vetting and proposing the independent members. Still, involving private recruitment agencies and an inter-governmental selection commission in subsidiary board member appointments is quite cumbersome, especially when compared to private-sector practices in company groups. Additionally, the state's involvement in SOE subsidiary board appointments is not temporary or limited to enterprises of importance to national security, since the process applies to all SOE subsidiaries that have established boards. The state's separate requirement to include one civil servant on the board of any SOE subsidiary considered important to national security exacerbates corporate-governance issues in state-owned company groups, by introducing potential inefficiencies in the appointment process as well as heightened risks of undue state intervention in parent-companies' management of their subsidiaries. While the revised arrangements for nominating independent members to SOE subsidiaries represent a clear improvement in ensuring that parent companies maintain control over the appointment process, to be fully aligned with best corporate-governance practices, even the more limited state involvement should be exceptional and temporary.

Priority recommendation 3 on corporatising statutory SOEs

48. Lithuania's SOE corporatisation plans have continued according to schedule, with the corporatisation of four large transport SOEs still expected by end-2022 (one of which was already completed in September 2022) and the corporatisation of the State Property Bank by end-2024. The Lithuanian authorities have even increased their ambitions with regard to SOE corporatisation, announcing plans to abolish the separate legal form of "state enterprise" by January 2025. Of note, the newly consolidated State Forestry Enterprise is slated for corporatisation towards the end of 2022. Once fully implemented, SOE corporatisations will serve to underpin other efforts to strengthen SOE boards of directors, since many powers currently undertaken by the state in statutory SOEs – for example related to CEO hiring, dismissal and remuneration, as well as approval of strategy and financial statements – will be transferred to boards of directors, in line with good practice.

Priority recommendation 5 on eliminating CEO term limits

49. Also related to the board's power to appoint and dismiss the CEO, the Lithuanian authorities have not yet remedied the problematic legislation that fixes a maximum of two five-year terms for the CEOs of SOEs, with reappointment after the first five years only possible if they have achieved all operational goals agreed at the beginning of their terms. Establishing these CEO term limits through broadly applicable legislation was seen by the Lithuanian authorities as a means to reduce the risk of corruption and other irregular practices associated with entrenched, "politically-appointed" CEOs. However, legislating CEO term limits and removing any discretion from the board to reappoint them other than based on achievement of operational goals that typically are established as KPI targets set at that beginning of their terms greatly diminishes the board's power to properly oversee and incentivise SOE management. Furthermore, it limits the possibility to take into account less quantifiable and intangible criteria related to CEO performance, and goes against the principles of the *SOE Guidelines*.

50. The Lithuanian authorities have indicated their openness, moving forward, to pursuing legislative amendments to either remove the five-year term limits or to maintain them but place CEO reappointment decisions (without a limit to the number of reappointments) back into the hands of SOE boards of directors. The Lithuanian authorities should give priority to pursuing such legislative amendments so that SOE boards are empowered to fulfil their good-practice role of overseeing CEO employment decisions in the interest of enterprise performance.

Conclusion on Lithuania's post-accession progress reporting

51. To recall, in the context of Lithuania's first post-accession progress review in 2020, the CGC and WPSOPP considered that sufficient progress had been made in relation to priority recommendation 1 (strengthening the ownership function) and priority recommendation 4 (applying stronger accounting and auditing standards) to conclude related progress reporting. They recommended specific follow-up actions to be undertaken in the near term in order to achieve a more satisfactory implementation of priority recommendation 2 (empowering independent boards of directors), priority recommendation 3 (corporatising statutory SOEs) and priority recommendation 5 (eliminating CEO term limits).

52. In light of Lithuania's progress to date in implementing those three remaining priority recommendations on state ownership, the WPSOPP has agreed to:

- Conclude post-accession progress reporting on priority recommendation 2 on empowering independent SOE boards and priority recommendation 3 on corporatising statutory SOEs.
- Request that Lithuania report back on any developments related to the process for SOE-subsiary board nominations in the context of regular reporting to the WPSOPP.
- Request that the Lithuanian authorities give increased priority to repealing the current provision setting term limits for SOE CEOs as set out in priority recommendation 5. The WPSOPP and CGC may agree to conclude Lithuania's post-accession reporting process via written procedure, following the enactment of satisfactory legislative amendments. However, in the absence of the necessary action to address this concern, Lithuania would be asked to report again to the WPSOPP for a post-accession review of this issue within two years.

Annex A. Letter from the Lithuanian Minister of Economy and Innovation



**LIETUVOS RESPUBLIKOS EKONOMIKOS IR INOVACIJŲ MINISTERIJA
MINISTRY OF THE ECONOMY AND INNOVATION OF THE REPUBLIC OF
LITHUANIA**

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Mr. Charles Donald
The Chair
Working Party on State Ownership
and Privatisation Practices

23/06/2022 No (37.4-32)3-2544

OECD
2, rue André Pascal
75775 Paris Cedex 16
France

Dear Chair,

I am pleased to provide information regarding actions made by the Government of the Republic of Lithuania since 2020 in order to improve national legislation and implement good corporate governance practices.

The *Note by the OECD Secretariat on Lithuania's implementation of corporate governance accession review recommendations* (issued in 2020) provided rather positive overall conclusions on the implementation of OECD recommendations and additionally indicated necessary further steps to be taken. Lithuania was requested to give particular attention in the near term to advancing progress in some areas and to report back on related progress to the Working Party on State Ownership and Privatisation Practices in the context of Lithuania's post-accession progress reporting.

Within the last two years, significant legislative amendments were made regarding appointments of boards of SOEs' as well as their subsidiaries. The Government of the Republic of Lithuania also continues corporatisations of statutory SOEs as foreseen in its *Plan of measures for the transformation of state-owned enterprises* which is revised and updated every six months.

Please find detailed information on the progress in the *Note on Lithuania's Post-accession Progress in 2020-2022 Regarding Certain Areas* attached hereto as Annex No 1. Supplementary revised and amended documents are provided in the attached Annexes from No 2 to No 5.

Yours sincerely,

Minister

Aušrinė Armonaitė

ANNEXES:

1) *Note on Lithuania's Post-accession Progress in 2020-2022 Regarding Certain Areas*, 2 pages;

- 2) Nomination Guidelines, 19 pages;
- 3) Plan for restructuring of state-owned enterprises and centralisation of management of state-owned enterprises, 15 pages;
- 4) Guidelines on the procedures for the selection of civil servants and other persons selected by the ministry of transport and communications to the board of a state-owned enterprise, 3 pages;
- 5) Guidelines on the procedures for the selection of persons to the supervisory or management body of an enterprise, 9 pages.

The Note on Lithuania's Post-Accession Progress in 2020-2022 Regarding Certain Areas

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

The situation regarding 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 state-owned enterprises (SOEs) remains unchanged. Efforts of the Government during recent two years were focused on implementing other OECD recommendations. Regulatory problems relating to dismissal criteria and term limits for the CEOs of SOEs will be considered in the future.

The main arguments regarding the need to regulate the term limits for the CEOs of SOEs are the following:

- the role of SOEs remains important for the national economy and has a significant impact on the growth of state budget revenues;
- SOEs not only seek profit but some of them are aimed to ensure the public interest and most of the SOEs are important for ensuring national security;
- the pursuit of high-quality, transparent and cost-effective corporate governance. The quality of management, transparency and performance of these companies are directly dependent on the ability of the CEOs of SOEs to adapt to the changing market, the application of modern technologies and the changes dictated by globalisation. Long working company's CEOs made insufficient effort to adapt to the changing market situation; also, they did not tend to focus towards innovate and good corporate governance practices leading to greater transparency and efficiency. Established management principles can have a decisive influence on non-transparent activities of SOEs, including the establishment of nepotism practices and the non-transparent selection of their employees, the non-transparent remuneration of CEOs and other employees, the conclusion of economically unprofitable and non-transparent transactions that prevent efficient and rational management of state assets;
- reduced corruption risks. In the reports of the Council of Europe Group of States against Corruption (GRECO), rotation in the public sector is seen as a positive factor in reducing the likelihood of corruption. The term limits of the CEOs of SOEs and MOEs can be seen as an effective anti-corruption tool to significantly reduce the corruption risks which may appear due to long-lasting management relations with politicians.

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

The first part of this recommendation has been implemented through the revision and updating of the Nomination Guidelines on 11 August 2021. Representatives of the holding company which is SOE were enabled to make decisive decisions in selecting the most suitable candidates for the board of its subsidiary – the number of holding company representatives in the selection commission was increased from 1 to 3 and the CEO of holding company was allowed to participate in the selection commission. Regulatory changes related to limited participation of the state in SOE subsidiary board appointments are on the future agenda.

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

This recommendation was implemented through the revision and updating of the Nomination Guidelines on 11 August 2021. The basic provisions for the selection of civil servants and other persons selected by the entity initiating the selection has been established also providing for the obligation of the entity initiating the selection to approve the guidelines for the selection procedures of these persons and ensure that non-independent appointees to the board members meet the requirements set out in the law and have necessary expertise and skills. When deciding on the most suitable candidates, the entity initiating the selection must assess the candidates' professional and work experience subject and personal qualities, motivation and suitability to contribute to the company's strategic objectives. The selection of candidates must be made public. The Governance Coordination Center was also included in the selection procedure and together with the company had to submit proposals regarding special requirements for candidates and the areas of competence whose specialists could best contribute to the implementation of the company's strategic objectives.

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

Lithuanian authorities continue with the planned corporatisations of statutory SOEs. At the end of last year, the Government approved an updated Plan of measures for the transformation of state-owned enterprises. The Plan outlines a detailed timeline for the transformation of state enterprises into limited liability companies or another legal entity.

The Parliament approved the reorganisation of Lithuanian airports, Air Navigation, Klaipėda State Seaport Authority, Inland Waterways Authority into public limited companies. The reorganisation of these state enterprises should be completed by the end of this year. The Parliament also considers the draft law aimed to merger into one state enterprise SE State Land Fund, SE Agricultural Information and Rural Business Centre and SE National Center for Remote Sensing and Geoinformatics GIS-Centras acting in the field of agriculture. Following the merger, this state enterprise should be transformed into a limited liability company.

The corporatisation of these statutory SOEs will give the state the opportunity to introduce smarter governance, transfer many decision-making responsibilities from the state to these SOE's boards of directors and reduce risks for the politicisation of corporate decisions.

The plan envisages the transformation of SE State Forest Enterprise, SE Center of Registers, SE Bank of Property into a limited liability company as well as the transformation of SE Regitra into another legal entity.

It should be noted that the Ministry of the Economy and Innovation has drafted and will soon submit to the Government a draft law repealing the Law on State and Municipal Enterprises as well as other draft laws eliminating the regulation of state and municipal enterprises as legal entities. These draft laws are due to enter into force on 1 January 2025. Until now, all state enterprises engaged in commercial activities will be transformed into limited liability companies.

Over the last 6 years, the portfolio of SOEs was optimised from 128 to 46 companies. The Plan is updated every six months. All measures under the Plan are expected to be successfully implemented before the end of 2024.

Annex B. List of Lithuanian SOEs and SOE subsidiaries

	Name in Lithuanian	Name in English (unofficial translation)	Ownership ministry or SOE parent company	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	Public 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 Ignitis grupės paslaugų centras	Ignitis Group Service Centre	Subsidiary of AB Ignitis grupė	Medium	Private LLC	One-tier	
1.6	UAB Energetikos paslaugų ir rangos organizacija*	Organisation of Energy Services and Contracting	Subsidiary of AB Ignitis grupė	Small	Private LLC	No board	
1.7	UAB Elektroninių mokėjimų agentūra	Electronic Payment Agency	Subsidiary of AB Ignitis grupė	Micro	Private LLC	One-tier	
1.8	UAB Vilniaus jėgainė kogeneracinė	Vilnius Cogeneration Power Plant	Subsidiary of AB Ignitis grupė	Small	Private LLC	One-tier	
1.9	UAB Kauno kogeneracinė jėgainė	Kaunas Cogeneration Power Plant	Subsidiary of AB Ignitis grupė	Small	Private LLC	One-tier	
1.10	UAB Transporto valdymas	Transport Management	Subsidiary of AB Ignitis grupė	Medium	Private LLC	No board	
1.11	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	
2.3	AB Amber Grid	Amber Grid	Subsidiary of UAB EPSO-G	Large	Public LLC	One-tier	Yes
2.4	UAB BALTPOOL	BALTPOOL	Subsidiary of UAB EPSO-G	Small	Private LLC	One-tier	

	Name in Lithuanian	Name in English (unofficial translation)	Ownership ministry or SOE parent company	Size class	Legal form	Board structure	Board required (public interest entity or important to national security)
2.5	UAB Energy cells	Energy cells	Subsidiary of UAB EPSO-G	Small	Private LLC	One-tier	Yes
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 Geležinkelio tiesimo centras	Railway Construction Centre	Subsidiary of AB Lietuvos geležinkeliai	Large	Private LLC	One-tier	
5.2	UAB Rail Baltica statyba	Rail Baltica Construction	Subsidiary of AB Lietuvos geležinkeliai	Micro	Private LLC	One-tier	
5.3	AB LTG Cargo	LTG Cargo	Subsidiary of AB Lietuvos geležinkeliai	Large	Public LLC	One-tier	Yes
5.4	UAB LTG Link	LTG Link	Subsidiary of AB Lietuvos geležinkeliai	Large	Private LLC	One-tier	Yes
5.5	AB LTG Infra	Lithuanian Railway Infrastructure	Subsidiary of AB Lietuvos geležinkeliai	Large	Public LLC	One-tier	Yes
6	AB Lietuvos pastas	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	Smiltyne Ferry	Ministry of Transport and Communications	Medium	Public LLC	One-tier	
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	AB Vidaus vandens kelių direkcija	Inland Waterways Authority	Ministry of Transport and Communications	Medium	Public LLC	One-tier	Yes
14	AB Detonas	Detonas	Ministry of Transport and Communications	Medium	Public LLC	One-tier	Yes
15	AB VIAMATIKA	VIAMATIKA	Ministry of Transport and Communications	Medium	Public LLC	One-tier	Yes
16	VĮ Lietuvos automobilių kelių direkcija	Lithuanian Road Administration	Ministry of Transport and Communications	Medium	SE	One-tier	Yes
17	VĮ Valstybinių miškų urėdija	State Forestry Enterprise	Ministry of Environment	Large	SE	One-tier	Yes
18	UAB Statybos	Production Certification	Ministry of Environment	Small	Private	No board	

	Name in Lithuanian	Name in English (unofficial translation)	Ownership ministry or SOE parent company	Size class	Legal form	Board structure	Board required (public interest entity or important to national security)
	produkcijos sertifikavimo centras	Centre			LLC		
19	UAB Būsto paskolų draudimas	Mortgage Insurance	Ministry of Finance	Small	Private LLC	One-tier	
20	VĮ Indėlių ir investicijų draudimas	Deposit and Investment Insurance	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	
23	UAB Projektų ekspertizė	Project expertise	VĮ Turto bankas	Small	Private LLC	No board	
24	UAB Panevėžio veislininkystė	Panevėžys breeding	VĮ Turto bankas	Small	Private LLC	No board	
25	UAB Šilutės polderiai	Šilutė polders	VĮ Turto bankas	Small	Private LLC	One-tier	
26	UAB Šilutės veislininkystė	Šilutė breeding	VĮ Turto bankas	Small	Private LLC	No board	
27	UAB Valstybės investicijų valdymo agentūra	The State Investment Management Agency	Ministry of Finance	Small	Private LLC	Two-tier	
28	UAB Žemės ūkio paskolų garantijų fondas	Agricultural Credit Guarantee Fund	Ministry of Finance	Small	Private LLC	Two-tier	
29	VĮ Mūsų amatai	Our crafts	Prison Department	Medium	SE	No board	
30	AB Giraitės ginkluotės gamykla	Giraitės armaments factory	Ministry of Finance	Medium	Public LLC	One-tier	Yes
31	UAB Investicijų ir verslo garantijos	Investment and business guarantees	Ministry of Finance	Small	Private LLC	Two-tier	
31.1	UAB Kofinansavimas	Co-financing	UAB Investicijų ir verslo garantijos	Small	Private LLC	No board	
32	UAB Valstybės investicinis kapitalas	State investment capital	Ministry of Finance	Small	Private LLC	One-tier	
33	UAB Lietuvos kinas	Lithuanian cinema	Ministry of Culture	Small	Private LLC	No board	
34	UAB Lietuvos monetų kalykla	Lithuanian Mint	Bank of Lithuania	Medium	Private LLC	One-tier	
35	VĮ distancinių tyrimų ir geoinformatikos centras Gis-centras	National Center for Remote Sensing and Geoinformatics GIS-Centras	Ministry of Agriculture	Small	SE	No board	
36	VĮ Registrų centras	Centre of Registers	Ministry of Economy and Innovation	Large	SE	One-tier	Yes
37	UAB Toksika	Toksika	Ministry of Economy and Innovation	Medium	Private LLC	One-tier	
38	UAB Lietuvos parodų ir kongresų	Lithuanian Exhibition and Congress Centre	Ministry of Economy and Innovation	Medium	Private LLC	One-tier	

	Name in Lithuanian	Name in English (unofficial translation)	Ownership ministry or SOE parent company	Size class	Legal form	Board structure	Board required (public interest entity or important to national security)
	centras LITEXPO	LITEXPO					
39	VĮ Regitra	Regitra	Ministry of the Interior	Large	SE	One-tier	
40	AB Jonavos grūdai	Jonava Grains	Ministry of Agriculture	Medium	Public LLC	One-tier	Yes
41	AB Lietuvos veislininkystė	Lithuanian breeding	Ministry of Agriculture	Small	Public LLC	One-tier	
42	UAB Lietuvos žirgynas	Lithuanian stud farm	Ministry of Agriculture	Small	Private LLC	One-tier	
43	UAB Genetiniai ištekliai	Genetic resources	Ministry of Agriculture	Small	Private LLC	One-tier	
44	UAB Pieno tyrimai	Milk testing	Ministry of Agriculture	Medium	Private LLC	One-tier	
45	VĮ Valstybės žemės fondas	State Land Fund	Ministry of Agriculture	Medium	SE	No board	
46	VĮ Žemės ūkio informacijos ir kaimo verslo centras	Agricultural Information and Rural Business Centre	Ministry of Agriculture	Small	SE	One-tier	
47	UAB GVT LT	GVT LT	Ministry of Environment	Small	Private LLC	No board	

Source: Information provided by the Lithuanian authorities.

Annex C. List of Lithuanian SOEs and subsidiaries important to national security

The below list of SOEs and SOE subsidiaries considered important to national security are subject to the following corporate-governance related requirements owing to their appearance on the list: (i) they must operate under a board of directors; (ii) that board of directors must include at least one civil servant. The related legislation establishes several other national-security related requirements for these enterprises, for example related to limiting foreign-investor control and requiring the development of dedicated security plans, which must include measures to protect physical, cyber and personnel security, as well as information confidentiality.

SOE name in Lithuanian	SOE name in English	Directly owned or subsidiary
AB Ignitis grupė įmonių grupė	Ignitis Group	Directly owned
UAB EPSO-G įmonių grupė	EPSO-G Group	Subsidiary of Ignitis Group
AB Klaipėdos nafta	Klaipėda Oil	Directly owned
VĮ Ignalinos atominė elektrinė	Ignalina Nuclear Power Plant	Directly owned
AB Lietuvos geležinkeliai įmonių grupė	Lithuanian Railways Group	Directly owned
AB Lietuvos pašto įmonių grupė	Lithuanian Post Group	Directly owned
VĮ Oro navigacija	Air Navigation	Directly owned
VĮ Klaipėdos valstybinio jūrų uosto direkcija	Klaipėda State Seaport Authority	Directly owned
VĮ Lietuvos oro uostai	Lithuanian Airports	Directly owned
AB Vidaus vandens kelių direkcija	Inland Waterways Authority	Directly owned
AB Lietuvos radijo ir televizijos centras	Lithuanian Radio and Television Centre	Directly owned
AB Kelių priežiūra	Road Maintenance	Directly owned
VĮ Lietuvos automobilių kelių direkcija	Lithuanian Road Administration	Directly owned
VĮ Valstybinių miškų urėdija	State Forestry Enterprise	Directly owned
AB Detonas	Detonas	Directly owned
AB Viamatika	Viamatika	Directly owned
VĮ Registrų centras	Centre of Registers	Directly owned
AB Giraitės ginkluotės gamykla	Giraitės armaments factory	Directly owned
AB Jonavos grūdai	Jonava Grains	Directly owned
AB Ignitis gamyba	Ignitis Production	Subsidiary of Ignitis Group
AB Energijos skirstymo operatorius	Energy Distribution Operator	Subsidiary of Ignitis Group
UAB Ignitis	Ignitis	Subsidiary of Ignitis Group
Litgrid AB	Litgrid	Subsidiary of EPSO-G
AB Amber Grid	Amber Grid	Subsidiary of EPSO-G
UAB Energy cells	Energy Cells	Subsidiary of EPSO-G
AB LTG CARGO	LTG Cargo	Subsidiary of Lithuanian Railways Group
UAB LTG Link	LTG Link	Subsidiary of Lithuanian Railways Group
AB LTG Infra	LTG Infra	Subsidiary of Lithuanian Railways Group

Source: Information provided by the Lithuanian authorities and the Law on the Protection of Objects Important for Ensuring National Security.

Annex D. Gaps in board appointments in Lithuanian SOEs (Jan 2021-July 2022)

Enterprises that operated without a board			
	Board required (public interest or national-security importance)	1 January 2021-1 July 2022	Status
AB Detonas/Detonas	Yes	3 months	Board appointed on 30 May 2022
AB Jonavos grūdai/Jonava Grains	Yes	1 month	Board appointed on 4 February 2022
AB Kelių priežiūra/Road Maintenance	Yes	2 months	Board appointed on 3 January 2022
AB Klaipėdos nafta/Klaipėda Oil	Yes	2 months	New supervisory board not yet appointed
AB VIAMATIKA/VIAMATIKA	Yes	3	New board not yet appointed
AB Smiltynės perkėla/ Smiltynė Ferry		2	Board appointed on 18 March 2022
UAB Investicijų ir verslo garantijos/Investment and Business Guarantees		5	New board not yet appointed
UAB Žemės ūkio paskolų garantijų fondas/Agricultural Credit Guarantee Fund		3 months	Board appointed on 25 April 2022
VĮ Klaipėdos valstybinio jūrų uosto direkcija/Klaipėda State Seaport Authority	Yes	4 months	New board not yet appointed
VĮ Oro navigacija/Air Navigation	Yes	5 months	New board not yet appointed
VĮ Registrų centras/Centre of Registers	Yes	2 months	Board appointed 27 June 2022
VĮ Regitra/Regitra		2 months	Board appointed on 20 June 2022
VĮ Turto bankas/State Property Bank		1.5 months	New board not yet appointed
VĮ Valstybinių miškų urėdija/State Forestry Enterprise	Yes	2 months	Board appointed on 10 March 2022
AB Detonas/Detonas	Yes	2 months	New board not yet appointed
Enterprises that operated with missing members			
AB Lietuvos paštas Group/Lithuanian Post	Yes	1 month	1 member yet to be appointed
AB Lietuvos radijo ir televizijos centras/Lithuanian Radio and Television Centre	Yes	3 months	1 member yet to be appointed (independent)
AB Lietuvos veislininkystė/Lithuanian Breeding		1	1 member yet to be appointed
UAB Lietuvos monetų kalykla/Lithuanian Mint		1 month	1 member yet to be appointed (independent)

UAB Valstybės investicijų valdymo agentūra/State Investment Management Agency		1 month	1 member yet to be appointed (independent)
AB Jonavos grūdai/Jonava Grains	Yes	1 month	1 member yet to be appointed

Source: Based on information provided by the Lithuanian authorities, collected by the GCC.