

APPROVED

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LETTER ON THE OBJECTIVES PURSUED AND THE EXPECTATIONS SET BY THE STATE THAT ARE RELATED TO THE ACTIVITIES OF UAB “IGNITIS GRUPĖ”

This letter presents the expectations of the State, the Majority Shareholder of AB “Ignitis grupė” (hereinafter – the Company), which is represented by the Ministry of Finance of the Republic of Lithuania, regarding the activities, priorities, principles, and objectives of the AB “Ignitis grupė” group of companies (hereinafter – the Group).

Activities

The activities of the Group include generation and development of green and flexible energy, energy distribution and supply, development of energy-smart solutions and other related activities. The Group's activities are of strategic importance to the State as they include the management of the strategic infrastructure of the Lithuanian energy system and the implementation of projects of the strategic importance.

The Company, which is the parent company of the Group, is responsible for the transparent management and coordination of the Group's activities and the increase in their efficiency in order to make a significant contribution to the energy security and green transition in the region while providing competitive services to customers and ensuring a socially responsible growth of long-term value for the State.

Priorities, principles, and goals

The activities of the Group must be sustainable and socially responsible while continuing to develop a modern, international, and competitive energy Group. The Shareholder expects a consistent and focused growth of the Group while increasing the Group's and the State's competitiveness by modernising the energy infrastructure and developing new energy competencies.

Given the strategic impact on the Lithuanian energy system, the Group must contribute to the achievement of the National Energy Independence Strategy objectives and integrate them into its long-term and short-term business priorities, focusing on the achievement and fulfilment of the National Energy Independence Strategy's goals and objectives, which are directly related to the activities of the Group.

The expectations on the Group's strategic priorities are formulated while considering the strategic importance of the Group's assets to ensure the stability of the Lithuanian energy system. Additionally, the aim is to implement innovative and contemporary solutions that meet the needs of the local and global market and ensure the integration of the global and regional energy changes into the Lithuanian energy system. The Group must ensure the business continuity and consistency of growth by implementing renewable energy projects that contribute to the global reduction of greenhouse gas emissions by developing new business models and innovative solutions.

To achieve the economies of scale, development of competencies and risk diversification, the Group's strategic expansion in the region should be pursued, focusing on expansion in its home market: the Baltic states (prioritising the expansion in Lithuania), Poland, Finland (hereinafter – the region), and actively pursuing new opportunities in the European Union countries undergoing major energy transitions.

Expectations in respect of the Group's strategic priorities are the following:

1. to develop green energy generation capacities while contributing to Lithuania's and regional commitments to increase electricity generation from the renewable energy sources, and significantly contributing to energy security and green transition in the region;
2. to enable green transition, ensure the resilience and development of the electricity distribution network and deploy smart grid management solutions;
3. to ensure the reliability and flexibility of the Lithuanian energy system and its development while contributing to the implementation of changes in the energy sector in Lithuania and across the region;
4. to facilitate the electrification of transport, industry and heating sectors while developing innovative solutions and actively seeking new profitable development opportunities;
5. to ensure sustainable development of the Group activities.

Expectations by priority activities

Green generation

The Group should prioritise focused, sustainable, and profitable development of green energy generation capacities to significantly contribute to the energy security and green transition in the region. The Group should continue to look for ways to increase electricity generation and invest in electricity generation from renewable energy sources both in Lithuania and other EU Member States. The main green energy generation technologies the Group should invest in are offshore and onshore wind, solar energy and hybrid technologies. The Group should mainly focus on preparation for offshore wind projects in Lithuania and their successful implementation. The Group should also explore investment opportunities in energy storage solutions (e.g., hydrogen, batteries, synthetic fuel, etc.). In the process of investment planning, the Group should look at the socio-economic impact and make decisions that yield the highest added value from the national perspective.

To introduce new technologies, the Group is recommended to cooperate with partners which have experience in implementing such investments.

The Group should utilise its electricity supply customer portfolio while concluding power purchase agreements (PPA), thus enabling rapid development of green energy generation capacities.

The development must be carried out while adhering to the principles of financial discipline – return on investment projects must be consistent with the risk taken, and debt level should be in line with market practices. To maximize the return on investment and to use financial resources efficiently, the Group should implement an asset rotation strategy, which is a common practice in the

energy sector, where a stake in each of the Group's green energy generation project could be sold to investors.

Networks

The Group should prioritise ensuring the resilience of the electricity distribution network to external factors, efficient distribution, network development, facilitating the energy market and electrification in Lithuania. To reach these goals, investments should be directed towards connecting new electricity consumers to the grid, electric vehicle (EV) charging stations, expanding electricity network capacity, and developing other energy markets (electrification of transport, industry and heating systems). It should also automate the electricity distribution network management, digitalise the network, implement the smart meter programme and ensure that the network reliability indicators are within the set norm. Particular attention must be given to creating a good customer experience throughout the service process.

The Shareholder expects the Group to invest in further development of the Data Hub's functionalities by implementing an open data model, creating a database of production, supply, and consumption of the Lithuanian energy market accessible to all market participants. By implementing energy efficiency solutions, the Group shall aim to reduce the cost of electricity for its customers and, thus, increase their competitiveness in domestic and international markets.

It must maintain the quality and safety parameters of the gas distribution network.

Reserve capacities

The Group should prioritise ensuring a reliable and secure Lithuanian energy system by providing reserve and ancillary services to the electricity transmission system operator. The Group must use its reserve capacities to ensure system stability and reliability. The Group must ensure the availability and long-term operational capacity of the infrastructure it manages that is important for national and energy security, i.e., the power generating facilities of Elektrėnai Complex (at least the availability and long-term operational capacity equal to that of the Lithuanian Combined Cycle Gas Turbine and Unit 8 power plants after major repairs) to contribute to the security and stability of the Lithuanian power system and the mitigation of the impacts of potential national crisis scenarios on the electricity sector.

The Group must contribute to the successful synchronisation of the power grids of the Baltic states with the synchronous grid of Continental Europe and carry out the necessary preparations for effective and active participation in the ancillary services market.

Customers and solutions

Priority should be given to the deployment of innovative, high-added-value energy solutions (thus contributing to the development of the energy sector), as well as to ensuring competitive energy supply. Additionally, the Group should prioritise the expansion of its customer portfolio and utilising it to conclude PPAs to enable development of green energy generation capacities. It should also prioritise the expansion of the public EV charging network and establishing a leading position in the Baltic states as well as electrification of transport, industry, and heating sectors to replace fossil fuels (including natural gas) with clean electricity and optimise natural gas supply portfolio while ensuring the security and reliability of the energy system as well as robust energy supply in Lithuania during the transition period.

The Group must also strive to increase electricity supply in the region by supplying final consumers with clean energy from its green energy generation assets as well as ensure good customer experience.

The Group must seek to exploit the benefits of economies of scale by providing competitive and affordable energy services to business and private customers, ensuring good customer service by improving its quality.

Financial expectations

Dividends

The Company's Dividend Policy was adopted in the Resolution No 963 of the Republic of Lithuania "On dividends paid by AB "Ignitis grupė"" of 2 September 2020, directed at increasing the dividend value. The increase in dividends for every consecutive year should be at least 3%. The subsidiaries of the Company, except for the ones carrying out the development of green energy generation capacities, must strive for the maximum dividend pay-out. The subsidiaries of the Company carrying out the development of green energy generation capacities should reinvest their earnings to further expansion.

Capital structure

The Company must maintain a high investment credit rating ('BBB' and higher), and the Group's average net debt to annual adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) ratio should not exceed 5 times in the medium and long term.

Target returns

While implementing the Group's strategy, the Company must ensure at least 6.5% adjusted return on capital employed (ROCE). When investing outside of Lithuania, the risks associated with investments in that country's market should be adequately assessed and an appropriate return on capital should be ensured.

Long-term goals

To ensure the sustainable implementation of shareholders' interests, the Group's strategy and long-term goals must adhere to international best practices, key executives of the Group must have long-term objectives that would be linked to the Group's strategy, and the achievement of these objectives must be linked to long-term financial incentives.

The long-term objectives set for key executives of the Group must motivate them to implement the Group's long-term strategy and cannot be the same as the short-term goals. These goals should include increasing shareholder returns and return on capital employed, development of green energy generation capacities as well as sustainability indicators.

Implementation of the objectives set by the Government of the Republic of Lithuania

The Company shall ensure the implementation of the key financial performance indicators as approved by the Government of the Republic of Lithuania, and it is recommended to achieve other specialised financial and non-financial performance indicators.

Non-financial expectations

Innovations

The Group must look for innovative solutions enabling the opportunities to create additional value to electricity consumers. Innovative solutions should be developed together with partners, contributing to environmental goals, and helping consumers to become energy smart. The Group should also proactively contribute to the development of energy communities in Lithuania while enabling consumers to actively participate in the electricity market by providing system flexibility services, generating, storing, or selling their own renewable electricity, motivating consumers to change their consumption habits in real time in response to changes in the electricity market and encouraging consumers to become co-owners of remote renewable energy plants.

The Group is expected to contribute to the promotion of innovations in the energy sector by continuing investing in energy start-up companies. There should be a close cooperation with science and research institutions as well as other parties interested in changes in the energy sector.

Environmental, social responsibility and good corporate governance practices

Criterion for environmental, social responsibility and good corporate governance practices must be integrated into the long-term business goals of the Group. Additionally, the Group must consistently implement and monitor the commitment to reduce net carbon dioxide emissions to zero by 2050 and contribute to the Sustainable Development Goals where the Group's activities have the greatest impact. The Group, as a socially responsible business, must prioritise occupational health and safety as well as improve employee wellbeing, diversity, and inclusion.

To attract and retain the future talent necessary for the implementation of the Company's strategy and the National Energy Independence Strategy, the Company must strive to make a continuous contribution to raising the profile, popularity, and prestige of the energy profession. The Company must enhance its attractiveness as an employer, including by providing competitive remuneration, to attract the skills needed to implement the strategy. The Group should also cooperate with Lithuanian and foreign educational institutions and the scientific community to develop the necessary energy competences and to become a centre of excellence for renewable energy in the region.

The Group must maintain a level of corporate governance maturity and the highest ('A+') corporate governance index score based on the Good Governance Index of the Governance Coordination Centre. The Group must continue to follow the requirements of the Organization for Economic Co-operation and Development (OECD) and of stock exchanges where it is listed as well as good governance practices of international companies. In all its activities, the Group must apply the highest transparency standards and the principles of depoliticised activities. The Shareholder expects the Group's management and supervisory bodies to continue to uphold good corporate governance practices and to carry out an annual evaluation of its performance.
