

APPROVED

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Finance of the Republic of Lithuania of 7 September 2020)

## **DESCRIPTION OF THE GUIDELINES FOR CORPORATE GOVERNANCE OF STATE-OWNED GROUP OF ENERGY COMPANIES**

### **SECTION 1 GENERAL PROVISIONS**

1. The Description of the Guidelines for Corporate Governance of State-owned Group of Energy Companies (hereinafter – the Guidelines) contains the formulated corporate governance guidelines covering the general principles of the governance model of AB “Ignitis grupė” (hereinafter – the Company) and its subsidiaries, irrespective of their place of establishment (hereinafter – the Group of Companies) applicable to the management structure and the management and control system. The Guidelines are recommended to be followed in forming and implementing the governance structure and the management and control system of the Group of Companies.

2. The corporate governance of the Group of Companies is understood as a system designed to manage and control the Group of Companies with a view to pursuing for the objectives which are common not only for the individual company but also for the entire Group of Companies. In performing the functions of patronage assigned to it, the Company implements the corporate governance of the Group of Companies.

3. The Guidelines have been prepared in accordance with the Republic of Lithuania Law on Companies (hereinafter - the Law on Companies), the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius approved at the meeting of the Board of AB NASDAQ OMX Vilnius of 21 August 2006 (the minutes No 06-72) (hereinafter – the Governance Code), the codes and principles of other States and international organizations whose main ideas and directions are reflected in the principles of corporate governance in state-owned enterprises set out by the Organization for Economic Cooperation and Development (OECD) and in the OECD Guidelines, the Description of the Guidelines for Ensuring Transparency of State-Owned Enterprises approved by the Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 “On the Approval of the Description of the Guidelines for Ensuring Transparency of State-Owned Enterprises”, the Resolution No 1341 of the Government of the Republic of Lithuania of 23 August 2002 “On the Pay of the Executives of State-Owned Enterprises”, and the Description of the Procedure of the Implementation of State Property and Non-Property Rights in State-Owned Enterprises approved by the Resolution No 665 of the Government of the Republic of Lithuania of 6 June 2012 “On the Approval of the Description of the Procedure for the Implementation of Property and Non-property Rights of the State in State-Owned Enterprises” (hereinafter – the Property Guidelines), as well as other legal acts regulating the activities of the Group of Companies. The application of the Corporate Governance principles is based on international and national legal acts and good corporate governance practices.

4. The Guidelines shall be followed in making relevant decisions of the principal shareholder of the Company or of the supervisory or managing bodies of the Group of Companies.

### **SECTION 2 PRINCIPLES OF CORPORATE GOVERNANCE OF THE GROUP OF COMPANIES**

5. The Principles of Corporate Governance of the Group of Companies (hereinafter – the Principles of Corporate Governance) are:

5.1. Making preconditions for effective Corporate Governance: an environment in which the Group of Companies or individual companies operate promotes transparency in the market, ensures separation of management, oversight and state regulatory functions.

5.2. The exercise of the rights conferred by shareholders' shares: the corporate governance system shall ensure the possibilities of exercising the property and non-property rights arising from the share management: financial (return on equity (ROE)) and non-financial value creation while safeguarding the interests of minority shareholders. The principal shareholder of the Company shall seek and ensure that the Group of Companies operates on an equal footing with other market participants, without creating exclusive business conditions for the Group of Companies.

5.3. The role of stakeholders: the Corporate Governance system shall recognise the expectations and rights of stakeholders arising from agreements or legal regulation, as well as shall encourage active cooperation in creating sustainable added value.

5.4. Openness and Transparency: the Corporate Governance system must ensure timely and accurate disclosure of information about the Group of Companies by providing financial, operational, managerial, as well as other information to be communicated to the stakeholders. The Group of Companies strives for transparency in all areas of its activities, and observes the principles of zero tolerance to corruption and of unbundling of the activities of the Group of Companies from political influence.

5.5. Responsibility and accountability of the managing and supervisory bodies: the Corporate Governance system shall ensure that the managing and supervisory bodies of the Group of Companies or of individual companies properly perform their functions and are accountable to the shareholders.

6. In applying the principles and model of Corporate Governance focus is given on assessing stakeholder expectations, that they are consistent with each other, by ensuring unbundling of the state policy-making or political influence from the activities of the Group of Companies, as well as on establishing the best set of objectives and indicators to be achieved by the Group of Companies taking into account external and internal circumstances and possibilities. The objectives and targets to be achieved must meet the expectations of the stakeholders. The governance and control system must ensure effective achievement of objectives in a timely manner, and that they meet the expectations of the stakeholders.

7. The purpose of the Group of Companies is understood as pursuit of the objectives related to the activities of the Group of Companies, as set forth in the strategic documents in the areas of ministerial governance and their implementing documents, by ensuring socially responsible enhancement of the long-term value of the Group of Companies and appropriate return on capital invested by the shareholders, by balancing the interests of the shareholders with the interests and expectations of other stakeholders.

8. In applying the principles and model of Corporate Governance, the continuous assessment of the external and internal business environment is carried out. In assessing the external business environment, various factors affecting the activities of the Group of Companies are taken into account: general economic situation in Lithuania and in the region, the situation in the energy sector and related sectors of the economy, trends and directions of development, and major changes. In assessing the internal environment, the resource, infrastructure and other related aspects, which are exploited to achieve activity synergy effect, are taken into consideration.

9. The application of the principles of Corporate Governance allows the stakeholders to pursue for maximum benefit in an integrated way, and interconnects elements from setting expectations to meeting expectations after the achievement of objectives and targets (results).

### **SECTION 3**

#### **GOVERNANCE MODEL OF THE GROUP OF COMPANIES**

10. The Governance Model of the Group of Companies is based on an integrated management and control system which in a coherent and complex manner includes all key elements of the activities: from cyclical planning of activities by setting the performance objectives and targets to be achieved, the performance of activities, to the achievement of objectives and targets, and the performance measurement. At the same time, it is ensured that the process is uninterrupted and the result of the end of one cycle become the starting data of the next cycle.

11. The expectations of the stakeholders are integrated into the objectives by applying a programming approach. The planning documents (of individual companies or of the entire group) are prepared to achieve the objectives. The effort consolidation shall be ensured during the preparation of the planning documents, by linking together the objective, resources, processes and the result.

12. The necessary resources (infrastructure, production technologies, human resources, financing, information systems, legal regulation, communication and other necessary resources) shall be foreseen for the implementation of the planning documents.

13. The planning documents shall be implemented through the execution of production, service provision, service and other processes, promoting innovations and implementing advanced solutions necessary for the activities of the Group of Companies which are based on them. A specific result, for the achievement of which the planned resources are used, is achieved over a period of time.

14. Once the objectives and targets have been achieved, the compliance of the activities of the Group of Companies and its results with expectations shall be ensured. The results achieved shall be related to the new programming cycle and the new expectations of the stakeholders, and the initiation of their achievement.

## **SECTION 4 GOVERNANCE STRUCTURE**

15. The structure of the managing and supervisory bodies and the management system of the Group of Companies must be formed and operate in such a way as to create the preconditions necessary to ensure proper representation of the State as a principal shareholder, and the reconciliation of interests of other stakeholders, and separation of the management and control functions of the Group of Companies, also to comply with the principles of corporate governance, the requirements arising from the corporate governance legislation (including the legal acts of the European Union and of the Republic of Lithuania regulating the unbundling of energy sector activities), the international good practice. The members of the supervisory bodies, managing bodies or administration staff of electricity and gas transmission network operator, and the members of the managing bodies or the administration staff of the distribution system operator cannot be the members of the supervisory and managing bodies of the Company.

16. The principal shareholder of the Company – the State:

16.1. which owns not less than 2/3 percent of the shares, and the rights and obligations of the principal shareholder are exercised by the Ministry of Finance of the Republic of Lithuania. The management of the shares shall be carried out in accordance with the Law on Companies, which establishes the property and non-property rights and obligations of all shareholders, as well as the Property Guidelines;

16.2. which votes on the principal decisions relating to the exercise of property rights and obligations, including decisions on approval of Articles of Association of the Company, appointment or removal of the members of the Supervisory Board, approval of the financial statements of the Company, profit (loss) allocation, the increase or decrease of the authorized capital of the Company (in certain cases - also of its subsidiaries), reformation, reorganization or partitioning, restructuring, liquidation and other matters within its competence;

16.3. which exercises the voting rights attaching to its shares within its competence and undertakes its best effort to ensure that the Company and the Group of Companies are able to operate its business independently, i.e. the principal shareholder:

16.3.1. shall not take actions that could prevent the Company and the Group of Companies from carrying on its business independently;

16.3.2. shall not influence the day-to-day running of the Company's business or hold or acquire a material shareholding in one or more significant subsidiaries of the Group of Companies;

16.3.3. shall not take any action (or omit to take any action) which would be prejudicial to the Company's status as a listed company or the Company's eligibility for listing, or would reasonably prevent the Company from complying with the obligations and requirements established by law applicable to listed companies;

16.3.4. shall conduct all transactions and ensure relationships with the companies of the Group of Companies on market basis (on an arm's length terms) and on a normal commercial basis;

16.3.5. shall not vote in favour of, or propose, any decision to amend the Articles of Association of the Company, which would be contrary to the principle of independence of the Company's business;

16.3.6. shall vote in a manner that ensures that the management of the Company complies with the principles of good governance set out in the Corporate Governance Code.

17. The Supervisory Board of the Company:

17.1. The Supervisory Board is the collegial supervisory body provided for in the Articles of Association of the Company. The activities of the Supervisory Board are regulated by the Law on Companies, the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board. The Supervisory Board is elected by the General Meeting of Shareholders. The activities of the Supervisory Board shall be organized by its Chairman, who shall be elected by the Board of Supervisors from among its members. The form of activity - meetings, normally held at least quarterly (the Supervisory Board may, if necessary, arrange for other regularity of the meetings). In certain cases, decisions may be taken in other ways provided for in the rules of procedure of the Supervisory Board.

17.2. The Supervisory Board of the Company consists of 7 (seven) members - 2 (two) representatives of the principal shareholder and 5 (five) independent members. The members delegated by the Ministry of Finance are appointed to be the representatives of the principal shareholder. The independent members must meet the independence criteria which are set in the Description of Selection of the Candidates for the Collegial Supervisory or Management Body of a State or Municipal Enterprise, a State-Owned or Municipally-Owned Company or its Subsidiary approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015 "On the Approval of the Description of Selection of the Candidates for the Collegial Supervisory or Management Body of a State or Municipal Enterprise, a State-owned or Municipally-Owned Company or its Subsidiary (hereinafter - the Description of the Selection of Candidates). Such a Supervisory Board formation model must be applied in practice in such a way as to enable the strategic goals of the state in the field of energy, the pursuit of profit (return on capital), the expectations and interests of the stakeholders to be mutually harmonized, to ensure the versatile competence of the members of the Supervisory Board and to avoid the domination of an individual or group of individuals when the Supervisory Board adopts decisions.

17.3. The Supervisory Board of the Company shall be formed in view of the provision that the competences of the members of the Supervisory Board must be diverse, they must meet the requirements set out in the Description of the selection of candidates. The specific need for competences shall be determined in the criteria for selecting a member of the Supervisory Board (during the selection).

17.4. The rule is that natural persons shall be elected to be the members of the Supervisory Board of the Company. The Head of the Company, the member of the Board of the Company, a person who is not legally entitled to hold this post, as well as a person whose participation would cause a conflict of interest and would infringe the principles of impartiality and objectivity cannot be the member of the Supervisory Board. An independent member is recommended to be elected as the Chairman of the Supervisory Board. The meetings of the Supervisory Board are open to the members of the Board of the Company.

17.5. The Independent members of the Supervisory Board are remunerated for their activities in the Supervisory Board of the Company. The amount of the remuneration shall be set by a separate resolution of the General Meeting of Shareholders. The maximum monthly amount of the remuneration paid for the activities in the Supervisory Board, its committees or to the members of the managing and supervisory bodies of other companies in the Group of Companies, who are subject to remuneration, cannot exceed 1/4 (one quarter) of the amount of the monthly salary paid to the CEO of the Company (basic pre-tax remuneration). The maximum monthly amount of the remuneration paid to the Chairman of the Supervisory Board of the Company for the work in the Supervisory Board or its committees cannot exceed 1/3 (one third) of the amount of the monthly salary paid to the CEO of the Company (basic pre-tax remuneration).

17.6. The functions and responsibilities of the Supervisory Board shall include, but are not limited to, election and removal of the Board members, overseeing the performance of the Board and of the Head, submitting proposals and feedback on the Company's strategy and its implementation, financial statements, profit (loss) allocation, annual report to the General Meeting of Shareholders. The Supervisory Board shall also deal with other matters falling within its competence. The Supervisory Board shall operate at the level of the entire Group of Companies, i.e. if necessary, it deals with the matters related

not only to the activities of the Company, but also to the activities of its (subsidiaries) or their managing or supervisory bodies.

17.7. To perform its functions and duties effectively, the Supervisory Board shall set up committees that deal with matters falling within the competence of the Supervisory Board. The Committees of the Supervisory Board (hereinafter - the Committees), within the limits of their competence, present their conclusions, opinions and proposals to the Supervisory Board. The following Committees shall be formed:

17.7.1. the Risk Management Oversight Committee which is responsible for providing the Supervisory Board with conclusions or proposals regarding the functioning of the management and control system in the Group of Companies, and/or the implementation of key risk factors and risk management or preventive measures;

17.7.2. the Audit Committee which is responsible for providing the Supervisory Board with objective and impartial conclusions or proposals regarding the operation of the audit and control system within the Group of Companies;

17.7.3. the Nomination and Remuneration Committee which is responsible for providing the Supervisory Board with conclusions or proposals regarding the matters of appointment, removal or incentivising of the members of the managing and supervisory bodies of the Group of Companies, as well as for appraisal of the activities of the Board and its members, and for providing the relevant opinion. The functions of the Committee also include the development of a common remuneration policy within the Group of Companies, setting the amount and composition of the remuneration, principles of incentive, etc.;

17.7.4. other committees, which, if necessary, may be also set up on an *ad hoc* basis (for addressing specific issues, developing, overseeing or coordinating strategic projects, etc.).

17.8. The activities of the Committees shall be organized and their meetings shall be chaired by the Chairman of the relevant Committee. The Chairmen of the Committees shall be appointed by the Supervisory Board. It is recommended that the Committees should be chaired by members of the Supervisory Board. The Committee must consist of at least 3 members, of whom at least 1 member must be the member of the Supervisory Board. The Committee must have at least one independent member. If the legal acts in force provide for a different (greater) number of independent members, the statutory requirements shall apply to the composition of the Committees. The members of the Board of the Company or of the Group of Companies or decision-making employees cannot be the members of the Committees. The establishment and approval of the functions and operating provisions of the Committees is the responsibility of the Supervisory Board. The Committees shall periodically (at least every 6 months) prepare and submit to the Supervisory Board their activity reports (the content and periodicity of the reports shall be laid down in the Rules of Procedure of each Committee).

18. Board of the Company:

18.1. The Board is the collegial supervisory body provided for in the Articles of Association of the Company. The activities of the Board are regulated by the Law on Companies, the Articles of Association of the Company and the Rules of Procedure of the Board. The members of the Board are employees of the Company, they are elected by the Supervisory Board on the proposal of the Nomination and Remuneration Committee. The Board shall be elected for a term of office of up to 4 years. The Board elects from among its members the Chairman of the Board - the CEO of the Company. The members of the Board must, within their competence, ensure proper performance of the activities of the Company. The Board consists of 5 members. The member of the Supervisory Board, a person who is not legally entitled to hold this post cannot be the member of the Board. The Members of the Board of the Company must meet the general and specific criteria laid down by law.

18.2. The competences of the members of the Board of the Company must be diverse, they must meet the requirements set out in the Description of selection of the Candidates. The need for competences shall be determined by the Supervisory Board during the formation of the Board. The curated areas are subject to change on the proposal of the Chairman of the Board with the approval of the Supervisory Board.

18.3. The Board shall operate in accordance with the Rules of Procedure. The form of activity of the Board - meetings, normally held every week (the meetings may be held more frequently (less frequently), decisions may be taken in another form provided for in the Rules of Procedure of the Board). The responsibilities of the Board include in principle all major management decisions relating to the

Activities of the Company as a Parent Company: regarding the implementation of the strategy of the Company (its Group of Companies), financial management and reporting, performance management, assets, participation in other legal entities, as well as other issues that fall within its competence. The competence of the Board of the Company also includes decisions on the common rules and principles (policies, guidelines, recommendations) applicable to the Group of Companies, decisions related to the general interest of the Group of Companies, and achievement of its objectives, the structure of the Group of Companies, and the issues of service activities.

19. The supervisory and managing bodies of the subsidiaries:

19.1. The management and supervisory structure of the subsidiaries of the Group of Companies is formed taking into account the activities of a particular company, stock managers, legal status and other aspects. The rule is that the managing and supervisory bodies of the subsidiaries must be optimal, they must ensure the implementation of the interests of the Company as a shareholder, of other shareholders and of stakeholders, and must comply with the international and national best practices on corporate governance.

19.2. As a general rule, the subsidiaries of the Group of Companies are subject to the following structure of managing and supervisory bodies (under reasonable circumstances (where there is a reasonable need to have something other than the one described in sub-clauses 19.2.1 to 19.2.3 or 19.4) or subject to the legal requirements, in agreement with the Supervisory Board, another rational structure of the managing and supervisory bodies may apply):

19.2.1. with the collegial supervisory body - the Supervisory Board (by including the independent member(s) and the shareholders' representatives, as well as, if necessary, and employee representative(s)), and with the collegial managing body – the Board of the Employees of the company. The model generally applies to the listed companies within the Group of Companies;

19.2.2. with the collegial managing body – the Board, by including the independent member and the representatives of the shareholders. The collegial supervisory body shall not be formed. The model should be considered normal / typical, and may apply to companies of core, service and non-core activities, or of other activities;

19.2.3. with a sole person managing body - the Head of the company, by assigning him/her with the functions of the collegial managing body - the Board, and by expanding the competence of the General Meeting of Shareholders. The collegial supervisory or managing bodies shall not be formed. The model applies when there is no need to apply another model to companies or institutions.

19.3. As a general rule, in implementing the provisions of Clauses 19.2 (except for sub-clause 19.2.3) and 19.4 of the Guidelines (the corporate oversight and management models), in agreement with the Supervisory Board of the Company, the same principles as apply to the members of the collegial bodies of the Company (regarding compliance with the statutory independence (applies to the independent members) and specific criteria, remuneration for activities (sub-clause 17.5 of the Guidelines), terms of office, accountability, etc.) shall proportionally apply to the members of the managing and supervisory bodies of the Company and of subsidiaries (including the employee representative(s)).

19.4. In cases where the company of the Group of Companies operates as a single service centre for the entire Group of Companies (or for individual companies within it), or special requirements apply to the structure of the managing and supervisory bodies of an individual company, when forming the managing or, if necessary, the supervisory bodies, other principles consistent with or deriving from the law may apply (e.g. principle of shareholder representation, number of independent members, etc.).

19.5. Having regard to the principle enshrined in the Corporate Governance Code, which provides that the rights conferred on the collegial body elected by the General Meeting of Shareholders should ensure effective oversight of the managing bodies and the protection of the interests of all shareholders, inter alia - in dealing with matters related to the determination of the remuneration of the executives (including of the CEO of the Company), the Supervisory Board of the Company, taking into account the opinion of the Nomination and Remuneration Committee, shall establish the guidelines / system of the remuneration of the executives of the Company and its Group of Companies, which must be focused on creating long-term and sustainable value of the Company and of the entire Group of Companies; to ensure the possibility to attract and retain the necessary competences, highly qualified professionals; to ensure that the responsibility incurred is proportionate to the remuneration, as well as the adequacy of the remuneration and incentive system to the results achieved.

## **SECTION 5**

### **CORPORATE AND CONTROL SYSTEM MODEL**

20. The activities of the Company and of the entire Group of Companies and their management are perceived as a set of interrelated processes. The essential purpose of organization and management of activities - the synergy effect of the activities of the Group of Companies by reconciling the different activities of the companies, by directing them in the most efficient way towards pursuing the common objectives of the entire group. A clear, group-wide integrated management and control system, which ensures the implementation of the principles of continuous improvement in the areas of all this system is a key precondition for achieving the corporate governance objective.

21. The principle of orientation to the result is applied by systematically setting the objectives for all the processes within the Group of Companies, from the parent company to each employee level. Accordingly, the principle of responsibility for performance is respected, i.e. the companies, units and employees are responsible for the results of ongoing processes.

22. The relevant (matrix) mechanism of the functional areas of the Group of Companies is designed for the application of corporate governance principles. It integrates in a complex manner the key provisions – principles in the certain areas of activity of the Group of Companies, and they are agreed upon.

23. Participants in the functional areas of the Group of Companies represent the Company and the subsidiaries. If necessary, other experts in the relevant field are contracted. The representatives (curators) appointed by the Board of the Company organise and coordinate within their competence at the level of the Group of Companies the activities of the functional areas.

24. Responsibilities of the functional areas:

24.1. formation and implementation of the key objectives, principles of the respective functional area, coordination of group-wide decisions in a given area and oversight of implementation;

24.2. cooperation of competences at the group level in the relevant area of knowledge;

24.3. the formulation of policies and strategies in relevant functional areas, monitoring / forecasting trends and indicators of activities in functional areas;

24.4. planning, initiation, evaluation of changes prior to their submission for approval by the Board of an individual company, Company;

24.5. formation and implementation of mutual actions to increase operational efficiency and of their implementation principles in the relevant functional area;

24.6. exchange of information and practices in the relevant functional area to ensure performance improvement.

25. To ensure optimum mutual compatibility between the activities (processes) of individual companies, 4 process groups are distinguished in the integrated management and control system model of the Group of Companies:

25.1. Core activities;

25.2. Groups of processes that support activities;

25.3. Groups of performance evaluation and improvement processes;

25.4. Groups of management processes.

26. The processes in all process groups of each company within the Group of Companies (except for the core activities process group) are essentially identical (depending on the specific activity aspects of individual companies, the processes vary to some extent) are related to the activity planning of a specific company, provision of resources, performance measurement and analysis, improvement actions and benchmarking aimed at the new planning cycle. The key activity processes of the relevant company represent the object of the application of these processes.

27. The processes in the group of core activity processes reflects the core activities of the particular company, i.e. each Group of Companies has different processes.

28. When implementing corporate governance in the Group of Companies, the focus is made on the improvement of the processes in the groups of general processes at the level of the entire Group of Companies, i.e. they are centralized, coordinated with each other in all companies, process standards are set, good practices are shared, etc. The efficiency of the key processes (production or services) is sought individually in each company, or by assessing the entire value chain that is involved in process implementation.

## **SECTION 6 ACCOUNTABILITY**

29. Timely, complete and accurate information is one of the key preconditions for effective corporate governance and transparency of the Group of Companies. The focus is made not only on collecting and publishing actual information about the companies' performance for previous periods, but also on reasonable (plausible) forecasts which help to avoid negative consequences for the Group of Companies or its stakeholders.

30. The accountability and reporting system consists of two main parts:

30.1. financial information;

30.2. management information.

31. Financial information includes consolidated financial statements and indicators at the level of the entire Group of Companies. This information shall be published with the periodicity and in the form prescribed in the manners that govern its presentation. Financial information ensures implementation of the requirements arising from the legislation governing the financial accountability of companies, as well as awareness of shareholders, investors, other stakeholders.

32. Management information is usually intended for internal use, when decisions that pertain to performance management are adopted within the Group of Companies. Such information includes various areas of activity of the Group of Companies: plans, actual indicators, project implementation status, and the like.

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