GROUP FINANCIAL RISK MANAGEMENT AND CONTROL POLICY

1. PURPOSE AND SCOPE OF APPLICATION

1.1. The purpose of the Financial Risk Management and Control Policy of AB “Ignitis grupė” group of companies (hereinafter referred to as the Policy) is to regulate financial risk management and control in the Group: to define financial risk management and control objectives, subtypes of financial risk and tools used for their management and control, Group treasury and the responsibilities of individual Enterprises, financial risk management and control procedures, and a monitoring system.

1.2. This Policy shall apply to all Enterprises of the Group.

2. TERMS

2.1. General terms are defined in the Glossary of Terms: Group, Enterprise, Company, GEN, ESO, IGN, REH.

2.2. **Board** shall mean a collegial management body of the Enterprise.

2.3. **Cashpool platform** shall mean an electronic platform implemented by a commercial bank, which allows the Group to exchange working capital.

2.4. **Materially Significant Enterprise** shall mean GEN, ESO, IGN, REH.

2.5. **Energy commodities** shall mean electricity, natural gas, liquefied natural gas, emission allowances, biofuels, heat, as well as municipal and industrial waste.

3. GENERAL PROVISIONS

3.1. The Group's financial risk management and control is performed both centrally and decentrally, in accordance with this Policy and the internal legal acts approved in accordance with the procedure established by the Enterprises, which do not contradict this Policy and detail it.

3.2. The Policy regulates only the main provisions on financial risk management and control, therefore the Enterprises' internal legislation prepared on the basis of this Policy must detail the relevant financial risk management and control processes, limits and competencies, responsible persons, internal control and monitoring procedures.

3.3. The priority objective of the Group's financial risk management and control is to minimize the financial risk that may have a significant impact on the achievement of the Group's strategic objectives to an acceptable level of 5% of the Group's consolidated adjusted EBITDA for the current financial year (the limit for the current financial year is based on the previous year's consolidated adjusted EBITDA value).

3.4. Specific financial risk limits related to the Enterprises' financial indicators are set by the Director of Finance and Treasury of the Company each year until the end of the first quarter of the current year. The Treasury Department of the Company informs the Enterprises about the set limits immediately. If no updated limits are set for the Enterprises for the current financial year by the set term, the Enterprises must follow the limits of the previous financial year. For Enterprises with subsidiaries, the limits are set for the joint parent Enterprise and its subsidiaries, in which case the parent Enterprise may allocate part of its limit to the subsidiaries at its own discretion.

3.5. The risks that may have a material impact on the achievement of the Group's strategic objectives are the following:

- Liquidity risk;
- Lender relationship risk;
- Credit rating risk;
- Currency exchange rate risk;
- Energy commodity price risk;
- Interest rate risk;
- Counterparty risk.

3.6. The use of any derivatives and products is only possible for financial risk management purposes. The use of any derivatives and products for speculative purposes is strictly prohibited.

4. LIQUIDITY RISK

4.1. The risk that the Company or the Enterprise will not have sufficient funds to meet its financial obligations in the current period.

4.1.1. Financing liquidity risk means the risk that the Company or the Enterprises will not have sufficient funds for its creditors' liabilities in due time, which may arise due to a breach of the obligations provided for in credit agreements. This risk may also arise from the simultaneous maturity of a significant portion of credit agreements and the lack of ability to repay or refinance these credits. This risk may also arise due to the inability to diversify own funding sources and increase borrowing costs.

4.1.2. Market liquidity risk is the risk that funding from the markets is not available due to foreclosure or illiquidity in the markets. It may result from a lack of liquidity in the debt securities markets or from a failure to enter into swaps or other derivative transactions.

4.2. The Group manages liquidity risk centrally through the following instruments:

4.2.1. Short-term liquidity risk is managed by maintaining binding credit lines and overdrafts, borrowing within the Group through the Cashpool platform. These credit lines must not be shorter than at least two years and account for at least 20% of the Group's consolidated net debt. If the Group's consolidated available funds represent more than 60% of the Group's consolidated current liabilities, committed credit lines and overdrafts may account for less than 20% of the Group's consolidated net debt (between 0% and 20% of the Group's consolidated net debt). The decision on the amount of binding credit lines and overdrafts is made by the Head of the Company's Treasury Department taking into account the current situation and future forecasts.

4.2.2. Non-binding credit lines can be used to maintain additional liquidity, and their size is not limited. Liquidity is also supported by the Company's investments in highly rated short-term debt instruments (government and corporate debt securities), short-term deposits or their certificates and other money market instruments that meet the investment liquidity and security requirements set out in the Group's Treasury Management Policy.

4.2.3. Long-term liquidity risk is managed by the Company's Treasury Department by continuously ensuring the possibility to finance the Group's activities from at least two sources, i.e. debt securities, investment bank loans or commercial bank loans and other instruments.

5. LENDER RELATIONSHIP RISK

5.1. The risk that the Company or the Group will not be able to borrow on favourable terms due to its actions and that this would increase borrowing costs, which would prevent the Group from carrying out its investment plans in full.

5.2. Relationship risk with banks and other lenders is managed in a centralized manner (all actions are coordinated with the Company's Treasury Department), creating a sustainable business relationship based on trust and mutual respect. This involves comprehensive management of relationships with banks and other lenders, covering both credit and other services provided. When procuring financial services, efforts are made, where possible, to ensure that the opportunity to provide services is available to creditors who meet the requirements of the Group's Treasury Management Policy.

6. CREDIT RATING RISK

6.1. The risk that the Company's credit rating will be downgraded or the Company will lose its investment grade due to decisions made by the Company's shareholders or management bodies or deteriorating financial ratios of the Group, which could significantly increase the Group's borrowing costs, as well as restrict access to finance through commercial and institutional bank loans or debt securities market instruments.

6.2. Credit rating risk is managed centrally by clearly communicating to the boards of the Company and Materially Significant Enterprises the factors disclosed in the reports of rating agencies that may significantly affect the Company's rating and lead to its downgrade. Also by coordinating corporate decisions (acquisition/sale of business, creation of new loans, restructuring of Group enterprises or investments), in the Company and in Materially Significant Enterprises.

7. FOREIGN CURRENCY EXCHANGE RATE RISK

7.1. The risk that the exchange rate of a foreign currency held or planned to be acquired or the price of transactions denominated in a foreign currency will change unfavourably.

7.2. Foreign exchange risk is managed decentrally (in Enterprises where this risk arises).

7.3. Currency exchange rate risk is divided into:

7.3.1. Transaction risk – when an Enterprise incurs liabilities, plans purchases and settlements or sells foreign currency in the future, a risk arises that the exchange rate will change in an unfavourable direction and that this will result in unplanned additional costs or lower-than-planned revenues.

7.3.2. Balance sheet translation risk – negative impact of exchange rate changes on the value of the Enterprises' assets and liabilities in foreign currency in the Enterprises' financial statements.

7.3.3. Economic risk – the unfavourable exchange rate and the resulting additional costs will affect the Group's competitiveness and market share, which would have a negative impact on the Group's profitability and cash flows.

7.4. Exchange rate risks are managed through FX forward, FX swap, FX option and FX collar.

7.5. Transaction risk is assessed and, upon its assessment, managed by derivatives if in the worst case scenario the additional costs amount to at least 5% to 10% of the Enterprise's non-current assets, adjusted EBITDA or income (the specific indicator for the Enterprise is determined in accordance with the procedure specified in Sub-Clause 3.3 of the Policy).

7.6. Balance sheet translation risk is assessed and, upon its assessment, managed through derivatives only if (i) the Enterprise or part of the Enterprise exposed to this risk is expected to be sold in the next 12 months, and (ii) in the worst case scenario, the potential costs of sale are not less than 5% to 10% of the Enterprise's non-current assets, adjusted EBITDA or income (the specific indicator for the Enterprise is determined in accordance with the procedure specified in Sub-Clause 3.3 of the Policy).

7.7. Economic risk is managed in an effort to ensure that as much of the Enterprise's costs as possible (as far as economically reasonable) are incurred in the same currency in which the income is received. Economic risk is not managed through derivatives.

7.8. The Group considers exchange rate risk insurance from 50% to 100% of the known transaction amount to be acceptable. The amount of the balance sheet translation risk insurance is determined by a separate decision of the Head of the Company's Treasury Department, taking into account the amount of risk and the terms of the proposed sale of the Enterprise.

7.9. The use of the best instrument is decided on a transaction-by-transaction basis, indicating in the decision the specific risk mitigation measure chosen. If currency risk management is not more cost-effective than at the level of an individual transaction, but at the level of the purchase and sales flow, the Company's Treasury Department is contacted by e-mail and after the approval of the transaction, the selected transaction for the total currency flow is concluded.

8. ENERGY COMMODITY PRICE RISK

8.1. Energy commodity price risk is managed in accordance with the *Energy Commodity Market Price Fluctuation Risk Management Policy*.

8.2. Energy commodity price risk is assessed and, upon its assessment, managed through derivatives if in the worst case scenario the additional costs amount to at least 5% to 10% of the Enterprise's non-current assets, adjusted EBITDA or income (the specific indicator for the Enterprise is determined in accordance with the procedure specified in Sub-Clause 3.3 of the Policy).

9. INTEREST RATE RISK

9.1. The risk that the interest rate on the Group's existing loans and credits will change unfavourably.

9.2. In managing its financial liabilities, the Group aims to have a weighted average duration of the Group's long-term liabilities of at least 5 years.

9.3. By undertaking debt obligations, it is intended to provide long-term liabilities with a fixed interest rate. If, for objective reasons, interest rate fixation is not possible and the liability assumed represents a significant amount (in the context of the Company or the Enterprise), interest rate derivatives are used for interest rate management – interest rate swaps, interest rate options, interest rate collars and interest rate swaptions. The aim must be for at least 50% of the Group's consolidated long-term loan portfolio to consist of long-term fixed-rate loans.

9.4. The use of any of the interest rate derivatives requires that its maturity date coincides with the maturity date of the debt liability.

9.5. The risk of an unfavourable change in the investment interest rate is not actively prohibited.

10. COUNTERPARTY RISK [1]

10.1. The risk that a counterparty will default on its contractual obligations. Counterparty credit risk is managed by concluding transactions only with reliable financial institutions with a long-term foreign currency credit rating of at least BBB according to S&P Ratings (or the equivalent of other international rating agencies), except for transactions involving the acquisition of securities of the Government of the Republic of Lithuania. If a counterparty has a non-investment credit rating or no rating, but is part of a group of companies with a rating of at least BBB, the counterparty is considered to have a rating of a group of companies or a holding company.

10.2. Enterprises may enter into transactions with financial institutions where the counterparty's credit rating is lower than BBB but not lower than BBB-. The total amount of such transactions in the current period may not exceed the maximum limit of the Enterprise approved in accordance with the procedure established in Sub-Clause 3.3 of the Policy.

10.3. If the counterparty's ratings change and the requirements are not met, the Enterprises must inform the Company's Treasury Department by e-mail and coordinate the counterparty's credit risk management actions.

11. MONITORING AND CONTROL

11.1. Financial risk is monitored on an ongoing basis. It is performed by the Head of the Company's Treasury Department.

11.2. The Enterprise's reports hosted on the Company's SharePoint platform are used for monitoring and control purposes.

11.3. Enterprises submit reports to the Treasury Department of the Company in accordance with the form and periodicity established by the Treasury Department of the Company.

11.4. Quantitative and qualitative methods, such as sensitivity analysis, scenario analysis or value at risk, are used to assess individual risks.

11.5. Enterprises must ensure that financial risk management measures are not used for any other purpose (especially speculative).

11.6. If a violation of the provisions of the Policy is established, the Head of the Financial Department of the Enterprise where the violation was established is responsible for the implementation of actions correcting the violation, or if the Enterprise does not have a financial department, the responsibility shall fall on the Head of the Enterprise. The Head of the Company's Treasury Function is responsible for the supervision and control of the implementation of corrective actions.

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[1] The risk applies only to financial institutions.

12. FINAL PROVISIONS

12.1. Changes in the Policy are initiated by the Director of the Company's Finance and Treasury Service, and the Head of the Company's Treasury Function is responsible for preparation and amendment.

12.2. The Heads of the Corporate Finance Departments are responsible for the implementation of the Policy measures in the Enterprises. If the Enterprise does not have a finance department, the Head of the Enterprise shall be responsible for implementation.

12.3. The Head of the Treasury Function of the Company is responsible for the control of the implementation of the Policy measures at the Group level.

12.4. Employees of all Enterprises working with relevant risks and managers of these Enterprises are acquainted with the provisions of the Policy and the Enterprise's internal documents (if any) establishing the provisions of the Enterprise in accordance with the internal procedure established in the Enterprises.

12.5. The Policy is publicly available on the Company's website.

13. RELATED LEGAL ACTS

Energy Commodity Market Price Fluctuation Risk Management Policy
Group Treasury Management Policy