



Normative internal legal act	<b>Policy on the Use of Group Collateral and Assessment of the Financial Condition of Suppliers</b>
Name of the process	Use of Collateral and Assessment of the Financial Condition of Suppliers
Approving enterprise	AB Ignitis grupė
Owner – the department	Group Treasury
Approving person / body	Board of AB Ignitis grupė
Date of approval and entry into force	

## POLICY ON THE USE OF GROUP COLLATERAL AND ASSESSMENT OF THE FINANCIAL CONDITION OF SUPPLIERS

### 1. PURPOSE AND SCOPE OF APPLICATION

- 1.1. To regulate the use of collateral in transactions and the assessment and monitoring of the financial condition of suppliers in the Group.
- 1.2. This Policy shall apply to all Enterprises of the Group.

### 2. TERMS

- 2.1. General terms shall be defined in the [Glossary of Terms: Group, Enterprise, Company, Supplier](#).
- 2.2. **Shareholder Guarantee** shall mean a unilateral written commitment by the parent company to pay the beneficiary the amount of the guarantee or part thereof in accordance with the claim of the beneficiary if the guaranteed subsidiary fails to perform its contractual obligations to the beneficiary in a timely and proper manner.
- 2.3. **Letter of Credit** shall mean a document by which the bank undertakes to pay for the shipped goods or services provided in accordance with the documents submitted by the seller in accordance with the defined terms and conditions.
- 2.4. **Advance Payment** shall mean the payment of all or part of an amount at the expense of future payments.
- 2.5. **Bank Guarantee** shall mean a unilateral written obligation of the bank to pay a certain amount of money or a part thereof to the beneficiary in accordance with the claim submitted by the beneficiary, if the entity guaranteed by the bank fails to perform its contractual obligations to the beneficiary in a timely and/or appropriate manner.
- 2.6. **Letter of Guarantee of an Insurance Company** shall mean a unilateral written undertaking of the insurance company issued on the basis of the suretyship insurance contract to guarantee to a third party (beneficiary) and indemnify its losses up to the amount specified in the insurance policy, if the policyholder fails to properly perform its contractual obligations to the beneficiary.
- 2.7. **Economic Efficiency** shall mean the sum of price and other criteria that are relevant and objectively assessed in a specific situation.
- 2.8. **Mortgage** shall mean a pledge of real estate securing the fulfilment of an existing or future debt obligation, when the pledged property is not transferred to the creditor.
- 2.9. **HLD Guarantee** shall mean a guarantee provided by AB Ignitis grupė to the Supplier for a subsidiary.
- 2.10. **Pledge** shall mean a pledge securing the performance of an existing or future property obligation or movable property rights.
- 2.11. **Suretyship** shall mean a transaction by which the surety undertakes to be liable to the creditor of another person for consideration or gratuitous if the person for whom the surety is guaranteed fails to perform all or part of its obligations.
- 2.12. **Escrow Account** shall mean a financial agreement between two counterparties, where they use a neutral third party that temporarily holds the funds in the transaction until it is provided with documents confirming the fulfilment of the terms and conditions of the transaction.
- 2.13. **Comfort Letter** shall mean a written notice from the provider of the Comfort Letter to confirm that the Company or Supplier will be able to fulfil the contractual obligations assumed against the recipient of the Comfort Letter, but does not create material obligations towards the provider of the Comfort Letter.
- 2.14. **Buyer** shall mean a natural person initiating the Procurement Procedure on behalf of the Group or its Enterprise.

- 2.15. **Procurement** shall mean the set of procedures and processes for concluding a procurement contract (including a framework contract) for the purchase of goods, services or works.
- 2.16. **Policy** shall mean this Policy on the Use of the Group's Collateral and the Assessment of the Financial Condition of the Suppliers.
- 2.17. **Collateral** shall mean a financial or non-financial instrument that performs the function of securing liabilities to a counterparty.
- 2.18. **Bill of Exchange** shall mean a security issued in accordance with the Civil Code of the Republic of Lithuania and the Republic of Lithuania Law on Bills of Exchange and by which the issuer unconditionally undertakes to pay directly or indirectly a certain amount of money to the person specified in the bill of exchange.

### **3. GENERAL PROVISIONS**

- 3.1. The provisions of this Policy (except for Section 7) shall not apply:
  - 3.1.1. When the Supplier is a financial institution (counterparty risk of financial institutions is managed in accordance with the GROUP'S FINANCIAL RISK MANAGEMENT AND CONTROL POLICY);
  - 3.1.2. To transactions between Enterprises;
  - 3.1.3. To transactions concluded through an exchange or other organised trading system, as well as transactions concluded with natural gas and/or electricity system operators;
  - 3.1.4. To transactions the terms of which are approved by the National Commission for Energy Control and Prices or the Ministry of Energy of the Republic of Lithuania;
  - 3.1.5. To the seller's participation in procurements and tenders organised in accordance with the published conditions, which may not be changed at the seller's initiative;
  - 3.1.6. To Collateral provided to the Enterprise in order to secure a procurement tender.

### **4. LIST OF COLLATERAL**

- 4.1. Shareholder Guarantee;
- 4.2. Letter of Credit;
- 4.3. Advance Payment;
- 4.4. Bank Guarantee;
- 4.5. Letter of Guarantee of an Insurance Company;
- 4.6. Mortgage;
- 4.7. HLD Guarantee;
- 4.8. Pledge;
- 4.9. Surety;
- 4.10. Escrow Account;
- 4.11. Comfort Letter;
- 4.12. Bill of Exchange;
- 4.13. Other (the list of Collateral is not exhaustive).

### **5. COLLATERAL RECEIVED**

- 5.1. Collateral must be requested from Suppliers, except as provided in Clause 5.2 of the Policy, where the Procurement value exceeds 0.1% (based on the current audited consolidated annual financial statements) of the Group's total non-current assets for the preceding financial year.
- 5.2. Collateral may be waived if the Buyer prepares and submits to the HLD Group Treasury Department a written argument prior to the Procurement in accordance with Annex 1 to the Policy concerning the reason why the Collateral is not appropriate for a specific transaction, or if an undisclosed Procurement procedure is being conducted from one Supplier in accordance with the provisions of legal acts.
- 5.3. It is recommended to request Collateral of less than the values specified in Clause 5.1 of the Policy as required – the potential risk of default of the Supplier and possible damage to the Company shall be assessed individually.

- 5.4. The Collateral requested from the Suppliers, the level of solvency of the entities providing them and the value of the Collateral of the Suppliers, shall be determined by the Buyer taking into account the risk of default and recovery of the Suppliers and the amount of possible damage to the Company. The magnitude of the potential damage must be assessed in the light of possible direct and indirect losses (e.g. price increases during a new procurement, loss of revenue, etc.).
- 5.5. Mandatory collection of Collateral shall be recommended in the following order of priority – 1) Escrow Account; 2) Bank Guarantee; 3) Letter of Guarantee of the Insurance Company; 4) Shareholder Guarantee; 5) Surety; 6) Mortgage; 7) Bill of Exchange; 8) Pledge; 9) Comfort Letter. The selection of specific Collateral and the appropriateness of their application in each Procurement must be assessed individually, taking into account the current market conditions. If it is necessary to consult on the choice of a specific Collateral, it is recommended to contact the person responsible for the implementation of the Policy in the Company.
- 5.6. Recommended size of Collateral received (from contract value):
  - ≥10 percent – Bill of Exchange, Mortgage, Pledge;
  - ≥50 percent – Escrow Account, Bank Guarantee, Letter of Guarantee of an Insurance Company, Shareholder Guarantee, Surety.
- 5.7. It is recommended that the Collateral received have a clearly defined maturity, a maximum value, clearly defined secured obligations and joint and several liability of the debtors.

## **6. COLLATERAL PROVIDED**

- 6.1. Enterprises shall provide Collateral and issue it only if it is economically beneficial for the Enterprise.
- 6.2. Collateral granted in excess of 0.1% (based on the current audited consolidated financial statements) of the Group's total non-current assets for the preceding financial year (prior to the approval of the Company's governing bodies or the conclusion of contracts providing for such Collateral, whichever is earlier), it shall be necessary to inform the HLD Group Treasury Manager in advance by e-mail and obtain his/her written consent (the consent of the Head of the Treasury Function of the HLD Group received by e-mail shall be deemed to be in writing) and to reconcile their contents with the Group's Treasury.
- 6.3. It is recommended to select the provided Collateral (if any) in the following order of priority (if this order meets the cost-effectiveness criterion in a specific situation) – 1) Comfort Letter; 2) Shareholder Guarantee; 3) HLD Guarantee; 4) Surety; 5) Letter of Guarantee of an Insurance Company; 6) Bank Guarantee; 7) Letter of Credit; 8) Escrow Account; 9) Advance Payment; 10) Pledge; 11) Mortgage; 12) Bill of Exchange.
- 6.4. It is recommended that the Collateral provided has a clearly defined term of validity, a maximum value, clearly defined secured obligations and subsidiary liability of the Company. Failure to comply with the recommended conditions must be agreed upon with the HLD Group Treasury Manager and the Group lawyer.
- 6.5. Recommended size of Collateral to be provided (from the contract value):
  - ≤10 percent – Advance Payment, Pledge, Mortgage, Bill of Exchange;
  - ≤50 percent – Shareholder Guarantee, HLD Guarantee, Surety, Letter of Guarantee of an Insurance Company, Bank Guarantee, Letter of Credit, Escrow Account.

## **7. ADMINISTRATION OF COLLATERAL**

- 7.1. All valid, received and granted Collateral with a value exceeding EUR 50 thousand (fifty thousand euros) must be entered in the register for the maintenance of which the persons appointed by the Enterprises are responsible. The register of relevant measures shall be reviewed as necessary, but at least one calendar month before the expiry of the relevant measures. Collateral should be reviewed in order to assess whether it is appropriate to initiate an extension.
- 7.2. Up-to-date registers of Collateral Received and Issued (Annex 2) for the period prior to 31 December and 30 June of the current year must be submitted to the Treasury Department

of the HLD Group of Assigned Persons by 10 January and 10 July of the current year, respectively. Where applicable (upon request from the Treasury Department of the HLD Group), records must be provided for periods other than those specified above within 10 business days of receipt of the request.

## **8. MONITORING OF THE FINANCIAL CONDITION OF SUPPLIERS**

- 8.1. In the case of a Procurement in excess of 0.1% (based on the current audited consolidated annual financial statements) of the Group's total non-current assets for the preceding financial year, for the selection of Suppliers, it is recommended to assess whether it is expedient to apply the Current Liquidity Ratio and/or Critical Liquidity Ratio requirement based on the current version of the Methodology for Determining the Supplier's Qualification Requirements approved by the Order of the Director of Public Procurement Office.
- 8.2. The responsible persons appointed by the Enterprises must regularly, but not less than once a calendar year, monitor the financial condition of the Suppliers whose total unused balance of contracts exceeds 0.1% (based on the current audited consolidated annual financial statements) of the Group's non-current assets for the previous year and upon noticing a deterioration in the financial condition, if necessary, take the necessary actions to manage the risk of default of the Suppliers.
- 8.3. It is recommended to take the necessary actions to manage the risk of default of the Suppliers no later than the values of the Supplier's Current Liquidity Ratio and/or Critical Liquidity Ratio become unsatisfactory according to the current version of the Supplier's qualification requirements methodology approved by the Order of the Director of Public Procurement Office.
- 8.4. Relevant lists of Suppliers whose total unused balance of contracts exceeds 0.1% (based on current audited consolidated annual financial statements) of the Group's total non-current assets for the period prior to 31 December and 30 June of the current year must be submitted to the Treasury Department of the HLD Group by the responsible persons appointed by the Enterprises by 10 January and 10 July of the current year, respectively. If required (upon request from the Treasury Department of the HLD Group), the above-mentioned lists must be provided for periods other than those specified above within 10 business days of receipt of the request.
- 8.5. Upon receipt of the information provided, the HLD Group Treasury Department shall assess the overall risk at the Group level including, but not limited to, the liquidity ratios set out in Clause 8.1. of the Policy.

## **9. FINAL PROVISIONS**

- 9.1. The Group's Treasury Manager shall be responsible for developing and amending the Policy.
- 9.2. Within 30 days of the approval of this Policy, the Heads of Enterprise Finance Departments must appoint persons responsible for the implementation of the Policy measures in the Enterprises. If no responsible person is appointed within 30 days from the approval of this Policy, the Head of the Enterprise's Finance Department shall be responsible for the implementation of the Policy, if the Enterprise does not have a Head of Finance Department, the General Manager of the Enterprise shall become responsible.
- 9.3. Enterprises may apply this Policy directly or, if necessary, enforce the Internal Legal Acts implementing it.
- 9.4. The provisions of this Policy (except for Section 7) shall apply only to Procurements that shall be executed after the effective date of the Policy.
- 9.5. The Policy shall be publicly available on the Company's website.
- 9.6. If the national legal acts of the Enterprises established outside the Republic of Lithuania establish different requirements concerning the application of the Collateral specified in this Policy and their content, the mandatory legal acts of that country shall apply.

## **10. ANNEXES**

*Annex 1. Template for Arguing Why Collateral is not Appropriate for a Particular Transaction;*

*Annex 2. Form of Registers of Collateral Received and Granted.*

**11. RELATED LEGAL ACTS**

*Order of the Director of the Public Procurement Office of 29 June 2017 No. 1S-105 “[On Approval of the Methodology for Determining the Qualification Requirements of a Supplier](#)”; [Group Financial Risk Management and Control Policy](#).*