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LETTER ON THE OBJECTIVES PURSUED AND THE EXPECTATIONS SET BY THE STATE THAT ARE RELATED TO THE ACTIVITIES OF AB “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 Company’s group of energy companies (hereinafter – the Group).

Activities

The activities of the Group include green generation and green flexibility capacities (hereinafter – green capacities) and their development, ensuring the operation of its reserve capacities in accordance with the flexibility needs of the energy system, energy distribution and supply, development of innovative energy solutions and other related activities. The Group's activities are of strategic importance to the State as they include management of strategic infrastructure of the Lithuanian energy system and the implementation of projects of strategic importance.

The Company, which is the parent company of the Group, is responsible for transparent management and coordination of the Group’s activities and increasing their efficiency in order to significantly contribute 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 objectives

The Group’s business must expand in a sustainable and socially responsible manner while it continues to develop a modern, international and competitive Group. The shareholder expects a consistent and focused growth of the Group while increasing the Group’s and the State’s competitiveness internationally by modernising 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 as well as on ensuring the resilience and business continuity of the strategic infrastructure managed by the Group companies.

The expectations on the Group's strategic priorities have been formulated while considering the strategic importance of the Group's assets to ensure the stability of the Lithuanian energy system. Additionally, the focus has been placed on the implementation of innovative and contemporary solutions that meet the needs of the local and global markets and ensuring the integration of the changes in the energy sector happening globally and regionally into the Lithuanian energy system. The Group must ensure the business continuity and consistency of growth by implementing projects that contribute to the global reduction of greenhouse gas emissions and developing new business models and innovative solutions.

To achieve the economies of scale, develop competencies and diversify risks, the Group should pursue strategic expansion in the region while focusing on expansion in the Baltic states (prioritising the expansion in the Lithuanian market), Poland and Finland (hereinafter – the region) and actively pursue new opportunities in the European Union countries undergoing major energy transition.

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

1. to develop green capacities while considering the potential of the market and significantly contribute to the energy security and green transition in Lithuania and the region;
2. to facilitate green transition in Lithuania, ensure the development of the electricity distribution network, increase its resilience 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 develop new business models to drive energy demand and attract energy-intensive businesses to Lithuania, prioritising data centres;
6. to ensure sustainable development of the Group's activities.

Expectations by priority activities

Green Capacities

The Group should prioritise focused, sustainable and profitable development of green capacities to significantly contribute to the energy security and green transition in the region. The Group should analyse and evaluate the green capacities development opportunities while taking into account the power supply and demand ratio and their potential in the market as well as invest in their development in Lithuania and other EU Member States, provided that the hurdle rate is ensured. The main green capacities technologies the Group should invest in are onshore and offshore wind, also power-to-x technologies. Complementary technologies (e.g., solar, hydro, biomass and waste to energy) may be used in cases where it adds value. When the Group obtains the construction permit

for a project or is close to obtain it, it may make further significant investments (exceeding 5–10% of the total investments into the project) only if the project meets the hurdle rate.

The Group should mainly focus on preparation for offshore wind projects in Lithuania and their successful implementation. 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. The Group must prepare potential scenarios for further development of Curonian Nord offshore wind farm with alternative solutions that could ensure the economic viability of the project. When making final investment decisions (FID) regarding offshore wind projects, the hurdle rate must be ensured.

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

The Group should expand 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 maximise 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, under the right market conditions, minority stakes in the Group's green capacities projects would 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 as well as driving electricity demand in Lithuania. To reach these goals, investments should be directed towards connecting new electricity consumers to the grid, replacing overhead power lines with underground cables and increasing network resilience, installing electric vehicle (EV) charging stations, effectively utilising and expanding the electricity network's capacity as well as developing related energy markets (electrification of transport, industry and heating systems) or integrating new sources that drive electricity demand. It should also automate the electricity distribution network management, digitalise the network, use the smart meter data to improve the network management efficiency and ensure that the distribution network reliability and restoration indicators are within the set norm. The Group must pay special attention to ensuring a good end-to-end customer experience and strive to further improve customer experience, analyse and initiate decisions that would remove excess restrictions and open additional opportunities to improve customer experience.

The shareholder expects the Group to invest in further development of the Data Hub's functionalities by implementing an open data model and creating a database of generation, supply and consumption in the Lithuanian energy market that is accessible to all market participants, and to consistently increase the amount of data provided to energy suppliers in Lithuania.

It must further 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. Therefore, 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 operated at Elektrėnai Complex (the Combined Cycle Gas Turbine as well as units 7 and 8 of the Lithuanian Power Plant) to contribute to maintaining the security and stability of the Lithuanian electricity system and the mitigation of the impacts of potential national crisis scenarios on the electricity sector.

The Group should assess the opportunities of developing flexible controlled generation technologies while considering the shifting market conditions, development of renewable energy sources and system balancing needs.

After the synchronisation of the power systems of the Baltic states with the Continental Europe Synchronous Area, the Group must strive to take advantage of the opportunities to operate in the common ancillary service market of the Baltic states, also to actively participate in the Polish or other European Union Member States' capacity auctions.

Customers & Solutions

The Group must prioritise the deployment of innovative, high-added-value energy solutions (thus contributing to the development of the energy sector), also ensuring competitive energy supply. The Group should prioritise expanding its customer portfolio and utilising it to conclude PPAs in order to facilitate the development of green capacities, expanding its public EV charging network, establishing a leading position in the Baltic states as well as actively electrifying the transport, industry and heating sectors while helping transition away from fossil fuels and offering clean alternatives for a sustainable green transition. It should also prioritise ensuring essential energy supply and energy availability during the transition period.

The Group must strive to increase the scope of electricity supply in the region by supplying final consumers with clean energy from its green energy generation assets.

The Group must ensure gas supply availability to B2C customers.

The Group must seek to exploit the benefits of economies of scale by providing competitive and affordable energy services to B2B and B2C customers (take care of socially vulnerable private consumer groups), ensuring high-quality customer service and maintaining the market leadership in customer experience.

Financial expectations

Dividends

The Company's Dividend Policy was adopted in the Resolution No 963 of the Government of the Republic of Lithuania of 2 September 2020 'On the dividends paid by AB "Ignitis grupė"', directed at increasing the dividend value. The increase in dividends for every consecutive year should be at least 3%. The subsidiaries of the Company must strive for the maximum dividend pay-out while considering the planned investment programme.

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 amortisation (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 employed should be ensured. The expectations on target returns must be met when expanding the business as well as enhancing the efficiency of operational activities.

Long-term goals

To ensure sustainable implementation of shareholders' interests, the Group's strategy and long-term goals while adhering to good international practices, long-term objectives must be set for key executives of the Group that are linked to the Group's strategy and strategic plans, 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 may not be the same as the short-term goals set for them. These objectives should include increasing shareholder returns, return on capital employed, business development and/or efficiency as well as sustainability indicators.

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

The Company must ensure the pursuit of key financial performance indicators set by the Government. It should also pursue other specialised financial and non-financial performance indicators.

Non-financial expectations

New business models that drive energy demand

The Group is expected to develop new business models that drive electricity demand, with a priority on data centres. Under favourable conditions, the Group should actively utilise its energy infrastructure and know-how while attracting data centre operators to the region, thus increasing electricity demand, direct foreign investments and competitiveness of the country. The Company should conduct focused development of data centres and invest while following good international practices and market trends, partner with trusted partners and maintain a flexible business model that allows for both early exits from projects under development and further engagement in their implementation as a minority shareholder during the operational period.

Innovation development

The Group is expected to develop innovations to create innovative solutions in its strategic areas while contributing towards creating a future energy sector, implementing environmental goals and offering new opportunities for its customers.

The Group should also analyse and assess, and, when market conditions allow, be prepared to develop and invest in new innovative power-to-x solutions (e.g., hydrogen, synthetic fuel, etc.), which can play an important role in decarbonising the sectors that are difficult to electrify (e.g. chemical and steel production, shipping and aviation sectors). The Group must constantly look for innovative solutions that enable the opportunities to create the maximum value to energy consumers (e.g., by deploying artificial intelligence solutions to monitor the energy generation infrastructure, increase the network management efficiency and serve customers).

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 the changes in the energy sector.

Environmental, social responsibility, efficiency and good corporate governance practices

Criterion for environmental, social responsibility and good governance practices must be integrated into the long-term business goals of the Group. Additionally, the Group must consistently implement and monitor its commitment to reduce net carbon dioxide emissions to zero by 2050, including the measures that allow for additional offsetting of the impact of its activities on the environment (e.g. by investing in the restoration of forests or wetlands), as well as contribute to the Sustainable Development Goals where the Group's activities have the greatest impact. The Group, as a socially responsible business, must give the highest priority to occupational health and safety as well as ensure good employee experience, increase their diversity and inclusion.

To attract and grow the future talents who are 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 energy professions. The Company must enhance its attractiveness as an employer, including by providing competitive

remuneration, to attract the competencies needed to implement the strategy to the country. The Group must also cooperate with Lithuanian and foreign educational institutions and the scientific community to develop the necessary energy competencies and to become the renewable energy competency hub in the region.

The Group must increase the efficiency of its operational activities, thus creating added value to its customers, shareholders and other stakeholders.

The Group must maintain a level of corporate governance maturity and the highest corporate governance index score (A+) according to 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 the 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 evaluation of its performance once a year.
