

CORPORATE GOVERNANCE POLICY OF LIETUVOS ENERGIJA UAB GROUP OF COMPANIES

- Objective:** to establish in accordance with LE2030 strategy the common management principles of Lietuvos Energija UAB Group of Companies which will ensure integration of the Group of Companies into one organization according to activities and functions, rapid and efficient decision making and implementation, and concentration of competencies.
- Scope:** applies to the Companies of Lietuvos Energija UAB Group of Companies.

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1. Notions and definitions

1.1. Notions and / or abbreviations in the present Corporate Governance Policy of the Group of Companies have the following meanings:

Administrative subordination	The subordination of the employee to the direct manager according to the organizational structure of the Company.
Centralized function, centralized functional area	Function that is performed by the employees who only work at LE or at the Service Centre of the Group (at UAB Business Service Centre or UAB Technology and Innovation Centre). Therefore, no double lines of accountability occur and the Matrix Governance Model is not applied to them (Administrative subordination operates). The functional area can also be centralized when all employees of the area work at LE or at the Service Centre of the Group (at UAB Business Service Centre or UAB Technology and Innovation Centre).
Function	Business support activity is established by the Decision of the Board of LE by appointing the Function Manager and, when necessary, the Functional Area Manager(s). The function may include several functional areas.
Function Manager	The employee of LE who leads the relevant Function at the level of the Group of Companies.
Functional Area Manager	The employee of the Company who leads the relevant Functional Area at the level of the Group of Companies.
Functional subordination	Subordination of the employee to the Function Manager who can also work in the company other than the company in which the employee works.
Company	The Company of Lietuvos Energija Group of Companies.
Group of Companies	Lietuvos Energija and legal persons managed by it either directly or indirectly.
Corporate Governance System of the Group of Companies	The entirety of the Corporate Governance Structure, powers, responsibility and principles of operation of the Group of Companies.
Corporate Governance Structure of the Group of Companies	The entirety of the Corporate Governance Structures of the Group of Companies.
Corporate Governance Structure of the Company	The totality of the Company's management and supervisory bodies ensuring proper representation of shareholders, alignment of stakeholder interests, proper separation of governance and supervision functions of the Group of Companies, and compliance with the requirements of the legal acts.
Matrix Structure of the Group of Companies	A structure that combines linear, functional, product, project and other organizational structures with at least 2 managers per employee, and at least to one of the employee is accountable (subordinate) directly and to the other one – indirectly.
Corporate Governance Guidelines, Guidelines	The Corporate Governance Guidelines of the state-owned Group of energy companies approved by the Order No 1K-205 of the Minister of Finance of the Republic of Lithuania of 7 June 2013, including all subsequent amendments and supplements.
LE2030 Strategy	The Strategy of the Group of Companies for the years 2018-2030 approved by the Supervisory Board of LE on 23 May 2018.
Lietuvos energija, Parent Company or LE	Lietuvos Energija UAB, legal entity's code 301844044, registered office address Žvejų str. 14, 09310 Vilnius.
Matrix Governance	The Governance Model when the employee has more than one formal manager in the Group of Companies to whom the employee is accountable directly (solid line) or indirectly (dotted line) while the same administrative structure is maintained in a particular company.

Main activities	The economic activities of the Companies that generate monetary value in the Group of Companies (main revenue sources in the Group of Companies): production, supply, distribution, trade.
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2. General provisions

- 2.1. The present Policy sets the general governance principles in the Group of Companies.
- 2.2. The Policy has been prepared in accordance with the Corporate Governance Guidelines (hereinafter – the Guidelines), the international good practices of corporate management and governance.
- 2.3. The provisions of the present Policy apply insofar as they do not conflict with the requirements of the legislation of the European Union, Republic of Lithuania and other states of operation, including the requirements of independence of the electricity and natural gas distribution system operator, unbundling of energy activities, fair trade, transparency of activities, and other.

3. Governance System of the Group of Companies

- 3.1. The activities of the Group of Companies is perceived as the entirety of activities and Functions. The governance of the Group of Companies is based on integrated principles of corporate governance and matrix organizational structure, whose interaction ensures the proper management and coordination of activities of the Group of Companies, as well as cooperation, sharing best practices in the Group of Companies purposefully achieving the set goals.
- 3.2. The principle of orientation to result which is applied to systematically set and match goals between LE, as the parent company, and the level of each Company, its unit and employee, and between activities and Functions. Accordingly, the principle of responsibility for performance is respected, i.e. the Heads of the Companies, their units, Function Managers, Functional Area Managers and employees are responsible for the results of operations performed.
- 3.3. The principles of performance management of the Group of Companies: cyclical planning of activities, goal setting, resource planning, performance, measurement and evaluation of results at the level of the Companies, their units, activities, Functions and employees.

4. Corporate Governance System of the Group of Companies: structure, powers, responsibility and principles

- 4.1. The Corporate Governance System of the Group of Companies is oriented to the implementation of business goals of the Companies of the Group of Companies, and is based on the principles of creating a value chain in the Main activities.
- 4.2. The models of Corporate Governance Structure applied in the Group of Companies are selected having regard to the requirements of the legal acts and Guidelines, the aspects related to the specifics of the activities of the Companies, other important circumstances. The following models of Corporate Management Structure are applied in the Group of Companies:
 - 4.2.1. with an external Supervisory Board and the Board composed of the Company's employees;
 - 4.2.2. without a Supervisory Board, with an external Board;
 - 4.2.3. without external management or supervisory bodies;
 - 4.2.4. without collegial management and supervisory bodies;
 - 4.2.5. other models that meet the requirements of legal acts when required.
- 4.3. The principles of formation, composition, responsibilities of management and supervisory bodies of the Group of companies, other aspects defined in the legal acts, Guidelines, the Articles of Association of the Companies, the documents governing the activities of the collegial management and supervisory bodies, or committees formed by them.
- 4.4. Supervision of the Companies is exercised by relevant bodies: the Supervisory Boards of the Companies (when formed), the Boards of the Companies (when Supervisory Boards are not formed), and Meetings of Shareholders, as per defined competence. For the sake of efficient performance of own functions and duties, the Supervisory Board of LE (hereinafter – the SB LE) forms committees which look after the matters attributed to the competence of the SB LE at the level of the entire Group of Companies:
 - 4.4.1. The Audit Committee (hereinafter – AC) responsible for submitting objective and impartial conclusions or proposals regarding audit, transactions with related parties as provided for in the Law of the Republic of Lithuania on Companies, and on the functioning of the internal control system within the Group of Companies to the SB LE.

- 4.4.2. The Nomination and Remuneration Committee (hereinafter – the NRC) responsible for submitting conclusions or proposals regarding the matters of appointment, removal or promotion of the members of the management and supervisory bodies, the Heads of the Companies to the SB LE, as well as for the evaluation of activities of the Board of LE and its members, and submitting relevant opinion to the SB LE. The functions of the Committee also include the formation of a general remuneration policy within the Group of Companies, determination of the amount and composition of the remuneration, the principles of promotion, etc.
- 4.4.3. The Risk Management and Operating Ethics Supervision Committee (hereinafter – RMOESC) responsible for submitting conclusions or proposals regarding risk management and ethics supervision, and regarding operation of anti-corruption management systems within the Group of Companies, and / or regarding key risk factors and risk management, or implementation of prevention measures to the SB LE.
- 4.4.4. When necessary, the Boards of the SB LE and of the Companies may also establish other committees operating on a permanent or *ad hoc* basis (for example, to address specific issues, to manage, supervise or coordinate strategic projects, etc.).

5. Matrix Governance System: structure, powers, responsibility and principles

- 5.1. The Group of Companies applies the following principles of Matrix Governance in its day-to-day activities:
 - 5.1.1. cooperation and agreement between the Companies and Functions regarding directions, objectives of the activities, responsibilities and accountability;
 - 5.1.2. priority interest of the Group of Companies;
 - 5.1.3. exchange of defined volume of versatile information both vertically and horizontally subject to applicable confidentiality obligations between the Companies and with other persons, and without prejudice to the statutory requirements for the protection of information from unauthorized disclosure.
- 5.2. The Board of LE:
 - 5.2.1. establishes and repeals the Functions and functional areas;
 - 5.2.2. sets the operating mode of the Function, and, when necessary, of its individual areas (solid, dotted line or centralized).
- 5.3. The Functions, functional areas and their operating modes are set out in the Annex to the present Policy “The list of the Functions and functional areas, and the operating model”.
- 5.4. The operating principles of the Function or its area (interaction between the Main activities and the Functions or their areas) are defined by the operating mode of the Function or its areas which is determined by who is the ultimate decision maker and what is the accountability (subordination) ratio of the employees of the Function:
 - 5.4.1. solid line or the first manager to the employees of the Function or its area: direct management, direct accountability of the employees of the Function to such manager;
 - 5.4.2. dotted line or the second manager to the employees of the Function or its area: indirect management, indirect accountability of the employees of the Function to such manager;
 - 5.4.3. all decisions are made by consensus of both managers, but in case of disagreement, the first manager makes the final decision.
- 5.5. Accountability at the employees of all levels is defined in the job regulations.
- 5.6. The functions and responsibilities of the solid line Function Manager:
 - 5.6.1. forms the direction of the Function: strategy, policy, practice in accordance with LE2030 Strategy;
 - 5.6.2. sets the goals, indicators, priorities of the Function;
 - 5.6.3. ensures the implementation of the goals and priorities in the Function;
 - 5.6.4. decides on the budget and investments of the Function, controls them;
 - 5.6.5. is responsible for the results of the Function;
 - 5.6.6. initiates changes to the Function and is responsible for their implementation;
 - 5.6.7. decides on the recruitment, evaluation, promotion, dismissal of the employees of the Function;
 - 5.6.8. ensures communication of the Function with the Main activities and other Functions, and inside the Function;

- 5.6.9. manages the risks of the Function;
 - 5.6.10. approves the implementing documents (guidelines, standards, descriptions, rules, etc.), which are applicable to the entire Group of Companies, of the internal legal acts (policies, strategies, other internal legal acts) approved by the Board of LE which are assigned to the responsibility area of the Function.
- 5.7. The dotted line Function Manager performs the functions and responsibilities set out in clauses 5.6.1-5.6.2, 5.6.6, 5.6.8 and 5.6.10 of the present Policy. This Manager contributes to the performance of the functions set out in other sub-clauses of clause 5.6 and assumes responsibilities as the second manager.
- 5.8. The functions and responsibilities of the Manager of solid line Functional area:
- 5.8.1. ensures realisation of the functional area as per the determined direction (strategy, policy, etc.), forms the practice of the functional area;
 - 5.8.2. in agreement with the Function Manager, sets the goals, indicators, priorities of the functional area;
 - 5.8.3. ensures the implementation of the goals and priorities in the functional area;
 - 5.8.4. controls the budget and investments of the functional area, is responsible for their implementation;
 - 5.8.5. is responsible for the results of the functional area;
 - 5.8.6. initiates the changes of the functional area and is responsible for their implementation;
 - 5.8.7. decides on the recruitment, evaluation, promotion, dismissal of the employees of the functional area;
 - 5.8.8. ensures communication of the functional area with other functional areas, Functions, Main activities and communication inside the functional area;
 - 5.8.9. manages the risks of the functional area;
 - 5.8.10. prepares the documents of the functional area which apply to the entire Group of Companies. These documents are approved by the Function Manager.
- 5.9. The Manager of dotted line Functional area performs the functions and responsibilities set out in clauses 5.8.1-5.8.2, 5.8.6, 5.6.8 and 5.8.10 of the present Policy. This Manager contributes to the performance of the functions set out in other sub-clauses of clause 5.8 and assumes responsibilities as the second manager.

6. Final provisions

- 6.1. The present Policy is approved by the Board of LE.
- 6.2. The Law Office of LE is responsible for the initiation of review, update of and amendment to the provisions of the Policy, introducing the provisions of the Policy to the Companies, and supervision of the implementation.
- 6.3. The Head of the relevant Company ensures the implementation of the provisions of the Policy in the Companies, and the Function Managers are responsible for their implementation in the Functions.
- 6.4. The provisions of the Policy are reviewed in cases where the organisational structure of the Group of Companies, the activity functions, responsibility change, other significant changes occur or there is a need to renew the Policy.
- 6.5. The implementation of the provisions of the Policy can be detailed in the internal legal acts implementing the Policy which are approved by the Law Function Manager.
- 6.6. The provisions of the Policy become effective upon its approval.