

Title of the normative internal legal act	<b>Commercial and Regulated Procurement Policy of the Group</b>
Process title	Commercial procurements
Process owner (unit)	Legal Service
Approving company	AB "Ignitis grupė"
Position/body of the approving person	Management Board of AB "Ignitis grupė"
Effective date	01-01-2021

## COMMERCIAL AND REGULATED PROCUREMENT POLICY OF THE GROUP

### 1. PURPOSE AND SCOPE

- 1.1. The purpose of the Commercial and Regulated Procurement Policy of the Group (hereinafter – the Policy) is to establish the main principles for planning, execution and control of procurements of the Group companies according to which the Group companies conduct commercial and regulated procurements (hereinafter – the Procurement).
- 1.2. The provisions of the Policy apply to regulated procurements to the extent that does not contradict the legal acts regulating the procurement.
- 1.3. The Policy applies to all companies of the Group.

### 2. CONCEPTS

- 2.1. The general concepts used in the Group are defined in the [Glossary: Group, Company, GSC, Commercial procurement, Procurement information system](#).
- 2.2. **High value procurement** means a procurement whose estimated procurement contract value (including the highest possible quantity of orders, all possible price recalculations, etc.) is equal or greater than EUR 100,000 (excl. VAT).
- 2.3. **Low value procurement** means a procurement whose estimated procurement contract value (including the highest possible quantity of orders, all possible price recalculations, etc.) is equal or larger than EUR 10,000 (excl. VAT) but is below the High value procurement threshold.
- 2.4. **Regulated procurement** means the procurement conducted in a procedure set forth by resolutions of the Government of the Republic of Lithuania:
  - Resolution No. 1036 'On the approval of the description of the procedure for the acquisition or lease of land, existing buildings or other immovable property items, and the rights in respect thereon of 13 December 2017 of the Government of the Republic of Lithuania, including its subsequent amendments;
  - Resolution No. 277 'On the approval of the procedure of procurement of energy or fuel required for the production of electricity and heat energy by companies operating in the energy sector' of 3 March 2003 of the Government of the Republic of Lithuania, including its subsequent amendments;
  - other Resolutions of the Government of the Republic of Lithuania regulating procurement procedure.
- 2.5. **Procurement** means an entirety of processes and procedures designed and intended to conclude a procurement contract (including a preliminary contract) on the acquisition of goods, services or works, where such procurement is not directly subject to the Law on Public Procurement of the Republic of Lithuania (hereinafter - the LPP), or the Law on Procurement by Contracting Authorities Operating in the Water, Energy, Transport or Postal Services Sectors of the Republic of Lithuania (hereinafter - the PL). The procurement concept used for the purpose of the Policy refers to both commercial procurements and regulated procurements.
- 2.6. **Small procurement** means a procurement whose estimated procurement contract value (including the highest possible quantity of orders, all possible price recalculations, etc.) is less than EUR 10,000 (excl. VAT).

### 3. PRINCIPLES OF PROCUREMENT

- 3.1. The purpose of procurement is to conclude a Procurement contract that enables the Company to acquire goods, services or works while prudently using the funds allocated for the purpose, and thus contribute to the attainment of the relevant strategic objectives of the Group and Company.
- 3.2. For planning and conducting procurement, the companies shall follow the following principles:

PRINCIPLE	DESCRIPTION
<b>TRANSPARENCY, IMPARTIALITY AND ZERO TOLERANCE FOR CORRUPTION</b>	<ul style="list-style-type: none"> <li>• The conclusion of the procurement contract shall be based on the principles and requirements laid down in the Policy and legal acts which implement it .</li> <li>• The information on the Procurement shall be made public to the extent facilitating an efficient achievement of the Procurement outcome by taking into account the Procurement-related costs and the desired benefits.</li> <li>• The employees of the companies shall conduct procurements impartially, i.e. objectively, in a business-like manner, without prejudice, in accordance with the principles of equality, non-discrimination, proportionality and transparency for all the suppliers.</li> <li>• The companies and their employees executing and initiating procurements are subject to the standard of recusal or self-recusal the compliance with which ensures a proper management of the conflict of interests, provides for the measures to avoid any conflicts of interests, implements the principles of objective decision-making, transparency and publicity, builds an environment of zero tolerance for corruption, and puts in place a procedure for the recusal or self-recusal of employees from a decision-making process in view of any conflicts of interests.</li> <li>• When conducting Procurements, the employees shall follow the Anti-Corruption Policy and the Code of Ethics of the Group.</li> </ul>
<b>EQUALITY AND NON-DISCRIMINATION</b>	<ul style="list-style-type: none"> <li>• In equivalent situations the aim is to make equivalent decisions.</li> <li>• The suppliers invited to participate in Low value procurement or High value procurement procedures are selected freely, considering the expertise of the company, its knowledge of the products offered in the market, the performance of the suppliers in fulfilling their obligations, etc.</li> <li>• Even if they were previously not invited, after having expressed an interest, any supplier may participate in the Procurement provided the supplier can offer a Procurement object according to the requirements of the Procurement.</li> </ul>
<b>COMPETITIVENESS AND POLICY WITH REGARD TO THIRD COUNTRIES</b>	<ul style="list-style-type: none"> <li>• Procurements shall be conducted by promoting search for and comparing competitive tenders and competition among the suppliers.</li> <li>• Procurement shall not tolerate any agreements that restrict or may restrict competition (price fixing, market or customer sharing, restriction of production or trade volumes, etc.).</li> <li>• It shall be aimed to reduce dependency on the manufacturers and suppliers of products who do not satisfy the criteria of European and transatlantic integration (they are not established or registered in the Member States of the European Union, the North Atlantic Treaty Organization, the European Economic Area and/or the Organization for Economic Cooperation and Development) in the activities of the Companies, using various means (e.g., by choosing the technological solutions, procurement strategy, consultations with the market participants).</li> <li>• In the cases defined in the legal acts governing procurements, when the procurements are related to national security, the goods, services and works</li> </ul>

	<p>have to be acquired from the suppliers (including the engaged sub-suppliers or economic entities) that are registered in the Member States of the European Union, the North Atlantic Treaty Organization, or in the third countries that have signed the World Trade Organization's agreement on public procurements and other international agreements binding to the Member States of the European Union.</p> <ul style="list-style-type: none"> <li>• The contracts regarding the products, the origin whereof is in the third countries, with which no multilateral or bilateral agreement has been made with the European Union in order to assure competitive and efficient entrance of the companies of the European Union into the market of those countries, shall not be concluded, unless the acquisition of the products, regardless of their country of origin, are inevitably necessary to assure continuity of the Company's activities, there is no alternative or in case of other justified circumstances.</li> </ul>
<b>PROPORTIONALITY</b>	<ul style="list-style-type: none"> <li>• The requirements for the suppliers shall be proportionate to the Procurement object and its scope.</li> <li>• When determining the Procurement procedures (the requirements for the announcement of the Procurement or the requirements for drawing up the Procurement conditions, the number of tenders to be compared, etc.) effort shall be made to ensure the optimal balance between the the use and the expected (target) outcome (effect) of the resources (financial, time, human, etc.), when applying the procedures.</li> </ul>
<b>SUSTAINABLE DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>• Procurements shall be carried out in compliance with the Sustainability Policy of the Group.</li> <li>• The Procurement procedures are designed to promote the application of measures supporting sustainable development.</li> </ul>
<b>CONFIDENTIALITY</b>	<ul style="list-style-type: none"> <li>• The employees of the Companies participating in the Procurement shall ensure the confidentiality of the information obtained by them as part of Procurement procedures.</li> <li>• The Group is classified as a vertically integrated entity (hereinafter – VIE), therefore it is obliged to ensure a proper segregation of distribution operations from the energy production/generation and supply activities. The employees of the Companies participating in the Procurement are obliged to keep all information received in relation to the different activities of the energy sector (distribution, production, supply) confidential, and must ensure the confidentiality and use of the received information exclusively in the interests of the respective Companies.</li> </ul>

<b>EFFICIENCY AND FLEXIBILITY</b>	<ul style="list-style-type: none"> <li>• Procurements shall be conducted employing innovative and convenient digital tools (for document, process management, tender receipt, remote negotiations, etc.). The Companies shall seek to transfer the Procurements to the digital space or carried out by other electronic means. The Procurement data of all the Companies is accumulated on a single Procurement information system but for the exceptions referred to in the Guidelines implementing the Policy.</li> <li>• Part of the procurement procedures is to ensure a competitive and reasonable price of the products to be procured. The Companies are required to follow the international trends in the area of procurement, respond to changes and follow the good practices.</li> <li>• With a view to ensuring the interests of the Company, the Procurements are encouraged to be conducted while negotiating with the suppliers, supporting the flexibility of the Company's decisions and adjusting to market conditions (e.g., as necessary, the Procurement terms and conditions are revised, the suppliers are permitted to revise their tenders, etc.)</li> <li>• Procurements shall be conducted in the manner ensuring their optimal alignment to business needs, other procurement principles and the requirements of legal acts. The applied Procurement procedures must not create unreasonable administrative burden to the Companies.</li> <li>• The winners shall be selected and the contracts shall be concluded with in accordance to both the proposed price and other aspects related to the offered goods, services or works (e.g., execution periods, service and maintenance costs, etc.).</li> <li>• In order to procure at reasonable market prices, under the most advantageous terms and considering the market innovations and changes in the market, the Procurement contract shall be concluded in a way that permits</li> </ul>
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#### **4. STANDARDISATION AND CENTRALISATION OF PROCESSES**

- 4.1. The procurement planning, execution and control procedures are standardised at the level of all Companies.
- 4.2. Objectives of process standardisation and procurement centralisation:
  - 4.2.1. implement an integrated and efficient Procurement process;
  - 4.2.2. implement a consistent practice for compliance with legal acts;
  - 4.2.3. ensure legitimacy of the Procurement procedures, increase transparency;
  - 4.2.4. optimise and streamline Procurement processes, transfer them to digital space;
  - 4.2.5. efficiently procure the necessary goods, services or works in reasonable deadlines and conditions;
  - 4.2.6. distribute human resources efficiently and flexibly;
  - 4.2.7. achieve a synergy effect;
  - 4.2.8. ensure sufficient competences of the specialists;
  - 4.2.9. ensure an efficient control system.
- 4.3. Centralisation principles:
  - 4.3.1. In the cases when the procurement of goods, services or works is related to general business support (i.e. not related to the Company's core activities) and similar procurement operations are carried out by at least several Companies, the Procurement may be combined, and the Companies may participate in centralised Group Procurements together with other Companies. Such centralised Procurement operations shall be conducted via the GSC having considered the legal environment pertaining to such procurements.
  - 4.3.2. Any other procurement operations may be combined and carried out in a centralised manner, subject to consent of each Company initiating the procurement.

## **5. PROCUREMENT PROCESS STAGES**

- 5.1. The Procurement process is an integral part of the contract management cycle and includes the following stages:
  - 5.1.1. Procurement planning;
  - 5.1.2. Procurement initiation;
  - 5.1.3. Procurement execution;
  - 5.1.4. Procurement conclusion.
- 5.2. The contract conclusion and execution processes and requirements are regulated by the Standard on Contract Conclusion, Execution and Control of the Group.

## **6. PROCUREMENT PROCESS. PROCUREMENT PLANNING STAGE**

- 6.1. With a view to ensuring a timely conclusion of Procurement contracts required for the Companies, a proper management of supply-related risks and an efficient distribution of resources, the Procurement must be planned in advance by compiling joint annual and detailed Procurement plans. The Companies shall exchange the data of their Procurement plans with the GSC.
- 6.2. When planning the Procurement operations, the Companies initiating the Procurement perform various scale market research. The market research assist the Companies to find out qualitative and quantitative information about the supply of goods, services and works, regularly follow the market information about any emerging innovations, new decisions, trends in the professional field and areas identifying the largest potential for new and improved solutions.

## **7. PROCUREMENT PROCESS. PROCUREMENT INITIATION STAGE**

- 7.1. The responsibility for the identification of the need for the Procurement and the initiation of the Procurements required for the Company's operations lies with the Company initiating the Procurement. The Company initiating the Procurement must put in place a clear process for the approval of Procurement need.
- 7.2. The Company initiating the Procurement shall ensure that only those procurements are initiated for which the funds are allocated or will be allocated in the Company's budget, or the Procurement funding is ensured in another way.

## **8. PROCUREMENT PROCESS. PROCUREMENT EXECUTION STAGE. ENTITIES ENGAGED IN THE EXECUTION OF THE PROCUREMENT**

- 8.1. The responsibility for conducting the procurement and its compliance with the requirements of the Policy and the legal acts implementing it shall lie with the Company executing the Procurement.
- 8.2. Small procurement operations shall be carried by the Companies independently. Small procurement operations may be carried out by GSC if an agreement with the Company is in place.
- 8.3. Ordinarily, Low-value procurement and High-value procurement operations are carried out by GSC. The Low-value procurement and High-value procurement operations can be also carried out by the Companies themselves.
- 8.4. Regulated procurement procedures shall be carried out by GSC irrespective of their value.
- 8.5. The Companies registered abroad shall carry out the Procurements themselves, irrespective of the Procurement value. If the Company makes an agreement with GSC, the Procurement operations shall be performed by GSC.

In exceptional cases, the Company may authorize a non-Group company to carry out the Purchase, if such a need is based on the specific professional experience or competence of another entity, in a project carried out by the cooperation of the parties, or it is necessary for the implementation of important projects in which the company participates. The Company must ensure that the performance of the other entity complies with the principles of transparency and competitiveness

## **9. PROCUREMENT PROCESS. PROCUREMENT EXECUTION STAGE. PROCEDURES**

- 9.1. The procurement procedures must contribute to procuring goods and services or works at

economically reasonable prices.

- 9.2. With a view to ensuring the compliance of the price with the market prices, in the cases of Low-value and High-value procurements the supplier shall be selected by comparing at least several tenders for the products being procured or the prices of identical products, except the cases set forth in the Guidelines.
- 9.3. High-value procurements are publicly announced calling the suppliers to submit their tenders, or the Procurement objects are procured through competition supporting environments (exchanges, auctions, etc.) except for the cases set forth in the Guidelines implementing the Policy. High-value procurement operations without a public notice can be carried out by companies operating abroad.
- 9.4. Low value procurements shall be carried out in a way making it possible to ensure that the price of the procured goods, services or works (for instance, by comparing the publicly accessible prices, enquiring several suppliers, publishing the Procurements, comparing the data on goods and service prices collected before the procurement, etc.) is reasonable.
- 9.5. Small procurement operations are conducted without a public notice. In relation to Small procurement operations, documentation of the evidence supporting the prices is not mandatory, however, it must be ensured that the prices are reasonable before the conclusion of the contract. No less than once per year the assessment of selected sample of Small procurements shall be carried out in order to identify that the price is reasonable and other risks, and take the necessary measures to manage such risks. Such assessment is carried out by GSC.
- 9.6. Procurement procedures can be identified and carried out using elements such as concluding a preliminary contract with one or more suppliers, renewed competition between suppliers, pre-qualification of potential suppliers (when assessing the qualification of suppliers), etc.
- 9.7. As needed and seeking to ascertain the supplier's ability to perform the contract, requirements for the supplier's qualifications (experience, organisational, financial and other capacities, etc.) may be set during the Procurement process. Irrespective of whether or not the requirements have been imposed, the Company has a right to refuse to propose conclusion of the Procurement contract with a supplier in respect of whose reliability to properly execute the Procurement contract the Company has reasonable doubts, or on the basis of conclusions of a due diligence exercise.
- 9.8. The supplier with which the Company intends to conclude the Procurement contract shall be determined by comparing the tenders on the basis of price or economic efficiency criteria.
- 9.9. Negotiations with the suppliers can be conducted in relation to any type of procurement. Such negotiations may be carried out regarding the features of procurement objects relevant to the Company, delivery and payment terms, discounts, configurations any other terms of procurement or other elements of the supplier's tender.
- 9.10. During the Procurement or its negotiations, the Procurement terms and conditions can be adjusted to the extent that does not essentially change the Procurement object.
- 9.11. In relation to Low-value procurements and High-value procurements conducted by the GSC, the essential decisions regarding the Procurement provided in the Guidelines implementing the Policy shall be coordinated between the GSC and the Company initiating the Procurement.
- 9.12. The Procurement operations shall be carried out by the employee appointed by the Company executing the Procurement. The procedure for coordination and approval of decisions made during the procurement process shall be established by the Company executing the Procurement.
- 9.13. In procurement procedures, where the complexity or specifics of the procurement object require additional expert knowledge and competencies, the Company may engage specialists in respective fields to participate in the procurement process or coordinate/endorse documents or draw up conclusions. Both employees of the Companies, and external experts and specialists may be engaged as procurement experts.

## **10. PROCUREMENT PROCESS. PROCUREMENT CONCLUSION STAGE.**

- 10.1. A procurement is completed by concluding the Procurement contract or terminating the Procurement.
- 10.2. The Companies shall conclude all the Procurement contracts in writing, except in the cases of small procurements. In cases of Small procurements, the Procurement contract may be concluded verbally, unless a written contract is required by the nature of the obligations assumed by the parties

or by legal acts.

- 10.3. Ordinarily procurement contracts must be concluded for a maximum period of 5 (five) years, unless a longer term of contractual obligations is required, taking into account the specifics of the procurement object, normal business practice for such type of contract (e.g. contracts using public-private partnership model, energy service company model, long-term energy supply contracts).
- 10.4. An assessment of corruption risk posed by the potential business partner and/or the intended transaction shall be carried out prior to concluding each Procurement contract. When concluding the contract with a supplier or a partner, the conclusions of due diligence are considered in addition to the specific measures provided for managing corruption risk.
- 10.5. Decisions on concluding a contract, except for Small procurements, are approved by following the "four eyes" principle, i.e. decisions on the selection of a supplier (conclusion of the contract) must be approved (confirmed, coordinated) by at least two employees of the Company.
- 10.6. Should the needs of the Company initiating the procurement change, the Company can at any time decide to terminate the Procurement process and refuse to conclude the Procurement contract.

## **11. RESTRICTIONS FOR AMENDING THE PROCUREMENT CONTRACTS**

- 11.1. The Contracts shall be implemented according to the terms and conditions set forth therein. If necessary, a written contract may be amended under the conditions and in the procedure set forth in the contract.
- 11.2. The processes for executing and/or amending the Procurement contracts shall be conducted while ensuring the Company's interests and shall not distort the economic balance between the parties to the contract.
- 11.3. The Procurement contract may only be amended with additional unplanned cases if the procurement object was not essentially changed while the economic balance for the parties of the contract is maintained, and:
  - 11.3.1. due to the amendment (of the price, scope, object, terms, etc.), the value of the contract increased by no more than 25 per cent; or
  - 11.3.2. due to the amendment, the value of the contract increased by more than 25 per cent, after performing the procedures analogous to a new procurement (according to the value of the amendment as compared to the initial contract value) and the price of the amended contract was assured to be reasonable.

## **12. PARTICIPATION IN THE PROCUREMENTS OF OTHER ORGANISATIONS**

- 12.1. When submitting tenders when participating in the procurement of other organisations, the Companies, as suppliers, must assess the partners, sub-suppliers and other economic entities they intend to engage, prices of goods, services or works and other relevant information related to executing the future contract.
- 12.2. In an event that the Company, as a potential supplier, participates in the procurement of other organisations (including, but not limited to, public procurement) or competes alone or with partners for a concession, public-private partnership, energy service company model or other similar projects, in which case, the partner, a subcontractor or other economic entity to be selected prior to the submission or publication of a tender for the procurement, may be selected and the cooperation, preliminary or other similar contracts may be concluded with the partner, a sub-supplier or other economic entity without applying the procurement procedures set out in this Policy, having ascertained the reliability of the selected partner and its ability to properly discharge its contractual obligations.
- 12.3. In case of winning the tendering procedure, the goods, services and works required for the implementation of the contracts referred to in Clause 12 may be acquired from such earlier selected partners directly by negotiating the tender price and other terms.
- 12.4. The criteria of the partner's reliability and ability to discharge the contractual obligations are determined by the Company selecting the partner by following the recommendations established in the internal legal acts implementing the Policy.

## **13. EMPLOYEE COMPETENCE**

- 13.1. The employees responsible for the planning, execution and control of Procurement must be secured

all the conditions for continuous qualification development in order to ensure the competencies of employees to properly perform the assigned functions and protect the interests of the Company and the Group. The employees must also be able to share the good practice.

#### **14. INTERNAL CONTROL PRINCIPLES**

- 14.1. The Companies shall develop and put in place the respective processes ensuring the implementation of the Policy.
- 14.2. With a view to ensuring a proper management of the Procurement process, identifying possible errors or irregularities at any stage of the Procurement process, preventing them in the future, the internal control system must cover the entire Procurement process, i.e. formation of needs, planning, initiation and preparation of the Procurement, execution of the Procurement, conclusion and execution of the Procurement contract and acceptance and evaluation of its results.
- 14.3. The Company shall ensure the collection and submission to the Group's Procurement function manager of the data required for the monitoring and improvement of Procurement function, and engagement in the process review and improvement actions.
- 14.4. The internal audit of Procurement shall be periodically carried out by the Internal Audit Service of AB "Ignitis grupė".

#### **15. FINAL PROVISIONS**

- 15.1. The implementation of the provisions of the Policy is specified in the internal legal acts approved by the Procurement function manager of the Group.
- 15.2. The procurement procedures are established in the Guidelines approved by the Procurement function manager of the Group, the internal legal acts approved thereby, except in the case of regulated procurements.
- 15.3. If necessary, having agreed with the Procurement function manager or a person appointed thereby, the Companies may adopt internal legal acts related to the implementation of the Policy and the internal legal acts specifying its implementation.
- 15.4. Any companies newly acquired by the Companies may apply the provisions of the Policy gradually, however, the provisions of the Policy shall be applicable to their full extent within no later than 1 (one) year of becoming a part of the Group.
- 15.5. The responsibility for the implementation of the Policy and control at the Group level lies with the Procurement function manager.
- 15.6. The Policy can be made public on the websites of the Company.

#### **16. RELATED LEGAL ACTS**

[Anti-Corruption Policy;](#)

[Code of Ethics;](#)

[Sustainability Policy;](#)

[Standard on Contract Conclusion, Execution and Control of the Group.](#)