

APPROVED by

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2022 of the Minister for Transport and
Communications of the Republic of
Lithuania

LETTER
REGARDING THE OBJECTIVES PURSUED BY THE STATE AND THE
EXPECTATIONS WITH RESPECT TO THE AB LIETUVOS GELEŽINKELIAI

I. Objective

With regard to the objectives pursued by the State and State expectations for AB Lietuvos Geležinkeliai, the present letter sets out the expectations of the Ministry of Transport and Communication of the Republic of Lithuania relating to the directions, goals and operating principles of AB Lietuvos Geležinkeliai (hereinafter - the Company) and its subsidiaries (hereinafter - the Group).

The Letter is intended to set the State's short- and medium-term expectations and guidelines for long-term development expectations of the Group, to identify the core and other activities of the Company and individual companies within the Group, as well as key performance indicators, to lay down the procedure for the provision of information to the Ministry of Transport and Communications, and to ensure effective cooperation between the Group and the Ministry of Transport and Communications.

Based on the Letter, strategic action plans of the Company and individual companies within the Group shall be prepared and/or revised, financial and non-financial long- and short-term goals shall be set, having regard to the provisions of the legislation shaping the State policy in the area of transport and communications, as well as the provisions of the Lithuanian legislation governing the activities of state-owned enterprises.

By issuing this Letter the Ministry of Transport and Communications intends neither to restrict nor extend the rights or obligations of the Company, individual companies within the Group or their management bodies. The Group and its management bodies are primarily obliged to comply with the applicable legislation, the Articles of Association of the Group's companies and other decisions adopted by the shareholders, as well as good corporate governance practices, and to assume responsibility for the decisions they make. In implementing the expectations expressed by the Ministry of Transport and Communications in the Letter, the management bodies of the Group must follow the principles of reasonableness, transparency, efficiency, and rational asset management.

II. Purpose and operational goals of the Company

The Group consists of the parent holding company, AB Lietuvos Geležinkeliai, and the subsidiaries directly and indirectly controlled by it.

The purpose of the Group is the transportation of freight and passengers by rail and related logistics services in domestic and international markets, the management of public railway infrastructure, and the implementation of investment projects of national significance.

In the context of geopolitical and economic changes in the market of transport services, leading to changing trade directions and passenger flows, challenges and opportunities related to

the reform and development of the railway sector in the European Union, the operational objectives of the Group include as follows:

1. performance of the special obligations:
 - 1.1. provision of public passenger transportation services by rail and public combined passenger transportation services on national routes;
 - 1.2. provision of services related to maintenance, renewal and development of public railway infrastructure, organisation of rail traffic and services included in the minimum access package;
2. development of rail freight transport operations;
3. transparent allocation of public railway infrastructure capacity and efficient use of the rail network;
4. implementation of strategic and intermodal projects.

The Ministry of Transport and Communications expects that the activities of the Group will be developed in line with the directions defined in the Letter, and that the expectations set out will become part of the Group's individual strategic action plans to include the indicators and target values for their implementation.

III. Non-financial expectations

Planning and development of public railway infrastructure. The Group has to ensure such capacity of railway infrastructure and rolling stock which enables to operate steadily growing passenger flows and maintain freight traffic, as well as successful integration of Lithuania's railway infrastructure in the European rail network. Infrastructure modernisation projects must be assessed not only in terms of financial return, but also in terms of overall socio-economic benefits offered to the country, its citizens, the sector, and the region, as well as environmental footprint.

To ensure the integrity of the railway system and traffic safety the Group is required to maintain, upgrade, and develop the public railway infrastructure on an ongoing basis. Investment plans for the development of railway infrastructure must include an analysis of all reasonable alternatives and must be compatible with the national security interests of the State.

Project on development of the Rail Baltica Railway connection. As part of the project on Development the Rail Baltica Railway Connection, the essential construction works for building the railway line on the Kaunas–Panevėžys section must be completed by 2024, as well as proper preparations for construction of other sections must be made.

In close cooperation with SE Lithuanian Airports, solutions for the integration of Vilnius and Kaunas airports with the European railway system and the railway station must be developed and implemented so that maximum convenience could be offered for passengers to access the arrival and departure terminal.

Transport system integrity. To guarantee seamless mobility of people, goods and services, the Group needs to facilitate intermodality, which would enable to achieve efficiency and ensure flexibility in terms of shifting transport modes. The Group must assess the entire logistics chain, seek competitiveness and benefits on Lithuania-wide scale, coordinate its actions with the decisions of other enterprises and institutions, and actively cooperate with the state enterprises Klaipėda State Seaport Authority, Lithuanian Road Administration, Lithuanian Airports as well as with municipalities with regard to planning the renewal and development of railway infrastructure and setting tariffs for the use of railway infrastructure and railway service facilities.

Customer service quality. The Group must increase the value of services provided to customers, improve the quality of rail transport services and the availability of public rail infrastructure on congested sections of railway track, increase customer satisfaction and make rail transport the preferred choice of transport. Until December 2024, the Group has the duty to implement the provisions set out in Regulation (EC) No 1371/2007 of the European Parliament and of the Council of 23 October 2007 on rail passengers' rights and obligations and consistently

comply with the provisions of the Memorandum of 1 June 2021 on the adaptation of transport vehicles and transport physical and information infrastructure to people with individual needs, and to ensure the implementation of Commission Regulation (EU) No 1300/2014 of 18 November 2014 on the provisions of the technical specification for interoperability relating to accessibility of the Union rail system for disabled persons and persons with reduced mobility, and other relevant legislation of the European Union. The Group ensures the application of quality standards for assistance to persons with individual needs and organises relevant staff training. With a view of facilitating travel for people with individual needs the Ministry of Transport and Communications supports the Group's initiative for close cooperation with organizations that unite people with individual needs.

Leadership and increased competitiveness. In the long term, the companies within the Group must become the leading railway companies in the region in terms of quality and efficiency of the services provided. The Group should increase its freight and passenger transport flows by implementing the targets and achieving the indicators set out in the Programme of the Development of Transport and Communications for 2022-2030, as well as expand its operations to foreign markets (by prioritising Western European markets), and continuously carry out diversification of its market, customers, and business activities.

With a view of improving the quality of its services the Group must be in active cooperation with other railway undertakings, road transport undertakings and other market players. To ensure sustainable infrastructure development the Group shall strive to achieve that at least 50% of freight transported over a distance of more than 300 km by road in Lithuania is shifted to rail.

In order to increase passenger flows and improve the quality of services, the Group shall closely cooperate and align its activities and routes with passenger carriers on local bus and coach routes, actively participate in the development of the single ticket system and collaborate with municipalities, road transport operators and other stakeholders.

The Group must strive to make rail passenger transport the preferred choice of passengers.

In 2021, the total number of passengers was 4.13 million; it is expected to increase to 6 million by 2025 and to reach 10 million by 2030. In assessing the competitive environment, the customer portfolio and the service terms and conditions must be considered separately, while changes in service tariffs must be clear and gradual. Customers should be informed of tariff changes as early as possible. Decisions on tariff setting should not only consider financial returns, but also benefits generated for the State and customers in the long term, as well as the competitiveness of the whole logistics chain.

Innovation, digitalisation, sustainability. The Group must prioritise innovative technological solutions, contribute to the promotion of innovation in the Lithuanian transport sector, including the creation of demand for innovation, and ensure that the introduction of new technologies and modern ways of working are in line with the State's priorities for innovation development, digitalisation and green deal, improve the efficiency and effectiveness of its direct operations, and add value to passengers, the Group's customers and the Group itself.

In implementation of infrastructure modernisation projects, the Group must prioritise investments reducing the impact of climate change and the negative effects of air and noise pollution on human health and the environment. The Group must constantly seek solutions to reduce the negative footprint of its activities on the environment and climate change, and a substantial part of electrification work for the Lithuanian rail network must be completed by 2024.

The Group must contribute to the reduction of environmental pollution caused by transport and must give priority to clean (e.g., using alternative fuel) and innovative vehicles when purchasing/leasing company cars or deciding on other vehicles used in the activities of the Group.

In its activities the Group should follow the best practices for sustainable and balanced development and observe the laws, international norms and ethical standards that govern its activities. The strategies of the individual companies of the Group should integrate the United Nations' principles of sustainable development with a view of environmental, social, consumer

and human rights concerns. The Group must ensure that these principles are implemented together with the users of rail transport. The Group must have in place a sustainability policy setting out the directions and principles of sustainable development and the measures for their implementation to be used for performing the Group's day-to-day operations and for building an organisational culture. The Group must adequately disclose the sustainability initiatives undertaken in its annual sustainability report and publish on its website.

Social responsibility and employee engagement. The Group must carry out its activities in accordance with the highest standards of transparency, governance, ethics, and social responsibility, use modern methods of measuring employee engagement and seek to improve employee engagement. The Group must maintain a values-based organisational culture and provide opportunities for professional development. The Group must introduce and develop employee values, competences change, motivation and incentive systems. The Group must make every effort to increase employee motivation and professional growth, to consistently seek that employees receive a fair and market-compliant compensation, to create an attractive working environment, and to provide work opportunities for people with individual needs. The Ministry of Transport and Communications expects that the boards and the management of the Group will maintain a continued and constructive dialogue with the representatives of employees.

The Ministry of Transport and Communications expects that in the event of emergencies or other unforeseen circumstances in the State that have a significant impact on the social welfare and security, the Group will be socially responsible and will seek opportunities to contribute to the State's actions to combat such situations and their consequences.

Transparency and risk management. The Group must have in place anti-corruption measures and processes to ensure that its activities are carried out in a transparent and fair manner, and that public procurement is conducted in accordance with the provisions of the Law on Public Procurement of the Republic of Lithuania and other regulations. The Group must have in place and continuously improve an effective risk management system, sufficient resources must be allocated for risk management processes and the national security interests of the State must be adequately protected. The planning and use of investments must be based on an assessment of the risks involved. The Group is required to ensure that all information contained in the Guidelines for Ensuring Transparency in the Operations of State-Owned Enterprises approved by the Government of the Republic of Lithuania is made publicly available.

The impartiality and independence of decisions made by LTG Infra, a joint stock company performing the functions of public railway infrastructure manager, shall be ensured as provided for in the legislation. AB LTG Infra must consult market experts on infrastructure development and its planning, and periods of traffic breaks.

In accordance with the provisions of the Law of the Republic of Lithuania on the Right to Access and Reuse Information and other legislation regulating the provision of information for reuse, the Group must ensure that open data is inventoried, opened and provided to Lithuania's Open Data Portal.

Good governance. Having regard to the recommendations for improving corporate governance provided by the public institution Governance Coordination Centre (hereinafter – the GCC), the Group must apply the best corporate governance practices, and aim for the Company to be rated no lower than grade A in the annual reports of the good governance index of state-owned enterprises.. The Group's corporate governance must be focused on long-term value creation, sustainable development of the Group in the long run, and ensuring proper alignment of interests among all stakeholders. The Group must also be guided by the recommendations of the Organisation for Economic Co-operation and Development. In its activities the Group should protect and enhance its reputation, carry out studies on reputation changes and make effective use of external and internal communication.

The Group should evaluate and seek alternatives to secure long-term financing and contribute to the development of the capital market in Lithuania. The quality of the Group's

corporate governance and its business transparency must consistently move towards the standards of listed companies in order to meet them by the end of 2024.

The Company must ensure the achievement of specific non-financial performance indicators which are agreed annually with the GCC.

IV. Financial expectations

The Group's long-term profit margin must be consistent with the value set by the Government.

Dividends are calculated as established in the legislation regulating the determination of a share of profit allocated for dividend payment.

The Group is required to ensure that the optimal debt-to-equity ratio is consistent with the value set by the Government.

The Company must ensure the achievement of specific financial performance indicators which are agreed annually with the GCC.

V. General expectations regarding operating principles

The ultimate owners of the Company are taxpayers, so that the Company's management bodies are required to make all efforts to ensure that the Company and its assets are managed in a transparent and efficient manner having regard to the expectations and needs of Lithuanian residents and economic operators

The management bodies of the Group's companies have direct responsibility for the implementation of the set expectations and objectives.

The Chairman of the Board and the CEO of the Company should periodically submit to the management of the Ministry of Transport and Communications the updated strategic plan, annual budgets and results, the annual conclusions of self-assessment of the Board .

The Board of the Company should act independently, but the Ministry of Transport and Communications expects the Board to inform in advance about the Company's critical decisions and to perform the functions assigned in accordance with the Articles of Association of the Company and the Law on Companies of the Republic of Lithuania. The following decisions are considered as critical:

- potential conflicts of interest on the part of the members of the Boards of the Group's companies;
- potential substantial judicial disputes;
- alleged fraud on the part of employees or related parties of the Group;
- essential changes in the Group's activities;
- large-scale employee redundancies;
- changes of CEOs of the Group's companies;
- major acquisitions and disposals;
- damage that may be caused to the public, environment, economy, or security of the State;
- press releases that may require comments of the Ministry of Transport and Communications;
- potential threats to national security;
- corruption and political intervention of any kind;
- other material risks posing threat to business continuity of the Group;

The Company's Board should be guided by the principle of reasonableness and inform of any other important decisions potentially relevant to the interests of the Company's shareholder.
