EPSOG

SUSTAINABILITY-LINKED FINANCE FRAMEWORK

MAY 2022

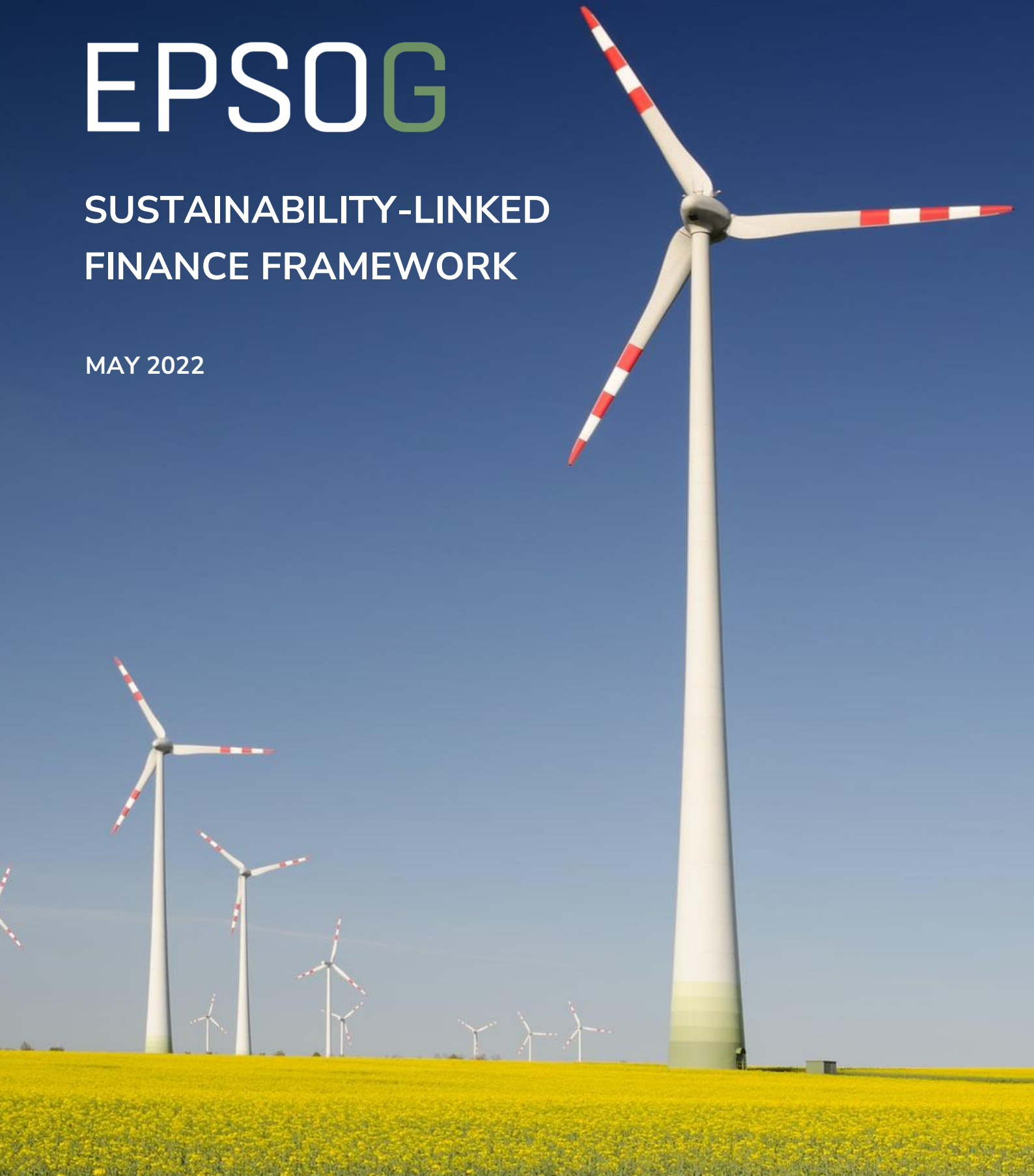


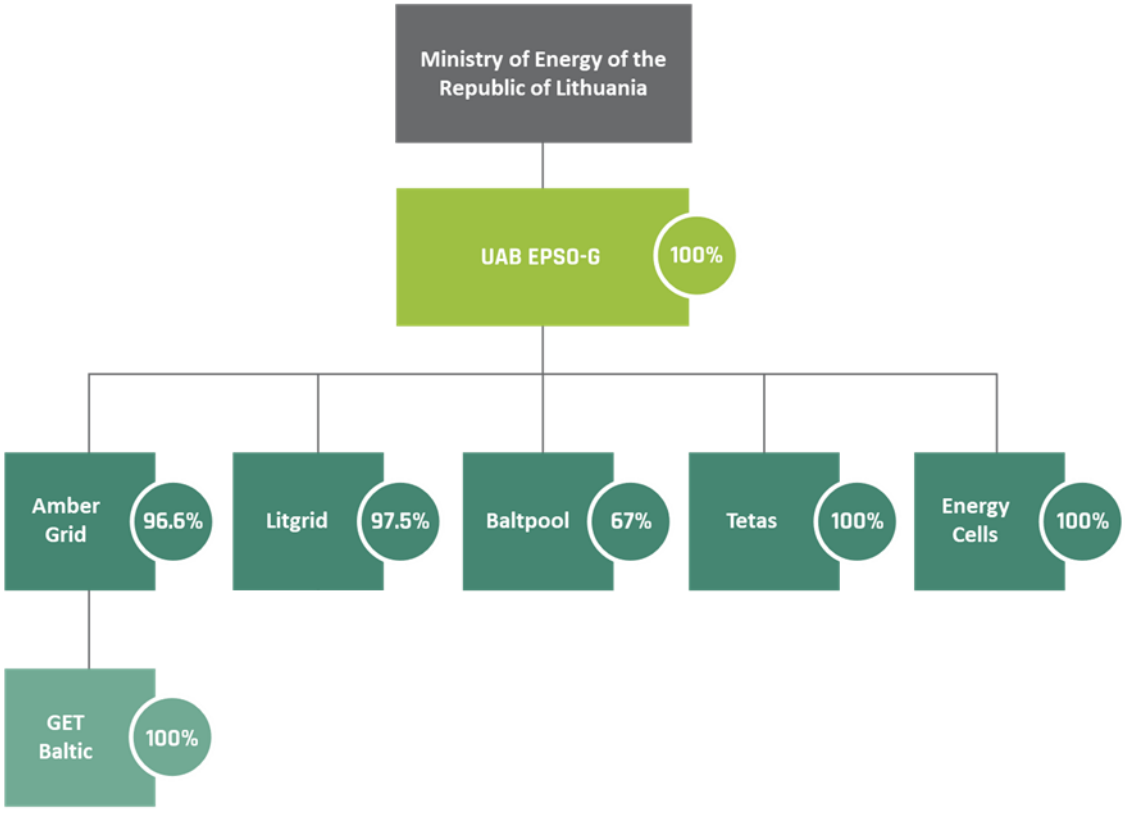
TABLE OF CONTENTS

1. INTRODUCTION

EPSO-G UAB ("EPSO-G") is a state-owned group of energy transmission and exchange companies. The shareholder rights and obligations of EPSO-G holding are implemented by the Ministry of Energy of the Republic of Lithuania. The group consists of a holding company, the transmission system operators managing the infrastructure of electricity and natural gas transmission, the market operators managing natural gas, biofuels, and wood exchanges, as well as a company providing infrastructure maintenance services.

As the owner of energy transmission networks, EPSO-G plays a key role in enabling the implementation of Lithuania's decarbonisation and domestic energy generation targets. Due to its critical role in ensuring security of energy supply, EPSO-G and its two main subsidiaries are designated by the law as strategically important entities for the national security of Lithuania.

EPSO-G group consists of the holding company EPSO-G, subsidiaries Amber Grid, Litgrid, Baltpool, Tetas, Energy Cells as well as indirectly controlled GET Baltic.



Amber Grid AB ("Amber Grid") is a natural gas transmission system operator. The company manages natural gas flows in the gas transmission system, and it ensures reliable transmission of natural gas to system users, and operation and maintenance, as well as development of natural gas infrastructure. The transmission system operated by this company consists of the main gas pipelines, gas compression stations, and gas metering and

distribution stations. Amber Grid implements strategic projects for Gas Interconnection Poland-Lithuania ("GIPL"), and increasing the capacity of the gas transmission interconnection between Lithuania and Latvia. Amber Grid serves large enterprises (e.g., power plants, district heating plants, and industrial companies) and medium-sized Lithuanian business enterprises, as well as natural gas supply companies, to which it renders natural gas transmission and gas flow balancing services in the transmission system. Furthermore, the company is actively preparing for the integration of biomethane through developing technical and organisational measures for the integration of hydrogen into the gas network.

Litgrid AB ("Litgrid") is an electricity transmission operator. The company ensures reliable electricity transmission and balance, and it manages and operates high-voltage electricity transmission networks and direct current connections to "LitPol Link" and "NordBalt". It is further part of the development of the transmission network and electricity market, it coordinates electricity flows and it supports the stable operation of Lithuania's energy system and is responsible for the smooth integration of renewable energy sources. Furthermore, Litgrid is implementing strategic electricity projects in preparation for synchronous interconnection with the Continental European Networks. Litgrid plays a key role in enabling a smooth transformation of the Lithuanian energy sector into a green energy system. The company is actively preparing for the integration of significant amounts of electrical energy produced from offshore wind and other capacities of renewable energy sources.

Baltpool UAB ("Baltpool") is an operator of energy and a timber trading exchange, which organises trading, i.e. provides a level playing field for all market participants to purchase biofuels and timber under competitive conditions, thus ensuring maximum benefits for customers and revenue for the State. It acts as the administrator of public service obligations' ("PSO") funds and oversees collection, pay-outs, and administration of PSO funds. With the growing demand for sustainable biomass in Europe, Baltpool introduced a new solution for its clients: a biomass traceability tool. This tool enables market participants to determine the precise origin of biomass and the raw materials used, making it easier for market participants to comply with the requirements of RED II.

Tetas UAB ("Tetas") provides design, repair and maintenance services for transformer substations and distribution stations, as well as the services of installation and operation of renewable energy power plants. The company employs up to 400 employees and is one the largest contracting companies in Lithuania. Tetas designs and offers renewable energy solutions based on technical calculations, construction works, solar power plant adjustments and commissioning works.

Energy Cells UAB ("Energy Cells") is a special-purpose company fully owned by EPSO-G group. It aims to install energy storage devices with total power and capacity of at least 200 megawatts. It will serve as a primary reserve ensuring reliable, stable, and user-friendly operation of the Lithuanian power system until the synchronisation with the continental European networks and, in the future, integration of rapidly growing renewable energy sources. Installation of energy storage devices will be completed by the end of 2022.

GET Baltic UAB ("GET Baltic"), the indirectly controlled company of the EPSO-G group, administers the electronic trading system for trading spot and forward natural gas products with physical delivery in the market areas located in Lithuania, Latvia, Estonia, and Finland.

1.1. Our approach to sustainability

EPSO-G has a key role in ensuring a smooth and reliable transition within the Lithuanian energy system through integrating high volumes of renewable energy sources, enabling decarbonisation of the sector, initiating system interconnection projects and facilitating climate-neutral energy exchanges.

EPSO-G's mission is to enable a sustainable and efficient energy exchange. This mission provides a clear direction for our long-term strategy and operations, in which sustainability considerations are fully integrated. EPSO-G's strategy also reflects the United Nations Sustainable Development Goals ("SDGs"). Five of these goals have been identified as most relevant to the group companies and as goals to which EPSO-G can provide the most meaningful contribution.

For EPSO-G, sustainability means transforming the energy sector in a balanced manner between environmental, social, and economic goals, thus empowering the establishment of a climate-neutral economy. EPSO-G is taking responsibility for coming generations by contributing to sustainable development and engaging all stakeholders environmentally, socially, and economically.

Thus, EPSO-G has set three clear long-term directions in the areas of environment, social and economic performance in respect to relevant SDGs:

Environmental direction – enable a climate-neutral energy transition, reduce the impact of our activities. Main KPIs by 2030:

- Environmental impacts, including greenhouse gas ("GHG") emissions, reduced by 2/3[1] compared to a 2019 baseline. In 2021 we carried out a life-cycle assessment and GHG inventory of all activities of the EPSO-G group companies with the main goal of assessing possible mitigation measures (SDG 13).
- In our environmental policy we have set a goal of 0 significant environmental incidents in our own operations (SDG 13).
- Adapt natural gas transmission systems to transport hydrogen. Specific targets will be set after the preparation of guidelines for the Lithuanian hydrogen sector development (SDG 7).
- Favourable conditions for connecting renewable energy sources to the energy infrastructure. This means having 0 cases of which the supply of renewable energy sources generated electricity to transmission grids is restricted due to breaches of the terms and conditions set out in the legislation and in the connection contracts (SDG 7).

Social direction – create a progressive and sustainable organisation. Main KPIs by 2030:

- In our equal opportunities policy, we have set a goal of having 0 cases of human rights violations or discrimination (SDG 8).
- In our occupational health and safety policy we have set a goal of having 0 cases of serious or fatal accidents in our operation (SDG 8).
- In our long-term strategy we have set a goal of becoming a customer-centred organisation that implements and improves customer service standards and customer experience management; thus, we are striving to achieve a high customer satisfaction rate of at least 70%, which we consider a strategic target (SDG 8).
- We seek to create an inclusive and sustainable organisation, which takes in consideration the interests of all stakeholders. Thus, we seek to reach a point where no less than 70% of workers, energy producers, suppliers, and consumers consider EPSO-G to be an open, innovative, and sustainable organisation (SDG 8).

Governance direction – transparent, efficient management and development of the energy exchange platform. Main KPIs by 2030:

[1] All environmental impacts of the EPSO-G group companies have been assessed using two methodologies: (1) at the end of 2021 we completed a GHG emissions inventory by using quantified methods of the GHG protocol; and (2) the rest of the environmental impacts of our operations are being assessed by using the ReCiPe Impact assessment methodology (developed by the Dutch consulting firm PRé Consultants), which will help us calculate our corporate environmental footprint. It is the number from assessment (2) that will be our baseline from which we will reduce all of our environmental impacts by 2/3, as it is set in our long-term strategy. Because of the complex methodology, this assessment will be finished by the end of June 2022. Thus, in this Sustainability-Linked Finance Framework, we are referring to the calculations we got from the GHG inventory, by using quantified methods of the GHG protocol.

- In our anti-corruption policy, we have set a goal of having 0 cases corruption (SDG goal 12).
- As a state-owned enterprise, we strive to improve our corporate governance, thus we seek to get an A+ evaluation in the State-Owned Enterprise Good Corporate Governance Index, which is facilitated annually by the Governance Coordination Centre of the Republic of Lithuania (SDG goal 12).
- To mitigate our direct and indirect environmental impact, we seek to encourage our suppliers to give priority to environmentally friendly products and services, thus in our procurement policy we have set a goal of having 100% of green procurement in value by 2030 (SDG goal 12).
- Being an owner of energy transmission networks, EPSO-G has a responsibility to ensure reliable and safe operations. Thus, we seek to unsure that the levels of energy not supplied to our customers will not be more than ≤ 27.25 MWh annually (SDG goal 9).
- We are actively striving to reduce the environmental impacts caused by our operations and to improve economic and social wellbeing. Thus, we seek to incorporate sustainability criteria into the requirements for our suppliers (SDG goal 12).
- We consider innovation as key to the energy transition and a climate neutral economy. Thus, we seek to deepen competences in the supervision, management and deployment of new technologies. We adapt corporate structures and incentive systems to foster innovation and the development of future energy solutions, and we are progressively increasing funding for innovation (SDG goal 9).

1.2. Recent significant sustainability initiatives

Using drones to detect leakage of methane. While striving to maximise activities and reduce the negative impact upon the environment, Amber Grid created and tested new innovative technology in December 2021: drones that detect the leakage of methane. These drones will contribute to reducing environmental impact in daily operations as they facilitate the control of methane and CO2 quantity more efficiently in the gas pipeline system.

Renewable energy for transmission network operations. In September 2020, installation of the first solar power plant in the transformer substations, operated by Litgrid, was started. To achieve a more efficient use of renewable energy sources, it was decided to use renewable electricity sources, i.e. solar power plants, for transmission grid operational needs. The solar power plants are planned to be installed in 13 substations. One year later, in September 2021, Amber Grid installed a 450 kilowatt ("kW") solar power plant and started producing green electricity to meet the needs of its gas network. It is estimated that, by the end of 2021, the capacity of Amber Grid's own solar plants within the company's territory totalled nearly 1.5 megawatt ("MW"). This will enable approximately 50% saving in terms of electricity costs.

Green hydrogen production pilot project. In June 2021, Amber Grid, the energy distribution operator ESO, and private company "SG dujos auto" signed a cooperation agreement on development of hydrogen production via power-to-gas ("P2G") technology. During the project, a green hydrogen producing unit will be connected to the Lithuanian gas system for the first time. The pilot project is planned to be implemented and P2G production of green hydrogen gas is expected to be launched in 2024 in Lithuania.

First battery connected to the power transmission network. In September 2021, Litgrid installed the first battery connected to the power transmission network at the Vilnius transformer substation. The 1 MWh battery is the first pilot project in the Baltic States, during which Litgrid specialists will test the capabilities of such a device to operate in the transmission network and lay the foundations for future energy solutions.

Reduction of methane emissions. For the purposes of security and reliability of the gas transmission system, Amber Grid started in March 2021 to use a mobile compressor for the system's maintenance works, which minimises emissions of natural gas, including methane – which is harmful to the environment. The mobile compressor was increasingly used during the years 2020 and 2021, which prevented methane emissions and saved nearly 6,725 tonnes of CO2e. It is important to note that a factor 25 was used in the calculations of the CO2 equivalent, a range between 21 and 28 is offered for methane.

Phasing out SF6 from transformer substations. To reduce environmental pollution and to follow the good practice of ENTSO-E innovative solutions, Litgrid started in May 2021 to introduce primary equipment, i.e. circuit breakers and measuring transformers, in substations as it does not contain global warming and environmental pollutants such as SF6 gas or oil insulation. Another advantage of such circuit breakers is that they are non-dismountable and maintenance-free for 20 years. The reason is that the vacuum arc extinguishing chamber is non-dismountable and is used until it runs out of resources, then it is replaced by a new chamber.

Sustainable biomass traceability tool. In December 2021, Baltpool introduced a new solution for its clients: a biomass traceability tool. This will enable market participants to determine the precise origin of biomass and the raw materials used. From now on, before selling biomass, the seller will have to provide detailed information about its products. For example, it will be necessary to indicate the exact location from where the biomass will be transported and under which contract, the quantity of the supplied biomass, and the raw materials that were used to produce it.

Integration of emission-free generation capacities. EPSO-G makes a significant contribution to the transition to climate-neutral energy by enabling the integration of renewable energy sources. To this end, EPSO-G develops transmission grids to meet demand and enable transparent and non-discriminatory market integration for all parties. Over the last 5-year period electricity transmission operator has integrated approx. 320 MW of new renewable energy sources into the grid, thus increasing the total share of generation from renewable

energy sources from 22.73% in 2017 up to 31.26% in 2021. A major part of new carbon-neutral electricity generation comes from wind and solar power plants.

1.3. Sustainability governance, policies and reporting practices

EPSO-G supports good corporate governance by basing its work on the guidelines laid down in the Ten Principles of the UN Global Compact, OECD's Good Practice Guidance, the Nasdaq Baltic Stock Exchange, and the Guidelines for Ensuring Transparency in the Operations of the State-Owned Enterprises approved by the Government of the Republic of Lithuania.

The Board oversees the implementation of EPSO-G's long-term strategy, sustainability obligations, risk, and performance. The foundation of EPSO-G's sustainability activities is the Sustainability Policy, which provides guidelines for environmental and social issues, human rights, labour relations as well as transparency. It is further based on EPSO-G's vision, mission and values and it is fundamental in steering the entire group towards sustainable development of its operations. The main directions of the governing principles of sustainability and ESG management are set in EPSO-G's Sustainability Policy that apply to all companies of the group.

The principles of sustainability are implemented based on the related EPSO-G policies and other valid internal documents:

- **Environmental Policy.** This policy defines the key principles in the field of environmental protection, which shall be applied within the group to reduce the environmental impact of the activities carried out and to implement a culture based on the principles of sustainable development within the group and its environment.
- **Equal Opportunities Policy.** This policy defines the key principles applied in the group's companies to ensure that principles of equal opportunities and non-discrimination are respected in all areas of the employment relationship.
- **Remuneration, Employee training, and Performance Review Policy.** This policy is intended to properly manage wage costs, create motivational incentives, and to ensure proper personal and professional development, as well as a transparent performance review system, for all employees.
- **Occupational Health and Safety Policy.** The policy is aimed at ensuring the health of employees in the workplace and creating a healthy, safe, and productive working environment.
- **Transparency and Communication Policy.** The policy is aimed at fostering fair and efficient communication with each other and with the external stakeholders, i.e. society, shareholders, market regulators, etc.
- **Corruption Prevention Policy.** The policy sets basic principles and requirements aimed at the prevention of corruption and imposes guidelines for ensuring compliance with them, with the aim of creating conditions for the highest standards of transparent business conduct to be applied in the group.

- **Interest Management Policy.** The policy is intended to create an interest management system that is consistent with the common good practice, ensuring that decisions in the companies of the group are made in an objective and impartial manner. It also forms an environment that is unfavourable to corruption.
- **Donations Policy.** The policy is intended to ensure that the donations provided are public, cast no doubt in the society regarding its expediency and transparency of the granting process.
- **Procurement Policy.** The policy aims to follow good procurement practices of international organisations, the institutions of the European Union and other contracting authorities and contracting entities. It ensures an efficient, dynamic and transparent procurement process, creating added value for the achievement of the goals of EPSO-G's group companies.
- **Code of Conduct.** The policy aims to set the same general guidelines of behaviour for communication and cooperation with internal and external stakeholders: employees, customers, contractors, business partners, shareholders, national and municipal authorities, society, etc.

EPSO-G's Progress Report on Sustainability follows the principles of the UN Global Compact and the recommendations of the Global Reporting Initiative ("GRI") with the goal of assessing performance in relation to economic, environmental, social, and human rights indicators. In addition, the Group follows the reporting principles of the Transparency Guidelines for State-owned Enterprises of the Government of the Republic of Lithuania.

2. SUSTAINABILITY-LINKED FINANCE FRAMEWORK

EPSO-G wishes to foster best market practices and present a unified and coherent suite of finance instruments linked to our sustainability targets, as one of the first in the Baltics. EPSO-G has thus decided to establish this Sustainability-Linked Financing Framework (the "Framework"). Finance instruments under this Framework will be mainly focussed on contributing to SDG 7, SDG 9 and SDG 13. The creation of this Framework is a consistent tangible step emphasising EPSO-G's commitment to sustainability.

Climate change is one of the biggest challenges of our time. A great deal of effort is being put into limiting global warming to well below 2° C above pre-industrial levels, aiming for 1.5° C. Meeting this goal means greenhouse gas emissions need to be halved by 2030 and they need to be at net zero by 2050. Reforms of the energy sector are fundamental to ensuring that these goals are achieved. By the setting up this Framework, EPSO-G integrates sustainability commitments and ambitions with its financing solution.

This Framework has been developed in alignment with the Sustainability-Linked Bond Principles of 2020 ("SLBP") as administered by the International Capital Market Association (ICMA), and the Sustainability-Linked Loan Principles of 2021 ("SLLP") as administered by the Loan Market Association (LMA). The Framework is applicable for the issuance of sustainability-linked bonds, hybrids, commercial papers, term loans, revolving credit facilities, etc. (collectively referred to as "Finance Instruments").

The Framework is aligned with the five recommended components of the SLBP and SLLP: selection of Key Performance Indicators (Section 2.1.), calibration of Sustainability Performance Targets (Section 2.2.), the Finance Instruments' structural characteristics (Section 2.3.), reporting (Section 2.4.) and verification (Section 2.5.).

The Framework is reviewed by an external impartial firm, which has provided a second opinion to confirm its alignment with the SLBP and SLLP. The second opinion verifies that the Sustainability Performance Targets outlined in this Framework are meaningful, ambitious, and relevant in the context of EPSO-G's broader sustainability and business strategy. Furthermore, the second opinion includes an assessment of the alignment of EPSO-G's activities on group-level with the EU Taxonomy. The Framework and second opinion from CICERO Shades of Green are available on EPSO-G's website: www.epsog.lt.

2.1. Selection of Key Performance Indicators ("KPIs")

EPSO-G has selected the following KPIs for potential linkage to Finance Instruments. The KPIs are core, relevant, and material to our business strategy and sustainability obligations. Additionally, the selection of the KPIs is consistent with our long-term strategic commitment to ensure a smooth and reliable transition of the energy system in Lithuania, integrating high volumes of renewable energy sources and enabling decarbonisation of the energy sector.

The selected KPIs focus on the direct operational environmental footprint of all the group companies and associated infrastructure. These KPIs are within EPSO-G's full operational control and apply to areas where we can act now to further reduce our own environmental footprint.

Future updates of this Framework may incorporate additional KPIs related to supplementary sustainability priorities or our role in the decarbonisation of the Lithuanian energy sector.

KPI 1: Percentage reduction of carbon dioxide equivalent (CO2e) measured by a total amount in tonnes

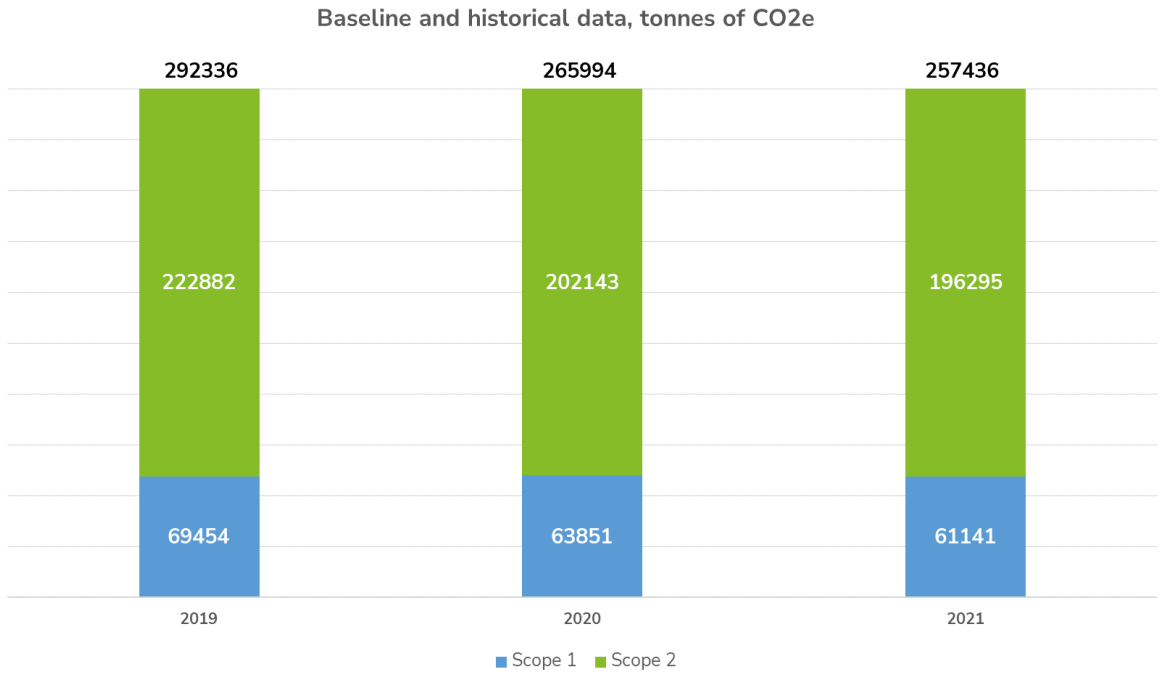
- **Methodology**

The methodology used in connection with reporting on the KPI is based on the definitions in the Greenhouse Gas Protocol:

- The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (covering Scope 1 guidance), and;
- The Greenhouse Gas Protocol: Scope 2 Guidance.

All the data reported are taken from our companies' (EPSO-G, Amber Grid, Litgrid, Tetas, Baltpool, and Get Baltic) internal measurements, calculations, measurements provided by third parties. The result of the company Energy Cells was not evaluated, thus not included, as the company was established in 2021.

- **Baseline and historical data**



Reporting period: 31st December financial year end.

- **Materiality to business**

KPI 1 has been chosen on the basis that EPSO-G strives for continuous improvement in energy and emission efficiency in its own operations to minimise negative environmental impact. Furthermore, there are clear expectations from our shareholder and stakeholders that EPSO-G will continuously work to reduce these emissions.

EPSO-G's Scope 1 GHG emissions are mainly driven by escaped and vented out methane from the natural gas transmission networks, operated by the natural gas transmission

system operator ("TSO") Amber Grid, as well as natural gas burnt in mobile or stationary equipment also operated by the same subsidiary of EPSO-G.

Methane emissions account for most of the EPSO-G group's Scope 1 GHG emissions. Therefore, to achieve the goal of reducing the environmental impacts set out in EPSO-G's long-term business strategy, the company must implement mitigation measures that will significantly reduce current levels of methane emissions.

The goal of reducing methane emissions is also significant in the context of the new EU regulation on reducing methane emissions in the energy sector[2]. Methane emissions are the second biggest contributor to climate change, after emissions from carbon dioxide. Reducing methane emissions in the energy sector is a key focus area of the European Commission to reach 2030 climate targets and the 2050 climate neutrality goal. In 2020, the European Commission launched a dedicated EU strategy to reduce methane emissions.

EPSO-G's Scope 2 GHG emissions are mainly caused by grid losses. When electricity is transported, part of the energy is converted into heat, and is known as "grid losses". Grid assets such as overhead lines, underground cables, transformers, etc. all have a small amount of electrical resistance which causes them to heat up as soon as an electric current flows through them. Grid losses are therefore the difference between the amount of electricity entering the grid and the amount of electricity supplied. They are unavoidable when transmitting electricity and depend on the voltage of electricity and length of the transmission lines, amongst other factors.

Approx. 70% of all EPSO-G's GHG emissions (Scope 1 and Scope 2 included in 2019) are caused by grid losses in the TSO Litgrid's operations. Unfortunately, grid losses are an inevitable and inherent part of electricity transmission, over which TSO Litgrid and EPSO-G as a group has little influence. As new interconnections are built, as more and more renewable electricity is fed into the grid, as amounts of electricity transmitted through the grid are increasing, grid losses are meant to increase too.

Although EPSO-G has very limited technological means of significantly reducing grid losses, just like other TSOs in the European Union, it seeks to mitigate emissions caused by grid losses. These options, which are under the control of grid operators, are as follows:

- ensuring favourable conditions for producers of Renewable Energy Sources ("RES") to connect to the transmission network infrastructure - although the TSO does not directly control when and what number of RES producers would want to be connected to the grid, the sooner the electricity in the transmission network becomes carbon neutral, the faster the indirect emissions resulting from grid losses will decrease;
- expanding the generation of RES (for non-commercial but operational grid purposes), which would not only reduce emissions from grid losses but also reduce the financial cost of grid losses in the longer term;
- testing and gradually start using innovative (yet experimental) technologies to reduce

[2] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on methane emissions reduction in the energy sector and amending Regulation (EU) 2019/942: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2021%3A805%3AFIN&qid=1639665806476

the incidence of grid losses themselves;
- compensating emissions from grid losses through the acquisition of guarantees of origin for green energy or investing in offsetting projects.

The National energy and climate action plan of Lithuania[3] is set to attain the target of 45% of renewable energy sources in the final energy consumption by 2030[4]. EPSO-G and its TSO subsidiaries has a clear task in this context - to prepare the power grid for such a transition, which will reduce environmental impacts not only at the company level, but at the country level as well.

KPI 1 contributes to UN SDG 7 and 13

- **Strategic significance**

We have a strategic ambition to reduce our environmental impact (including GHG emissions) by 2/3 by 2030. To achieve this ambitious objective, we will maintain our vigorous efforts in the upcoming years by maximising efficiencies in the operations of our energy transmission networks, by connecting RES to the power grid, by improving energy efficiency, and by using innovative technologies which will help us to reduce the amounts of vented out natural gas, and so forth.

Our ambition to reduce methane emissions in Scope 1 is in line with the upcoming EU regulation which follows the Global Methane Pledge – a joint commitment, taken by the European Union and several other countries at COP26, which took place from 31 October to 12 November 2021 in Glasgow, UK, to reduce all man-made methane emissions by 30% by 2030 compared to 2020 levels.

Regarding the Scope 2 GHG emissions, as TSO Litgrid is building new interconnections, the number of grid losses grows. However, EPSO-G expects to invest up to 1.6 billion euros to prepare and upgrade its power grid for renewables, install energy batteries to balance power peaks and troughs, and integrate two 700 MW offshore wind farms and other onshore RES capacities. By preparing and upgrading its transmissions grid for timely integration of large amounts of RES generation capacities, EPSO-G will also create conditions for emissions produced by grid losses to become carbon-neutral.

[3] https://ec.europa.eu/energy/sites/ener/files/documents/lt_final_necp_main_en.pdf
[4] Lithuania will bring forward its target for using only green power to 2035, 15 years earlier than currently planned. The target for using at least 50% green power will be moved to 2025 from 2030, a move partly to get ahead of the European Commission's "Fit for 55" green goals plan: https://www.reuters.com/business/sustainable-business/lithuania-speeds-green-transition-expects-10-bln-euros-investment-2021-10-01/

Reducing emissions in the energy industry is also a key focus area of the European Commission to reach 2030 climate targets and the 2050 climate neutrality goal. On the national level, our ambition is in line with the goals of National Energy and Climate Action Plan which was approved and submitted to the European Commission.

Under the Paris Agreement, Lithuania has committed itself jointly with the EU and its Member States for the period 2021–2030 to reduce GHG emissions by at least 55%, compared to 1990 levels.

KPI 2: Reliability of the electricity transmission indicator, expressed as energy not supplied, measured in MWh in the operations of the electricity transmission system operator

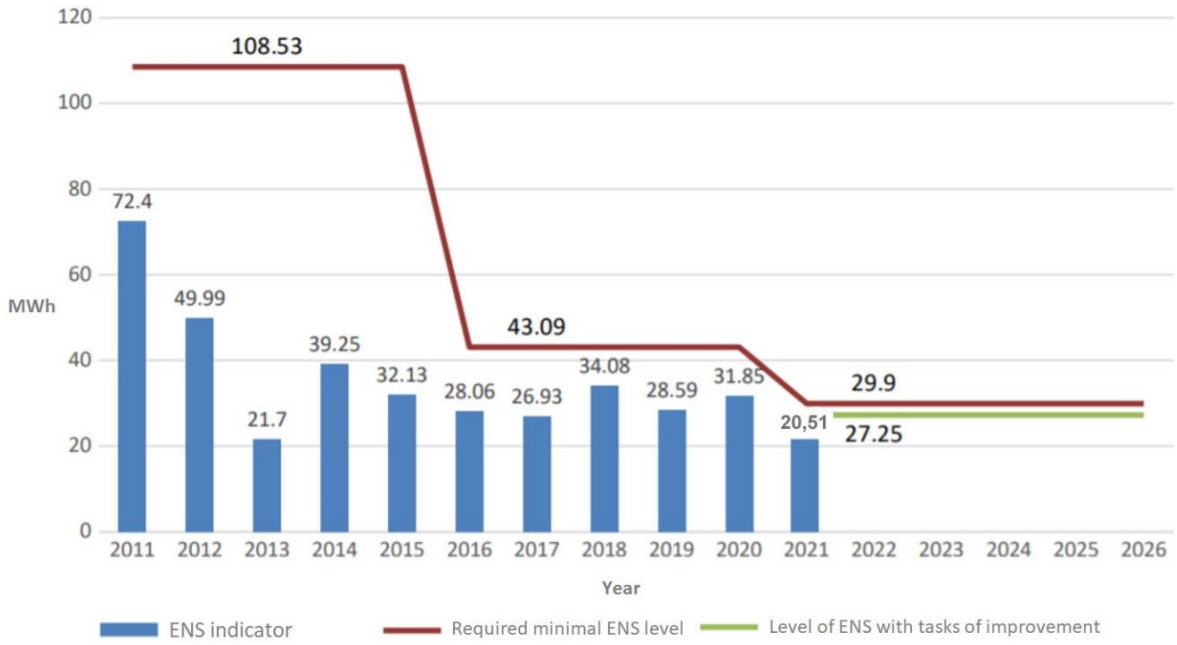
- **Methodology**

Energy not supplied ("ENS") is defined as the estimated energy, measured in MWh, which would have been supplied to end-users if no interruption and no transmission restrictions had occurred.

The reliability indicators established by the National Energy Regulatory Council of Lithuania (NERC) oblige the transmission system operator Litgrid to safeguard that technical quality of the services will be better than the minimum requirements. The lower the value of the indicator, the better is the level of electricity transmission reliability. The ENS (Energy not supplied) indicator is set by National Energy Regulatory Council of Lithuania for the regulatory period of 2022-2026. ENS means the amount of energy which has not been transported to end-users (electricity consumers) in relation to *force majeure*, failures in the transmission network, unforeseen network disconnections during repairs, defects or mistakes caused by contractors and other reasons.

NERC confirmed a new methodology in 2022, according to which only one indicator will now be calculated: the total amount of ENS considering all the reasons of failure of electricity transmission for the next 5 years. However, in some cases it remains possible to reduce amount of ENS that has occurred due to various reasons from the general ENS register. According to the process approved by the National Energy Regulatory Council of Lithuania, ENS shall be calculated for the transmission system user after assessing whether, at the time of the termination, it was possible for it to secure the transmission of all or part of the electricity produced or consumed by it to the remaining operating electricity transmission network. If this possibility was available for all electricity, the ENS shall not be calculated for the transmission system operator, if it was possible to transmit at least a portion of the electricity, the ENS indicator shall be reduced by that portion. The Investigation Commission by the Transmission System Operator and the Network User shall be established to estimate the ENS, which shall prepare and sign the failure investigation report.

- **Historical data**



Reporting period: 31st December financial year end.

*Note: forecast figures from 2022 until 2030 are **representing intermediate targets** by EPSO-G.*

- **Materiality to business**

KPI 2 has been chosen on the basis that the core activities and responsibilities of the transmission system operator, Litgrid, are to ensure secure and high-quality delivery of electricity across national and interconnected transmission grids, which are the backbone of the European society. Litgrid must invest in maintenance and new transmission devices to make the entire system more reliable and resilient, which will ensure that the ENS indicator is as low as possible.

KPI 2 contributes to UN SDG 9.

- **Strategic significance**

Developing transmission infrastructure to integrate renewables into the system and to support electrification are the main ways we are contributing to achieve climate neutrality targets in the EU and nationally. Well-developed electricity transmission networks within the country, ensuring reliable and secure operation of transmission systems, and developed infrastructure interconnections with neighbouring countries create favourable conditions for increasing electricity transmission flows. This contributes to developing a liquid regional market and an attractive infrastructure for investments in renewable energy production.

2.2. Calibration of Sustainability Performance Targets (SPTs)

SPT 1: Greenhouse gas emissions

By 2030, reduce direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions by 50% compared to a 2019 baseline.

Strategy to achieve SPT 1

The ambition of EPSO-G group to reduce emissions in its own operations is directly related to the main strategic business goals, which are set in of EPSO-G's strategy for the period of 2021-2030: 1) prepare power transmission systems for the integration of large amounts of RES (up to 7 GW[5]) and 2) work towards adapting Lithuania's gas transmission system to hydrogen transportation. This ambition is in line with National Energy and Climate Plan of the Republic of Lithuania for 2021-2030[6] and National Energy Independence Strategy of Lithuania.[7] Also, the strategies for the integration of energy systems, hydrogen and offshore wind presented in the scope of EU "Green Deal" in 2020[8], have a direct impact on the plans of the EPSO-G and its long-term objectives.

The integration of a large amount of RES will help to decarbonise the electricity transmission system and thus to reduce the emissions produced from grid losses. However, the grid must be prepared technologically for smooth and timely integration of any – small or large scale – RES generation capacities. This will require large investments, which are already planned by ESPO-G[9].

As for the goal of adapting Lithuania's gas transmission system for hydrogen transportation, EPSO-G will allocate investment as soon as the regulatory framework is clear on both - EU and national - levels. For now, EPSO-G is planning to invest in one power-to-gas project, which will be implemented by 2024.

EPSO-G is also planning to use technological solutions to mitigate emissions. EPSO-G is continuously working on the use of renewable energy sources (i.e. biomethane) in its own operations, phasing out SF6 and oil from transformer substations (3 SF6-free pilot projects are already launched). Examples of EPSO-G's initiatives also include the usage of electric vehicles (public tender for the first part of e-vehicles was launched in the mid of 2021), which will also help to reduce GHG emissions.

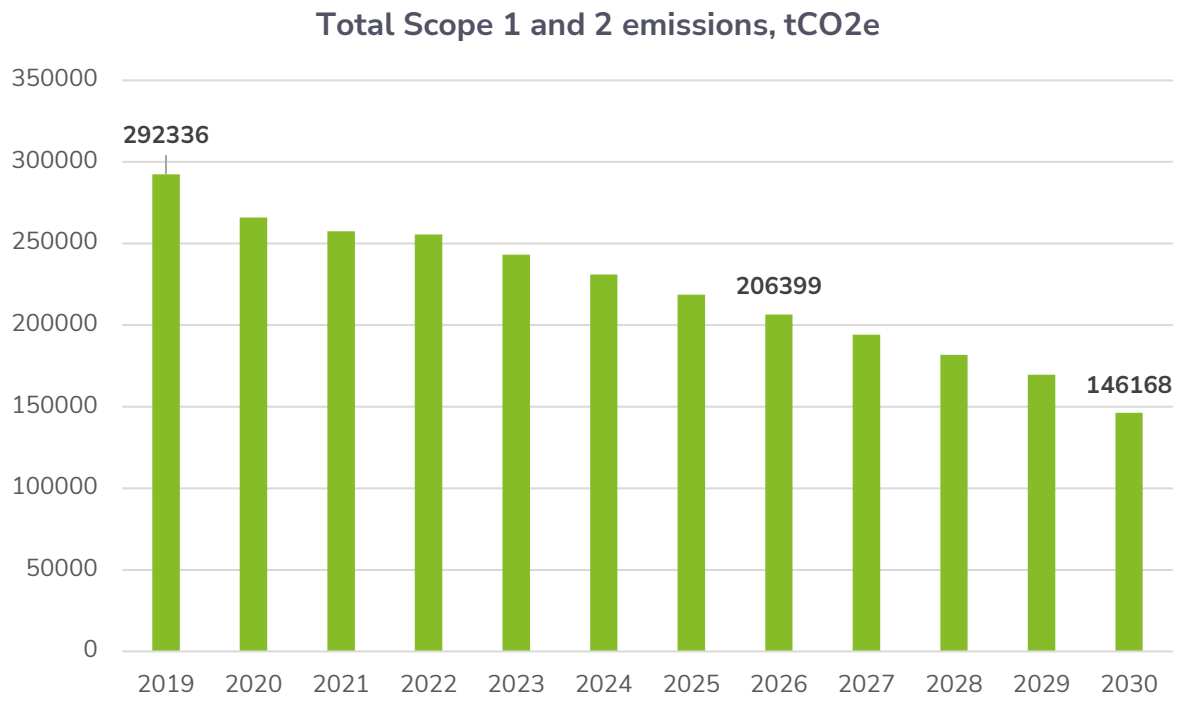
[5] Lithuania has a fairly strong transmission system. The goal is to install 7 GW in RES by 2030, but as experts have pointed out, this is not the upper limit of possibilities: https://balticwind.eu/windmission-lithuania-2022-key-information-about-offshore-wind-coming-from-vilnius/
[6] https://ec.europa.eu/energy/sites/ener/files/documents/lt_final_necp_main_en.pdf
[7] https://enmin.lrv.lt/uploads/enmin/documents/files/National_energy_independence_strategy_2018.pdf
[8] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/energy-and-green-deal_en
[9] https://www.epsog.lt/en/news/epso-g-plans-eur-1-8-billion-in-investments-by-2030-the-energy-sector-will-undergo-fundamental-changes

The main technological solutions and initiatives are aimed to reduce methane emissions (falling under Scope 1) and emissions from grid losses (falling under Scope 2).

The strategy to further reduce methane emissions focuses on upscaling efforts related to using a mobile gas compressor (an existing one and a new one), which allows repumping of huge quantities of natural gas during the reconstructions and thus preventing methane venting. Testing and investing in innovative leak detection technologies such as drones are also going to ensure faster detection and prevention of methane leakages. Other measures to be implemented are the modernisation of gas compressor stations (upgrading to electric compressors), and reconstruction or modernisation of the gas transmission system. Investments in new mobile flaring solutions are also being considered, as this technology has not been used on a large scale in the operations of natural gas TSO so far.

The strategy to reduce emissions from grid losses focuses on upscaling the use of renewable energy sources (i.e. solar, wind, mixed) in its own operations (not for commercial use, only for grid operations). Also, EPSO-G will test the efficiency of superconductor technology, gradually upgrade the existing conductors to more efficient ones, which would likely prevent or mitigate grid losses as well. EPSO-G group is committed to the principle that emissions are primarily to be avoided and reduced. Offsetting options should only be applied if avoidance or reduction is impossible. Thus, EPSO-G does not rule out the option of buying guarantees of origin or additionally investing in offsetting projects to compensate for the direct and/or indirect emissions. Since EPSO-G and its TSO subsidiaries are a regulated business, the company will have to present plans for new investments and get approval from the national energy regulatory authority.

EPSO-G assesses that the rapid development of green technologies in the EU market, including the Baltic Sea region, offer opportunities for know-how, to adapt energy systems to the decarbonisation of the energy sector, while EU and national climate neutrality targets provide an appropriate environment for achieving a targeted reduction in the environmental impact of activities.



Reporting period: 31st December financial year end.

*Note: forecast figures from 2022 until 2030 are **representing intermediate targets** by EPSO-G. Forecast figures has been calculated using Science-based Target Setting Tool (v.1) for Scope 1 and Scope 2 emissions.*

SPT 2: Reliability of electricity transmission indicator

In the period of 2022-2026 ensure that the technical quality of the electricity transmission system services is better than the minimum requirements, i.e. the amount of energy not supplied should not exceed the sum of 136,255 MWh.

Strategy to achieve SPT 2

The reliability of the operation of the electric power system is greatly influenced by the technical condition of the main elements of the transmission system – electricity transmission lines and transformer substations. Although electricity transmission networks are quite well developed in Lithuania, a significant number of electricity network equipment has reached or even exceeded the operational time. This has a big impact on the reliability of the work of the whole power system. To resolve this problem, transmission system operator Litgrid formulates and develops plans for the reconstruction of transformer substations and power transmission lines and methodologies for assessing the condition of individual equipment,

analyses the actual load of electricity and initiates infrastructure reconstruction and development projects[10].

Risks related to achievement of SPT 1 and 2

In reaching its targets, EPSO-G could face some risks, the most important being:

- Delays and inefficiencies in the implementation of initiatives aimed at reducing GHG and methane emissions;
- Failure to implement the hypotheses on the transport scenarios for green gases (e.g. biomethane, hydrogen) due to the external context or to the lack of technological adaptation of the network with reference to its capability to transport hydrogen;
- New or changed requirements from shareholders or national/EU level regulatory environment related to EPSO-G's activities;
- Failure to get approval by the National Energy Regulatory Council of Lithuania for some increased operational costs, caused by EPSO-G's investments in technological solutions (new equipment, expensive innovative technologies, such as superconductor powerlines, SF6-free transformers, etc.), purchases of guarantees of origin, etc.
- Lack of technological solutions in the market that would be necessary for achieving GHG reduction goals (for example: a lack of SF6-free voltage transformers for the high-voltage electricity transmission system);
- Failure to perform in a timely manner all the necessary procurements for ensuring compliance with deadlines and the legal acts regulating public procurement procedures;
- External environmental factors: natural disasters, disruptions in the operations of the main contractors, criminal acts of third parties, as well as internal factors such as information systems failures, which can affect transmission reliability.

Level of ambition

SPT 1 can be regarded as ambitious as EPSO-G seeks to significantly decrease its direct and indirect GHG emissions by 2030. This ambition requires measures that go "beyond business as usual", as EPSO-G is willing to:

- Convert company's fleet to electrical vehicles;
- Complete interventions and application of best practices to minimise methane emissions;
- Invest in new technological solutions that would allow an increase in the precision of detecting and preventing methane leakages;
- Invest in new modern mobile natural gas flaring solutions that would prevent methane emissions;
- Expand the generation of renewable energy sources (for non-commercial operational grid purposes), install new solar, wind or mixed RES capacities, which would allow a reduction of emissions from grid losses;

[10] More detailed information on the development projects of transmission network can be found in Electricity Transmission Grid Ten-Year Development Plan: https://www.litgrid.eu/uploads/files/dir580/dir29/dir1/10_0.php

- Proceed with pilot projects for using superconductor powerlines, evaluate the costs and benefits of using this innovation to reduce grid losses;
- Gradually upgrade the existing conductors to more efficient ones, which would allow a reduction of grid losses;
- Invest in power grid upgrades to enable the integration of up to 7 GW of new RES generation capacities into the grid, thus reducing the emissions from the grid losses;
- Transform the natural gas system by adapting it to the safe transportation of renewable energy sources, such as biogas, a mix of methane and hydrogen and pure hydrogen, which would enable a reduction of the amount of natural gas used, and likewise a reduction in methane emissions;
- Include green and environmental standards in all major procurement procedures;
- Search for opportunities to buy green gas (such as biomethane) and to use it in grid operations.

The SPT2 can be regarded as ambitious, taking into consideration the historical data of ENS indicator. Also, planned investments related to Litgrid electricity transmission grid construction and recovery in the 2022–2027 period is equal in total to € 439.5 million and are aimed toward the integration of renewables, improving efficiency and also maintaining high grid reliability.

2.3. Characteristics of the Finance Instruments

The net proceeds of the Finance Instruments will be used for general corporate purposes. **Even if the proceeds of the Finance Instruments are used for general corporate purposes and do not have a specific use of proceeds clause, EPSO-G will not direct such proceeds to natural gas grid expansion or natural gas grid maintenance.** Furthermore, the structural characteristics of the Finance Instruments issued under this Framework will be specified in its corresponding security documentation including but not limited to the KPIs, SPTs, and calculation methodology, along with the date in which the relevant SPTs are to be achieved (the "Target Observation Date").

Depending on EPSO-G's performance in relation to the applicable SPTs per the Target Observation Date, the structural characteristics of the Finance Instrument will change ("Trigger Event"). The Trigger Event may result in a coupon or interest rate step-up and/or step-down or an increase in the redemption price of the Finance Instruments. The size of the step-up and/or step-down applicable to the coupon, interest rate or the increase in the redemption price will be specified in the security documentation for each respective Finance Instrument issued under this Framework.

Any future Finance Instrument with the same KPI as any previously issued Finance Instrument must utilise an SPT of equal or greater ambition. Furthermore, at the issuance of such Finance Instrument, all outstanding Finance Instruments will have their equivalent SPT adjusted to

reflect the greater ambition. This is referred to as the "most ambitious target" clause, and it is done for three reasons:

- To enable the increase of ambition over time and allow EPSO-G to adapt to new circumstances
- To avoid the coexistence of Finance Instruments with SPTs reflecting different levels of ambition
- To facilitate reporting, i.e. avoid the need to validate one KPI against multiple SPTs

2.4. Reporting

To be fully transparent towards investors and other market stakeholders, EPSO-G will commit to reporting on an annual basis as part of EPSO-G's Progress Report on Sustainability. The reporting will form the basis for evaluating the impact on the respective Finance Instrument's structural characteristics, as outlined in Section 2.3. as well as in the respective transaction documentation. If EPSO-G has Finance Instruments other than bonds outstanding, they may opt to report non-publicly to lenders or other relevant counterparts.

The Progress Report on Sustainability will be published on EPSO-G's website and will cover some of the following areas:

- The performance of the KPIs and SPTs including the calculation methodology and baselines, as per the relevant reporting period, per the Target Observation Date and when applicable.
- Information regarding updates to EPSO-G's sustainability strategy including the potential impact on KPIs and SPTs.
- Information about recalculations, if any, of the baselines.
- Any other information deemed being relevant to the investors and/or lenders in EPSO-G's Finance Instruments.

Furthermore, EPSO-G intends, were feasible and possible, to report on the following:

- Qualitative and/or quantitative explanations of the evolution of the performance on the KPIs on an annual basis.
- Updates on new or proposed regulations from regulatory bodies relevant to the KPIs and the SPTs.
- Illustration of the positive sustainability impacts of the performance improvement.

2.5. Verification

To confirm the transparency, robustness, and ambitiousness of EPSO-G's Framework, it is verified by an approved external second opinion provider. Furthermore, the second opinion includes an assessment of the alignment of EPSO-G's activities at group-level with the EU

Taxonomy. The Framework and second opinion from CICERO Shades of Green are available on EPSO-G's website: **www.epsog.lt.**

EPSO-G will ensure an external and independent verification of the performance of KPIs relative to the applicable SPTs on an annual basis and in relation to the Target Observation Date(s). Failure to provide the annual verification by the dates defined in the transaction specific documentation will result in an automatic adjustment in the financial characteristics, also as outlined in the security specific documentation.

EPSOG

SUSTAINABILITY-LINKED FINANCE FRAMEWORK

MAY 2022