DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 23 May 2022[1]

LITHUANIA

EPSO-G Sustainability Linked Bond

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

TABLE OF CONTENTS

1 As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

As permitted by paragraph 2.6 of Section III of the Access to Information Policy, disclosure of this Board Report was deferred.

Page

ABBREVIATIONS / CURRENCY CONVERSIONS

BRELL	Belarus, Russia, Estonia, Latvia, Lithuania
CAPEX	Capital Expenditure
COVID	Coronavirus disease
CO2	Carbon dioxide
CSRD	Corporate Sustainability Reporting Directive
CEN	Continental Europe Network
DSCR	Debt Service Coverage Ratio
E&S	Environmental and Social
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBRD	European Bank for Reconstruction and Development
ENTSO-E	European Network of Transmission System Operators
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
EOAP	Equal Opportunities Action plan
EC	European Commission
ESP	Environmental and Social Policies
EHS	Environmental, Health and Safety
ENS	Energy Not Supplied
EU	European Union
EUR	Euro
EURIBOR	European Interbank Offered Rate
GBVH	Gender-Based Violence and Harassment
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	greenhouse gas
GW	Gigawatt
HR	Human Resources
ICMA	International Capital Markets Association
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
M	Million
MW, MWh	Megawatt, MWh
NECP	National Energy and Climate Plan
NERC	National Energy Regulatory Council
NEIS	National Energy Independence Strategy
ND	Net Debt
RAB	Regulated Asset Base
RE, RES	Renewable Energy, Renewable Energy Sources

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of UAB "EPSO-G" (the "Company", the "Issuer", "EPSOG", or the "Group"), a limited liability company incorporated in Lithuania, are submitted for consideration by the Board of Directors.

The facility will consist of an investment in the amount of up to EUR 40.5 million in the debut Sustainability Linked Bond ("SLB") issue by the Company (the "Project). The Bank's investment will represent no more than 30% of the Issue.

The Company expects to issue up to EUR 135 million Sustainability Linked Bonds, which will be independently certified as compliant with the SLB Principles established by the International Capital Markets Association. The use of proceeds of the Issuance will be applied to general corporate purposes, including financing the Company's investment programme focusing on the electricity grid synchronisation and integration with the European power network, the implementation of 200 MW energy storage facilities to allow for increased connection of renewable energy generation to the grid, and upgrading Lithuania's electricity transmission grid.

The operation will be the first time the Company has raised funding through capital markets, and the first SLB issuance in the Baltic countries. The expected transition impact of the Project stems from the *Resilient* and *Green* qualities. The operation will contribute to the local debt capital market development which has suffered from a lack of investable securities and poor secondary market liquidity. It will as well supports the synchronisation of the Baltic grid into the European continental network and integration of renewables, both of which have increased in importance for system stability and security of supply, following the war in Ukraine (Resilient). This issuance will also enable the Company to diversify its funding base and to utilise sustainability linked funding sources to fund its transition to a highly efficient and low carbon asset base (*Green*). The Project is 50% GET eligible. In addition, to promote gender equality internally, the Company will introduce improved HR standards, including on Gender-Based Violence and Harassment ("GBVH") and on care responsibilities, as well as develop and implement an Equal Opportunities Action Plan. This will be instrumental in promoting gender equality internally and will include setting a target to increase the share of women in executive management positions.

I am satisfied that the operation is consistent with the Bank's Strategy for Lithuania, the Energy Sector Strategy, the Green Economy Transition Approach, the Strategy for the Promotion of Gender Equality, the Local Currency and Capital Markets Development Initiative and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed investment substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

LITHUANIA – Project Galaxy - DTM 53607	
Transaction / Board Decision	Board approval[2] is sought for an investment of up to EUR 40.5 million representing 30% of the senior unsecured SLB issue with expected maturity of up to 5 years (the "Bonds") by UAB EPSO-G. The Bonds will be issued on the Nasdaq Baltic exchange. The Issuance is expected to amount to EUR 135 million and will take place in one or more issuances with approval for participation in each issuance at the time of the investment to be delegated to Management.
Client	EPSO-G is a holding company 100% owned by the Lithuanian state through the Ministry of Energy. It holds Lithuania's (i) electricity transmission system operator, Litgrid representing 75% of its total revenues, and; (ii) the gas transmission system operator, AmberGrid representing 20% of its total revenues; (iii) the market operators managing natural gas, biofuels and wood exchanges; and (iv) a newly established company to implement energy storage facilities, both comprising the remaining 5% of revenues. In 2021, the Issuer reported total assets of EUR 946 million, total revenues generated of EUR 363 million, EBITDA of EUR 56 million of EBITDA, and net profit of EUR 39 million. EPSO-G was rated Baa1 by Moody's in April 2022 with stable outlook.
Main Elements of the Proposal	<u>Transition impact</u>: - *Resilient*: the Project will contribute to the local debt capital market development which suffers from a lack of investable securities and poor secondary market liquidity. It will also support the synchronisation of the Baltic grid into the European continental network and integration of renewables, both of which have increased in importance for system stability and security of supply, following the war in Ukraine. - *Green*: The SLB will be compliant with the SLB Principles and will commit to predefined Key Performance Indicators ("KPIs") and Sustainability Performance Targets ("SPT") including reduction of scope 1 and 2 CO_2 emissions [REDACTED]. <u>Additionality</u>: - *Financing structure*: The Bank's financing is expected to provide a valuable signal to the market, close the funding gap and facilitate a successful placement in the current market conditions given the current material change in investor sentiment towards emerging markets in general (and the Baltic countries in particular) since the start of the war in Ukraine. - *Risk mitigation*: The Bank's involvement in the Project provides comfort to other investors and encourages market participation. - *Standard setting:* The Bank will support EPSO-G to enhance its gender standards in line with international best practice by developing an Equal Opportunities Action Plan, including setting a target for increasing the share of women in executive positions, and introducing improved HR standards. <u>Sound banking</u>: The Bank will invest on the same terms as other commercial investors.
Key Risks	<u>*Issuer credit risk*</u>: moderate leverage, strong financial standing and stable cash generation capacity provide sufficient comfort that the Company would honour its debt obligations.
Strategic Fit Summary	The Transaction is consistent with the Bank's Strategy for Lithuania, especially in the context of financing development of green infrastructure solutions (e.g. Baltic energy interconnections); the Energy Sector Strategy, the Green Economy Transition Approach, the Strategy for the Promotion of Gender Equality, the Local

[2] Article 27 of the AEB provides the basis for this decision.

[redacted]	Currency and Capital Markets Development Initiative and with the Agreement Establishing the Bank.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	• An investment of up to EUR 40.5m in UAB EPSO-G ("EPSO-G", the "Group", the "Company", or the "Issuer") first Sustainability Linked bond programme of up to EUR 135m (the "Project", the "Issuance", the "Issue" or the "SLB") representing a participation of up to 30%. The Issuance is expected to have up to 5 years of maturity. • This will be the first SLB bond in the Baltic countries. The SLB bond will include sustainable development ratios, including scope 1 and 2 CO_2 emission reduction and reliability improvement of the electricity grid. • The Issuer is targeting to direct the SLB bond proceeds towards electricity transmission investments, including financing synchronisation of the electricity grid with the EU network, renovating the grid to allow for connecting more renewable energy capacity; and financing energy storage facility. • The bond will be listed on the Nasdaq Baltic exchange, an EU regulated platform that is part of the Sustainable Stock Exchanges Initiative. The SLB framework is developed in alignment with the Sustainability-Linked Bond Principles established by the International Capital Markets Association. The framework will be verified by CICERO prior to the Issuance. • The Issuer is the 100% state owned holding company owning the electricity and gas Transmission System Operators ("TSOs") in Lithuania. The Issuer was assigned a credit rating of Baa1 by Moody's in April 2022. [REDACTED].
Existing Exposure	None.
Maturity / Exit / Repayment	The bonds are expected to be held to maturity. [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds	The Issuance use of proceeds are expected to be applied solely towards general corporate purposes. The Issuer is however intending to direct the Bonds proceeds towards its investment programme which is focused on the electricity grid synchronisation programme with the EU network and the implementation of a 200 MW energy storage project as set out in the Issuance prospectus. 100% of proceeds from the Bank's investment will be used to finance electricity grid upgrades, specifically targeting the modernization of the existing network aimed at increasing efficiency and reliability, and enabling the synchronisation of the grid with the EU network. [REDACTED].
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]

Key Parties Involved	• Issuer: UAB EPSO-G • Lead arranger: SwedBank • SLB bond framework second opinion provider: CICERO • Rating agency: S&P or Moody's
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Unsecured.
Other material agreements	[REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	None

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Lithuania faces two major energy-related challenges. First, the economy is characterised by a high carbon intensity which is nearly double the EU-27 average (0.44 tCO_2/ EUR GDP versus 0.24 for EU). Second, Lithuania is heavily reliant on imports for its energy security, given its limited domestic energy resources (and especially following the closure of the Ignalina nuclear reactor in 2010 to comply with the EU accession requirements) and together with Latvia and Estonia its electricity grid is still interconnected and synchronised with the grids of Belarus and Russia. While the LNG terminal and two inter-connectors to Poland and Sweden are major improvements to the energy landscape, more is needed to strengthen energy security and efficiency. In addition a shift to renewables is critical to both reducing carbon intensity and diversifying energy sources.

A modernised transmission network is a critical element in achieving these two goals. A more efficient, flexible and smart grid has lower electricity losses, can absorb more renewable capacity and is more resilient to disruption and shifting supply sources.

Lithuania's energy sector must also respond to the 2018 EU New Renewable Energy Directive which commits EU Member States to reach collectively 32% of final energy consumption from RES by 2030. Accordingly, Lithuania has endorsed in December 2019, a National Energy and Climate Plan (NECP) which sets the 2030 target for RE share at 45% of total final energy consumption, and aims at reducing greenhouse gas (GHG) emissions by 9% compared to 2005. This in turn will require massive investment in transmission and distribution networks as the system moves from reliance on a relatively small number of dispatchable fossil fuel generators to multiple, distributed intermittent generators, primarily wind and solar.

The Issuer is central to meeting these challenges, in particular as the owner and operator of Lithuania's electricity transmission network. The Issuer's investment plan amounts to c. EUR 1 billion in the next five years and is key in enabling the interconnectivity with the European energy transmission grids through implementation of integration and synchronisation projects among the Baltic countries' electricity grids and ENTSO-E. The synchronisation project will hence represent a key step towards Lithuania's energy independence, which is even more important in light of the current war in Ukraine and the changed geopolitical risk in the Baltic countries.

Accelerating the Baltic countries grid synchronisation project with the EU network is therefore more important than ever in the context of disconnecting from the BRELL network, to ensure the security of supply of the Baltic countries. Furthermore, Lithuania is dependent on imports for its energy demand (70% of electricity is currently imported), and accordingly accelerating renewables deployment is key to reducing this dependency. This will need major investments in the electricity grid. The Project is central to achieving these two objectives.

This will be the first instance where the Issuer approaches debt capital markets and the first sustainability linked instrument issued in the Baltic countries. The Bank's participation is therefore crucial and will set a good precedent for further involvement of energy utility companies in this form of capital raising. This is particularly important in the context of the material change in investor sentiment towards emerging markets in general and the Baltic countries in particular since the war in Ukraine.

In addition, the Company will commit to increase the share of women in decision-making bodies by five percentage points over the five-year tenor of the bond and will introduce a series of gender-responsive Human Resources standards. These include i) developing and implementing an Equal Opportunity Action Plan (EOAP), ii) improving policies and practices to support care responsibilities (e.g. shared parental leave), and iii) incorporating recommendations from the EBRD's "Addressing Gender-Based Violence and Harassment" guidance note.

The Transaction is consistent with the Bank's Strategy for Lithuania 2021-2026, in the context of supporting Lithuania's Green Economy Transition as one of the main strategic priorities and reduce gaps observed in terms of energy security. The Transaction is also consistent with the Energy Sector Strategy, the Green Economy Transition Approach, the Local Currency and Capital Markets Development Initiative, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	*The project will allow the connection of planned renewable energy installations which currently are not possible due to inadequacy of the grid, or lead to a decrease in the curtailment of existing renewable energy installations, as verified by ESD.*	The SLB proceeds will fund the network synchronization capex programme that improves the grid connection for new electricity consumers and RES generators in the region (incl. significant wind energy potential). The synchronization programme will be largely supported by EU funding under the Connecting Europe Facility however the SLB proceeds will provide bridge funding in order to accelerate the implementation. 100% of the Bank's proceeds will be used to finance electricity grid upgrades, specifically targeting modernization of the existing network aimed at increasing efficiency and reliability, and enabling the synchronisation of the grid with the EU network. The Issuer, as part of the ESAP, will undertake required measures and investments to facilitate the integration of up to 7 GW of RE generation capacity by 2030, with an intermediary target of min. new 0.7 GW (wind) by YE2027.
1.2	*The Project will help client move towards international best practice in terms of system reliability or flexibility.*	The Issuer's network investment plan supported by this Project includes improvement of network reliability by reducing the system unplanned interruption duration and frequency and an upgraded grid that is more resilient to disruption. This is a main component of the Roadmap for Synchronisation signed by the Baltic countries, Poland and the European Commission. The Issuer will invest in maintenance and new transmission lines in order to strengthen the electricity grid (KPI 2

		under the SLB envisages measuring the reliability of electricity transmission system indicator through the Energy Not Supplied (“ENS”)).
1.3	*The transaction contributes significantly to capital market development by introducing a new instrument* (debt instrument).*	This is the first time EPSO-G is approaching the capital market for raising financing and the first under the sustainability objectives. The listing of bonds on the local exchange in the region remains marginal. Hence the Bank’s role as an anchor investor is critical for the success of the programme, particularly in light of challenges in accessing financing from local markets resulting from the current geopolitical conditions. The SLB issuance will be aligned with the SLB Principles, as verified by a second party opinion.
1.4	*At least [REDACTED] of the issuance is expected to be placed with private non-IFI investors.*	It is anticipated that the share of private non-IFI institutional investors may be [REDACTED], as typical for recent issuances in the Baltic countries attracting Baltic and Nordic private institutional investors.
1.5	*The issuance will be publicly offered and listed on a national exchange. It either has a credit rating from a rating agency other than "Big Three" (including local credit rating agencies) or it is not rated but the issuer is rated by at least one of the "Big Three".*	The bond will be listed on the Nasdaq Baltic exchange, an EU regulated platform that is part of the Sustainable Stock Exchanges Initiative. A credit rating was assigned to the Issuer by Moody’s in April 2022.

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	*The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.*	The Project was attributed a GET share of 50% and is considered in line with the Bank’s GET methodology, contributing to climate mitigation through improving energy efficiency by implementing transmission network synchronization projects and improving grid interconnectivity, to allow for additional RES generators to be connected to the transmission network. The use of proceeds of the Bank’s participation in the SLB issue will be used for the electricity grid network renovation program improving the reliability and efficiency of the electricity transmission grid. The SLB will be compliant with the SLB Principles and will commit to predefined Key Performance Indicators (“KPIs”) and Sustainability Performance Targets (“SPT”) including reduction of scope 1 and 2 CO_2 emissions [REDACTED]. Such practices, requiring issuers to commit to forward looking ESG outcomes remain rare in the Bank’s COOs and sets the pattern for other peer SOEs seeking to implement such standards. The SLB Framework was reviewed by CICERO, a leading second party opinion provider. This marks a step-change in transparency and conforms to best market practice. Scope 1 and 2 GHG emission reduction is expected [REDACTED].

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a

Additionality sources	Description of additionality sources
Financing structure: EBRD financing is expected to effectively 'close the funding gap' and allows to carry out a successful book-building. EBRD offers a tenor, which is above market average and is necessary to structure the project.	EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project. EBRD financing is expected to effectively 'close the funding gap' and allows carrying out a successful book-building process.
Innovative financing structures and/or instruments: EBRD offers an innovative instrument, setting a precedent for including elements of environmental covenants and reporting into the local bond market.	EBRD offers an innovative green finance instrument that integrates aspects such as climate and environmental, social and governance (ESG) standards and/or climate and ESG risk considerations into the financing structure. SLB bond issuance is still scarce in EBRD's countries of operations. This is the first SLB bond issued by a Baltic corporate, hence it remains an untested financial instrument in the region. EBRD acting as anchor investor gives comfort to the Issuer and the Arranger to pursue such novel structure. By enabling the Company to issue a sizeable SLB bond, the Bank demonstrates its commitment to support innovative green finance instruments, which contribute to climate change mitigation and adaptation.
Risk Mitigation EBRD's involvement in a **debt capital market transaction** provides comfort to other investors and further widens market participation.	EBRD's involvement in a debt capital market transaction provides comfort to other investors and further widens market participation.
Standard setting: Client seeks/makes use of EBRD expertise on higher inclusion (e.g. adherence to labour standards which goes beyond the provisions set in PR2 of the environmental and social policy), **gender standards and/or equal opportunities action plans** (e.g. improving women's access to skills and employment opportunities).	EPSO-G seeks EBRD expertise to incorporate higher gender equality standards in its Human Resources policies and practices and to develop an Equal Opportunities Action Plan (EOAP). This will be instrumental in promoting gender equality internally and will include setting a target to increase the share of women in executive management positions. It will also include (i) improving policies and practices to support care responsibilities (e.g. improved maternity leave arrangements, paternity leave policies, parental leave policies with transferrable days between spouses, subsidised child/ elderly care support, flexible working arrangements); and (ii) incorporating recommendations from EBRD's guidance note on Gender-Based Violence and Harassment (GBVH).

1.4 SOUND BANKING - KEY RISKS

Risks	**Probability / Effect**	**Comments**
Project specific risks		
Issuer Credit Risk	Low / Medium	[REDACTED] [F]inancial results could influence and deteriorate the Issuer's ability to repay or refinance its debt. *Mitigation*: low leverage ([REDACTED]) strong financial standing, stable cash generation capacity from the regulated asset base, on top of the strategic nature of the Issuer, gives sufficient comfort that the Issuer would honour its debt obligation.
Use of Proceeds Risk	Low / Medium	Proceeds from the SLB issue are for general corporate purposes and there is a risk that the Issuer may not to use the proceeds for carbon reduction/green projects. *Mitigation*: the Issuer's capex programme is focused on upgrading the electricity grid and implementing the synchronisation programme with the EU network. The result of this is a more reliable network with lower transmission losses on the long-run, and ability to connect more renewable energy projects once the capex programme is implemented. The SLB framework will be certified by CICERO (one of the most well-recognized certifying agencies). It includes two KPIs related to (i) carbon reduction [REDACTED], as well as (ii) improvement in the technical state of the electricity transmission system. Failure to deliver on the SLB targets, would trigger a margin step-up [REDACTED]. This will be monitored annually by an external verifier. The Issuer will also report the progress made on the KPIs starting from Issuance date, on an annual basis.
Implementation Risk	Medium / High	The grid synchronisation and energy storage projects implementation could be more complex than anticipated, leading to delays in delivery. Financial performance relies on timely implementation of the capex programme. In the event that the implementation of the capex programme is delayed, the allowed regulated revenues will be adjusted accordingly to reflect this delay. Moreover, the EU grants receipt will be delayed. *Mitigation*: This risk is mitigated through careful project design and procurement strategy, drawing on the lessons learnt from previous similar projects. The capex programme is implemented by a team of specialist established by the Issuer, with long track record of implementing similar complex investments. The investment budget of the Issuer contains appropriate contingencies. The Regulator's approval of the 2022-2027 investment plan, of which provides assurance that the capex programme will be implemented as planned.
Structural subordination risk	Low / Medium	The majority of the Issuer's borrowing is outstanding at the subsidiaries level, exposing the bondholders to effective/structural subordination. *Mitigation*: The Company targets to maintain a reasonably low Net Debt to Equity threshold and will seek to maintain an investment grade rating, which implies a need to control leverage. Cross default with its subsidiaries provides further comfort.

External risks		
Regulatory risk	Medium/High	The transmission services tariffs are determined in accordance with the NERC methodology, an independent national regulatory authority, but there is a risk of unexpected changes in tariffs while during the bond maturity. The regulator could reduce the transmission tariff, or could change the tariff methodology with adverse impacts on the EPSO-G cash flows. *Mitigation*: The regulator is in compliance with the EU's standard and being in the EU, Lithuania has good history of implementing and abiding by the EU acquis.
Interest Rate Risk	Low/Medium	Approx. 50% of the Group's borrowing are linked to EURIBOR while the remaining is based on a fixed rate. Therefore, a change in interest rates could impact the Issuer's debt service capacity. [REDACTED]. The results as shown in section 5.3 demonstrates the Issuer's resilience to increase in interest rates.

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	*Monitoring benchmarks*	*Implementation timing*
- Successful bond issue - Good financial and operational performance	[REDACTED]	[REDACTED]

TI indicator(s), primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Practices of the relevant stakeholder improved (system reliability)	Reliability of electricity transmission indicator, expressed as Energy Not Supplied (ENS) measured in MWh in the operations of electricity transmission system operator: limit ENS [REDACTED]. Implement capex for synchronisation	[REDACTED]	[REDACTED]	[REDACTED]

		with the European network; improve RES integration: achieve full synchronization in the next 2-3 years.			
1.2	Volume of new capital market activity raised	The SLB issuance of at least EUR 100m successfully subscribed [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Number of new/improved electricity/energy service(s) connections	Increasing penetration of renewable energy into grid. The Issuer to undertake required measures and investments to facilitate the integration of up to 7 GW of new renewable energy generation capacity (RES) by 2030, with an intermediary target of at least 0.7 GW by end-2027.	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Issuance listed on a national or/and international exchange	The SLB to be listed on Nasdaq Baltic Exchange – a national and Baltic Region exchange.	[REDACTED]	[REDACTED]	[REDACTED]

TI indicator(s), secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	CO2e emissions reduced (tonnes/year)	Target [REDACTED] reduction for the Issuer's overall scope 1 and 2 emissions [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Practices of the relevant stakeholder improved (LCP adoption and development)	The Issuer will develop and adopt a Low Carbon Pathway in line with the NECP, providing a strategy for achievement of SPT 1 under the SLB framework, including actions and investments needed to achieve scope 1 and 2 emissions reduction	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Practices of the relevant stakeholder improved (TCFD adoption and reporting)	The Issuer will join and implement the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD). The Issuer will develop a road map for disclosure of climate-related information as part of annual ESG or integrated financial reporting. This includes information on battery storage and GHG savings as well as saving on gas pipelines and work on hydrogen transmissions. Accordingly the Issuer will report TCFD data in corporate reports [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators: Gender SMART

Type	Monitoring indicator	Details	Baseline	Target	Duration
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (equal opportunity practices of the client)	The Company will develop and implement an EOAP and improve its HR policies and practices, including on care responsibilities and on GBVH.	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Number of women represented on decision-making bodies: C-Suite or Board	The Company will increase [REDACTED] the share of women in executive positions.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER / INVESTEE COMPANY

- The Issuer is EPSO-G Group, 100% owned by the Ministry of Energy of Lithuania. In 2021, the Issuer had total assets of EUR 946 million and generated approx. EUR 363m of total revenues, EUR 56m of EBITDA, and EUR 39m of net profits. EPSO-G group consists of a holding company, the transmission system operators "TSOs" managing the infrastructure of electricity and natural gas transmission, the market operators managing natural gas, biofuels and wood exchanges, as well as the company providing the infrastructure maintenance services and a newly established company to implement the energy storage facilities. Main subsidiaries of the group are (i) Litgrid, the electricity TSO contributing for approx. 75% of the total revenues, and (ii) AmberGrid, the natural gas network operator (contributing by ca. 20% of revenues). Litgrid transmission network consists of more than 7,000 km of power lines (330 kV and 110 kV voltage levels) and more than 200 substations under ownership and management. Litgrid, secures stable operation of the national electricity system, controls electricity flows and creates conditions for competition in the open electricity market.
- The main role of EPSO-G is to ensure i) uninterrupted, stable electricity transmission via high voltage grids, ii) natural gas transportation via high pressure pipelines, and iii) efficient management, maintenance and development of the transmission network. The Group also manages and develops the biofuels, natural gas and wood trade platforms designed to ensure competition in the market of energy resources. EPSO-G implements strategic projects of developing Lithuanian electricity and natural gas infrastructure, to integrate the Lithuanian grid into EU energy markets and transmission networks. EPSO-G provides management services to its subsidiaries with the purpose to increase the efficiency of operations of the Group companies, optimising the use of resources, and implementing uniform standards of operations.
- Litgrid is the designated operator of electricity transmission system in Lithuania. The shares of Litgrid are listed on the NASDAQ Vilnius Exchange. The Company was established in 2010 as a result of the unbundling of the previously vertically integrated Lietuvos Energija AB operations, and in 2013, the National Energy Regulatory Council granted a license to engage in electricity transmission activities for indefinite term. The

company is responsible for ensuring stable operations of the national power system, controlling electricity flows and enabling competition in an open domestic electricity market. Litgrid is tasked with maintaining the balance between electricity consumed and produced in the system and reliable transmission of electricity, implements strategic national electricity projects. Its operating guidelines are based on the long-term goals identified in the National Energy Independence Strategy (the NEIS). The key activities of the Lithuanian TSO include maintenance of the country's electricity infrastructure and its integration with the Western and Northern European electricity infrastructure; development of the electricity market and participation in the creation of a single electricity market of the Baltic and European countries; and integration of the electricity systems of Lithuania and continental Europe for synchronous operations. Litgrid is carrying out 14 synchronisation project of strategic importance, approved by the Government of the Republic of Lithuania. The company runs strategic electricity cross-border links NordBalt (Lithuania-Sweden) and LitPol Link (Lithuania-Poland). Litgrid is in charge of high voltage (330 kV and 110 kV grids) lines and transformer substations and switchgears.

4. MARKET CONTEXT

- Over the past 20 years, Lithuania experienced important energy sector transitions. Institutional reforms were made since the Ministry of Energy was created in January 2009, as well as under the EU Third Energy Package and the accession to the OECD in 2018. As a result of the reforms, independent system operators for gas and electricity, unbundled from supply activities, were created.
- After the reforms, Lithuania's electricity market became open but remains concentrated, despite a large number of licensed suppliers. In 2020, more than 58% of all purchases of electricity performed by independent suppliers on the electricity exchange consisted of the purchases of the state controlled energy company, Ignitis. All consumers may freely choose their distribution supplier. Industrial consumers pay market prices, while household consumers can choose to pay market or regulated prices.
- With the closure of its only nuclear power plant (Ignalina's two reactors shut down in 2004 and 2009), Lithuania switched from the position of a net exporter to a net importer of electricity. In 2020, Lithuania imported about 66% of its total electricity consumption of 11.9 TWh with c.22% produced domestically from renewable energy sources.
- Regional integration underpins energy security in Lithuania. Despite existing connections with Poland, Sweden and Finland, the Baltic countries still operate in synchronous mode with Russia and Belarus until the planned synchronization with the continental European network Entso-E in 2025, although strong efforts are underway to try to accelerate this and to achieve full synchronisation earlier than 2025.
- Lithuania's liquefied natural gas (LNG) terminal in Klaipėda has eliminated the country's dependence on direct gas imports from the Russian Federation (with all imports from Russia stopped as of 1 April 2022). A Baltic gas market is emerging, which connects infrastructure and countries in the region: the Klaipėda LNG terminal in Lithuania, the Baltic gas storage in Latvia (Inčukalns) with Estonia's and Finland's gas network through the Baltic connector pipeline, and with Poland through the Gas Interconnection Poland-Lithuania by end of May 2022.
- Ignitis – formerly Lietuvos Energija – remains the main supplier of natural gas to household consumers with a market share of 99% of total sales in 2020. There is hardly any competition at the retail level in Lithuania. Natural gas prices for large consumers were deregulated, but the prices for household consumers remain regulated. As a result, the Lithuanian market still remains highly concentrated, with Ignitis fully covering retail market and Achema, the largest fertilizer producer in the Baltic countries, covering most of the wholesale market. Lithuania also serves as a transit country for Russian gas flowing to the Kaliningrad Region.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL ANALYSIS

- The financial statements of the EPSO-G Group have been prepared in accordance with IFRS and were audited by PricewaterhouseCoopers. Financial highlights of the Issuer are presented below and detailed historical financial statements are presented in Annex 3.

Key financials

	EPSO-G Group			LitGrid		
Amounts in EUR millions	**FY19A**	**FY20A**	**FY21A**	**FY19A**	**FY20A**	**FY21A**
Operating revenues	238.7	259.5	337.7	183.3	206.4	267.3
Operating revenues YoY %	*-2.9%*	*8.7%*	*30.1%*	*8.0%*	*12.6%*	*29.5%*
EBITDA	47.8	74.5	79.6	22.1	50.8	43.0
EBITDA / Operating Revenues %	*20.0%*	*28.7%*	*23.6%*	*12.0%*	*24.6%*	*16.1%*
Net profit	11.4	40.1	39.8	3.0	26.6	20.0
Amounts in EUR 000	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**
Total assets	719.5	787.5	962.6	376.2	414.4	489.8
Total Equity	194.0	233.1	271.6	195.6	218.0	221.5
Net Debt	316.7	366.9	220.5	99.1	84.7	68.5
Net debt / EBITDA	6.6x	4.9x	2.8x	4.5x	1.7x	1.6x
Net Debt / Total Equity	1.63x	1.57x	0.81x	0.51x	0.39x	0.31x

[REDACTED]. Please see *Annex 3* for further details on the historical financials.

5.2 FINANCIAL PROJECTIONS

[REDACTED]

5.3 SENSITIVITY ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). The Project is a capital markets transaction (SLB issuance) and the Bank's due diligence has been limited to a review of publicly available documents by ESD. The in-house due diligence was based on publicly available information, questionnaires and discussion with the Company. The level of available information allowed for adequate assessment of environmental and social risks of this Project in accordance with the Bank's 2019 ESP. The bond use of proceeds are expected to be utilised for reconstructing power transmission lines, new battery storage facilities, and reduction of methane leakage, as well as upgrade of substations and will explicitly exclude any new category A projects. The bond issuance alignment with the Sustainability Linked Bond Principles ("SLBPs") was verified by a second party opinion ("SPO"). The Project is 50% GET compliant.

The in-house ESDD has reviewed the status of compliance and the Company's approach to Environmental and Social Governance ("ESG") principles and capacity to implement the Bank's PRs. The ESDD focussed on a corporate level review of the Company's management systems, sustainability strategy, policies and operations and its current compliance status as well as a desktop review of the power lines projects that have been recently constructed and the planned upgrades of substations. Overall, the Company has a good compliance record and is developing corporate EHS management systems and no material non-compliance issues have been identified. It has a dedicated EHS management team and develops sustainability reports for the Group, however these will need to be strengthened in the future to take into account the EU Corporate Sustainability Reporting Directive (CSRD) as well as the EU Taxonomy. The ESDD confirmed that the Company has the institutional capacity to implement the Bank's Performance Requirements. The ESDD has also confirmed that the Company has good HR Polices in line with best practice and is implementing Covid-19 response measures. The Company's EHS practices are in compliance with national regulations, which are aligned with EU law.

An ESAP has been developed based of the findings of the ESDD and includes requirements relating to, among others, strengthening of non-financial reporting in line with best practices and EU guide on climate related information. This includes a commitment to implement TCFD recommendations as part of EU CSRD implementation. The ESAP also require that if the Company was to develop projects in sensitive areas or of sensitive habitats, those would need a full ESIA in line with the Bank's E&S policy. As part of the ESAP, the Company will also commit to undertake every 3 years an independent assessment of its E&S performance. The Company does not own any generating capacity and will not invest in any in the future. [REDACTED]

The Bank will monitor the Company's performance through reviewing annual reports prepared by the Company and published on its website.

6.2 INTEGRITY

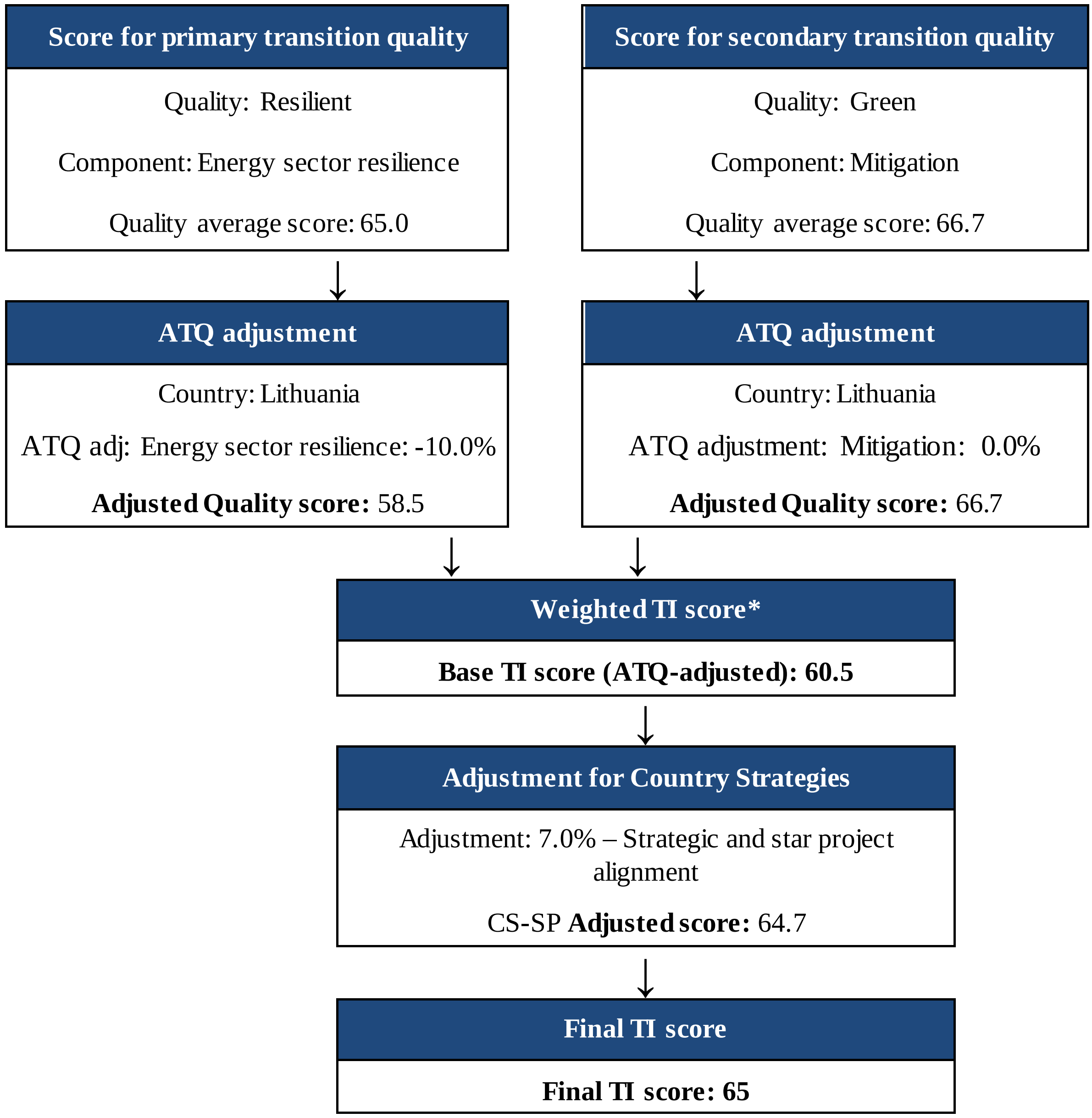
In conjunction with OCCO, integrity due diligence was undertaken on the Issuer, its shareholders, senior management and other relevant parties. [I]t has been concluded that [REDACTED] this project does not pose an unacceptable integrity or reputational risk to the Bank. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES TO OPERATION REPORT

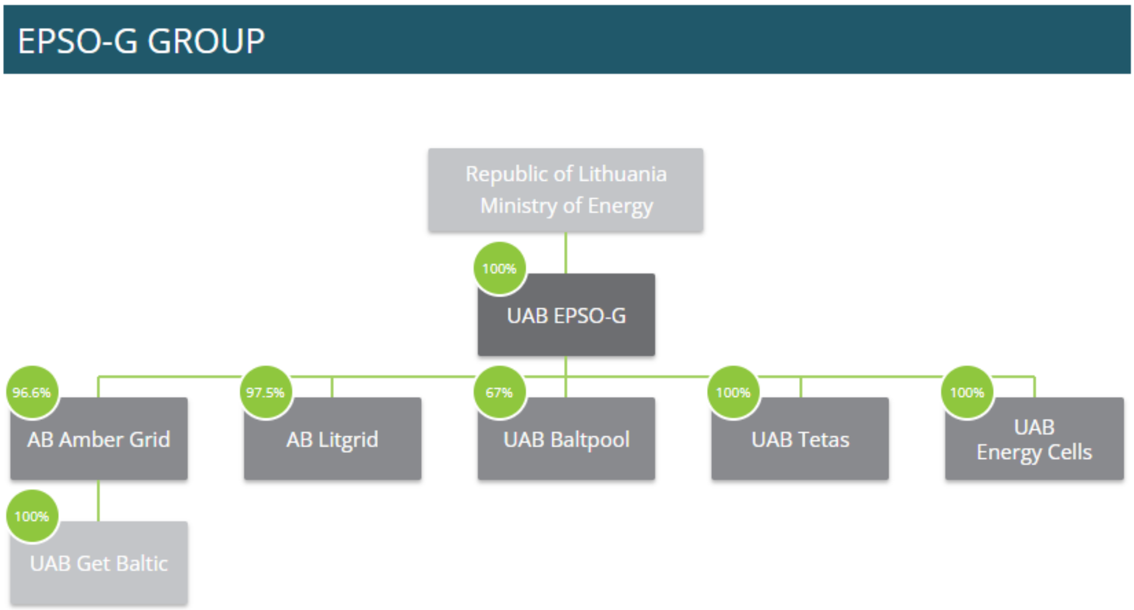
ANNEX 1	Transition Impact Scoring Chart
ANNEX 2	Shareholding Structure
ANNEX 3	Historical Financials
ANNEX 4	Green Assessment
ANNEX 5	Project Implementation

ANNEX 1 - TRANSITION IMPACT SCORING CHART



*****The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

ANNEX 2 – SHAREHOLDING STRUCTURE



ANNEX 3 – HISTORICAL FINANCIALS

[REDACTED]

ANNEX 4 – GREEN ASSESSMENT

Introduction

The Project involves subscription to up to 30% of a Sustainability Linked Bond (SLB) issuance of up to EUR 135 million to be issued by EPSO-G, the Lithuanian state-owned holding company owning the electricity and gas TSOs as well as other sub-companies focused on energy storage and energy exchange market operation. The SLB framework includes sustainability outcomes targeted by the Issuer with core KPIs focused on reduction of scope 1 and 2 emissions. In addition, the SLB framework has a second KPI related to enhancing stability and resilience of the electricity network measured through electricity transmission reliability indicators. As part of the ESAP, the Company will also develop and adopt a low-carbon pathway, conduct physical and transition climate risks assessment and develop a climate adaptation and risk mitigation strategy (covering both electricity and gas transmission operations) in line with TCFD. The Bank will also have additional ESAP commitment by the Issuer to facilitate the integration of up to 7 GW of renewables capacity in line with the national targets. The KPIs under the SLB will be monitored annually by the Issuer and independently verified by a third party. If the Issuer does not achieve any of its SPTs or does not make available and communicate the sustainability performance report or the verification report within 100 calendar days following the target observation date, that would result in increased interest payment under the bond. The target observation date for a margin step up is in 2026.

Paris alignment assessment

Since the SLB bond is a general corporate purpose instrument without dedicated use of proceeds, the Project falls outside of the direct finance Paris Alignment methodology and is not subject to PA assessment.

The Issuer is however intending to use the funds in its investment programme within the electricity transmission subsidiary (focusing mainly on the implementation of electricity grid synchronisation with the EU network, as well as developing a 200 MW battery storage facility) and is making an undertaking in its SLB framework to not use proceeds for investments in gas related infrastructure.

The Company is a regulated entity and operates in the context of Lithuania's climate commitments under the Paris Agreement to reduce GHG emissions [REDACTED], its support for the EU's goal of climate neutrality by 2050, as well as recently the proposed EU regulation on methane emissions. The SLB bond sets sustainability objectives that are in line with these objectives and that will entail measures and capital expenditures that make substantial contribution to climate mitigation action. While PA assessment is not required, based on the above, as well as additional ESAP commitments of the company to undertake physical climate and climate transition risks assessment and develop a low carbon pathway, the Project can be considered as PA aligned.

GET attribution

The Project GET share was conservatively determined to be 50% based on the draft Second Party Opinion (SPO) and in accordance with the Bank's GET Handbook; the GET share may be subject to revision prior to Board approval pending the final version of the SPO.

The SLB framework has been verified via a Second Party Opinion (SPO) as being in alignment with the ICMA Sustainability Linked Bond Principles.

The SLB framework includes two Key Performance Indicators (KPIs) as follow: (1) reduce direct greenhouse gas emission [REDACTED], and (2) improve the reliability of electricity transmitted indicator, expressed as energy not supplied, measured in MWh and limited [REDACTED]. The Issuance will include a target observation date [REDACTED], whereby if any of the KPIs are not achieved; a margin step up [REDACTED] would apply. [REDACTED] [T]he Issuer will publish on its website a sustainability performance report which shall disclose the KPIs as of 31 December in each year and will be accompanied by an assurance report issued by an external verifier. [REDACTED].

Climate-related financial risk [REDACTED].

ANNEX 5 – PROJECT IMPLEMENTATION

Procurement classification – *Public sub-sovereign*

Project risk assessment:

[REDACTED]. By applying PPAD's Procurement Capacity toolkit, the Company's risk on procurement has been assessed as Low. All categories i.e. legal framework, organisation of procurement function, support/control systems, staffing, record keeping, procurement planning, procurement cycle, general assessment of the Company, and project risk have been assessed.

Although EPSO-G has no earlier experience to conduct procurement under EBRD's PP&R, the Company is used to conduct fully open international tenders including the use of e-procurement system. Hence it should not be a challenge for the Company to apply ECEPP for the procurement exercise under the Project.

Contracts risk assessment "Low"

There is one (1) EBRD financed contracts to be procured under the Project, which is Reconstruction Overhead Line Šiauliai-Kaunas.

Project implementation arrangements:

EPSO-G will coordinate, manage, monitor and evaluate all aspects of the project implementation including procurement. The Company has their own well-experienced supervisors who will monitor the contracts implementation phase.

Procurement arrangements:

The EBRD financed contract will be procured following open tendering procedure by using ECEPP in accordance with the requirements of the EBRD PP&R for public sector operations. The Bank's standard procurement documents available in ECEPP will be used by the Company. [REDACTED].