

APPROVED

By Order No 3- of the Minister for
Transport and Communications of the
Republic of Lithuania of 2025

**LETTER
OF STATE OBJECTIVES AND EXPECTATIONS FOR THE PUBLIC LIMITED
COMPANY LIETUVOS GELEŽINKELIAI**

I. Purpose

This Letter of State Objectives and Expectations for the Public Limited Company Lietuvos geležinkelai (the Letter) presents the expectations of the Ministry of Transport and Communications of the Republic of Lithuania regarding the directions, objectives and principles of the activities of the public limited company Lietuvos geležinkelai (the Company) and its subsidiaries (the Group of Companies).

The Letter is intended to set short- and medium-term state expectations and guidelines for the long-term development expectations of the Group of Companies, to identify the core and other activities of the Company and individual companies of the Group of Companies, to identify key performance indicators, to establish the procedure for providing information to the Ministry of Transport and Communications, and to ensure effective cooperation between the Group of Companies and the Ministry of Transport and Communications.

On the basis of the Letter, the strategic activity plans of the Company and individual companies of the Group of Companies shall be prepared and/or revised, financial and non-financial long-term and short-term objectives shall be set, taking into account the provisions of the legal acts shaping the State policy in the field of transport and communications, as well as the provisions of the legal acts of the Republic of Lithuania regulating the activity of state-owned enterprises.

By this Letter, the Ministry of Transport and Communications does not intend to restrict or extend the rights or obligations of the Company, individual companies of the Group of Companies or their governing bodies. The Group of Companies and its governing bodies must, in particular, comply with applicable law, the articles of association of companies of the Group and other decisions taken by shareholders, good corporate governance practice and take responsibility for their decisions. In implementing the expectations of the Ministry of Transport and Communications, the governing bodies of the Group of Companies must be guided by the principles of reasonableness, transparency, efficiency and rational asset management.

II. Purpose and objectives of the Company

The Group of Companies is a group of undertakings controlled by the State capital, consisting of the Company which acts as the parent management company, and its directly and indirectly controlled subsidiaries, downstream undertakings and a public body.

The Group's main activities are the carriage of freight and passengers by rail and related logistics services in domestic and international markets, management of public railway infrastructure, and the implementation of investment projects of national importance.

In line with European Union law and national legislation, the objectives of the Group of Companies are as follows:

1. meeting specific obligations:
 - 1.1. providing public passenger transport services by rail;

1.2. providing public railway infrastructure maintenance, renewal and development services, the minimum access package to public railway infrastructure and disposing of public railway infrastructure on trust;

2. developing rail freight transport activities on domestic and international markets, consistently increasing transport volumes and strengthening Lithuania's role as an important logistics hub;

3. transparently allocating public railway infrastructure capacity and efficiently using the rail network;

4. implementing strategic projects such as Rail Baltica, electrification of railways, modernisation of the rail traffic management, control and signalling systems installed in the Lithuanian railway network, and developing passenger and freight services on international routes. Also contributing to, and implementing projects related to ensuring military mobility, the development of the national defence industry and the strengthening of the supply chain of Lithuania and NATO partners.

The Ministry of Transport and Communications expects that the activities of the Group of Companies will be developed along the lines referred to in the Letter, and that the expectations set out will become part of the Group's individual strategic action plans, which will set targets and values for their implementation.

III. Non-financial expectations

Developing public railway infrastructure. The Group of Companies should develop public railway infrastructure in line with Lithuania's transport priorities. The compatibility and sufficiency of railway infrastructure parameters must be ensured to meet the needs of the development of passenger and freight transport and to enable the integration of the Lithuanian railway network into the European Union railway network. The desirability of public rail infrastructure development projects must be assessed not only in terms of financial returns, but also in terms of the overall socio-economic returns to the State, citizens, the sector and the region, and the environmental impact.

Investment plans for the development of public railway infrastructure must include an analysis of all reasonable alternatives and be consistent with the national security interests of the country.

Implementation of the measures under the Twentieth Government Programme of the Republic of Lithuania. The Ministry of Transport and Communications expects that the Company and the Group of Companies will ensure the implementation of public railway infrastructure renewal and development projects of national importance and will contribute to the implementation of other important measures under the Twentieth Government Programme.

The Group of Companies is expected to achieve 48% technical progress in the first phase of the Rail Baltica project in 2028 and to complete the construction of a 114 km section of railway tracks on the Kaunas-Panėvėžys section. The Board of the Company is to continuously monitor the progress of this project, control the use of the European Union and State budget funding, assess the risks of implementation within the set deadlines and provide quarterly information to the Ministry of Transport and Communications. Also to ensure that the decision-making mechanisms of the Company and the Group of Companies allow for a smooth, efficient and rapid implementation of the Rail Baltica project.

The Group of Companies has to ensure the application of the quality standards for support to people with special needs, until Q3 2028 to reconstruct at least 30 platforms at main railway stations and stops, making them accessible for persons with reduced mobility and ensuring that passengers have equal access from the platform to rolling stock.

As part of the adaptation of the railway infrastructure for military mobility and dual-use purposes, the Group of Companies is to install a dual-use military loading yard in Palemonas and the railway infrastructure required for the Rūdininkai training ground by Q1 2028.

To implement other measures under the Twentieth Government Programme of the Republic of Lithuania contributing to the development of the railway sector.

Transport system integrity. In order to ensure seamless mobility of people, goods and services, the Group must prioritise the increase of passenger and freight flows by rail, as well as the creation of conditions for intermodality, which would lead to efficiency gains, reduce congestion on the road network, and increase the added value of the transport sector. The Group of Companies must assess the entire logistics chain, seek competitiveness and benefits of its activities on a nationwide scale, coordinate its actions with the decisions of other companies and institutions, actively cooperate with the state-owned enterprises Klaipėda State Seaport Authority, Via Lietuva AB, Lithuanian Airports AB and municipalities in planning the renovation and development of railway infrastructure, setting tariffs for the use of public railway infrastructure and railway service facilities..

By developing the rail freight transport activities, the Group will promote long-term cooperation with partners, customers, logistics service providers, Klaipėda State Seaport and other participants of the freight transport chain. This cooperation must be geared towards increasing competitiveness and improving the efficiency of the whole supply chain.

Quality of customer service. The Group of Companies needs to speed up and improve the efficiency of its services in order to reduce bureaucratic burdens, not only to increase the value of the services provided to customers, to improve the quality of rail services and the accessibility of the public railway infrastructure for passengers and freight, and to enhance customer satisfaction, but also to make rail the first choice of passengers and freight consigners.

The Group must be consistent in implementing the provisions of the Memorandum of 1 June 2021 on the adaptation of vehicles and transport physical and information infrastructure to people with special needs, Commission Regulation (EU) No 1300/2014 of 18 November 2014 on the technical specifications for interoperability relating to accessibility of the Union's rail system for persons with disabilities and persons with reduced mobility and other relevant European Union legislation. In order to facilitate travel for people with special needs, the Ministry of Transport and Communications supports the initiative of the Group of Companies to work closely with organisations of people with special needs.

Leadership and enhanced competitiveness. In the long term, the Group's companies should become the leading railway undertakings in the region in terms of the share of rail freight transported, and the quality and efficiency of services provided. The Group of Companies should increase its freight and passenger transport capacity by meeting the objectives and targets set out in the Transport Development Programme for 2022-2030, as well as by expanding its activities in foreign markets and diversifying its business on an ongoing basis.

The Group must actively cooperate with other railway undertakings, road transport companies, transport and forwarding associations and other market players to improve the quality of its services. The Group's aim is to ensure that at least 50 per cent of the freight transported over 300 km on Lithuanian roads is carried by rail in order to ensure sustainable infrastructure development.

The Group needs to make rail passenger transport the preferred choice of passengers in order to increase the number of passengers carried and to improve the quality of service. Particular attention should be paid to the active strengthening of the dialogue with municipalities to improve inter-regional connectivity and the compatibility of rail passenger services with passenger routes of other modes of transport, as well as to close cooperation and route coordination with passenger carriers on local and long-distance bus routes, to actively participate in the development of the single ticket system and to cooperate with organisations of people with special needs and other stakeholders.

In assessing the competitive environment, the customer portfolio and the conditions of service must be considered separately, and changes in tariffs for services must be clear and equivalent (gradual). Customers should be informed of tariff changes as early as possible. Decisions on tariff setting must not only look at the financial return, but also at the long-term benefits for the State and customers, and the competitiveness of the logistics chain as a whole.

In order to increase the attractiveness of rail transport, the Group of Companies needs to continuously improve its freight solutions and proactively engage with freight consigners.

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

The Group must systematically strive for operational efficiency by applying measures to ensure the rational use of assets, reduce operating costs and increase operating income. The intensity of asset utilisation, technical and commercial efficiency must be consistently assessed, inefficiencies identified and corrective measures taken where necessary. The Group of Companies must ensure that costs are balanced with revenues and that operational decisions are based on data and analysis, including monitoring return on assets (ROA), relative cost ratios and other performance indicators. Performance indicators and/or measures must be integrated into strategic planning, evaluation of strategy implementation and financial forecasting.

The Company needs to use artificial intelligence and data technologies to improve its digitisation processes and to make its services much simpler, more seamless and tailored to the individual needs of each customer.

When implementing infrastructure modernisation projects, the Group of Companies must prioritise investments that improve rail traffic safety, contribute to national security, and reduce the impact of climate change and the negative effects of air and noise pollution on human health and the environment. In order to reduce the negative impact on the environment, the Group has to electrify the Vilnius railway node and the Kaišiadorys-Klaipėda railway line by the end of H1 2026 and increase the electrified Lithuanian railway network from 7.97 per cent to 28 per cent of the total railway network.

The Group should operate in accordance with best practices for sustainable development and adhere to the laws, international norms and ethical standards that govern its activities. The strategies of individual Group companies should integrate the United Nations sustainable development principles with environmental, social, consumer and human rights aspects. The Group of Companies must ensure that these principles are implemented together with rail transport users. The Group must have a sustainability policy that sets out the directions and principles for sustainable development and the means of implementing them, which will guide the Group's day-to-day operations and create an organisational culture. The Group of Companies must adequately disclose information on sustainability issues and sustainability initiatives in its management and sustainability reports and on its website.

Social responsibility and employee engagement. The Group of Companies must conduct its business to the highest standards of transparency, governance, ethics and social responsibility, use modern methods of measuring employee engagement and strive to increase employee engagement. The Group must maintain a value-based organisational culture and provide opportunities for professional development. The Group needs to implement and develop systems for employee values, competence change, motivation and remuneration. The Group of Companies must enhance the motivation and professional development of its employees, consistently strive to ensure that employees are paid remuneration commensurate with their work and market conditions, and that employees are rewarded for their contribution to the Group, to create an

attractive working environment, to provide conditions for people with special needs to work, to uphold and implement the long-standing traditions of railway employees, and to promote the principles of equality of opportunity and diversity. The Ministry of Transport and Communications expects the Group's boards and management to maintain an ongoing and constructive dialogue with employee representatives.

The Ministry of Transport and Communications expects that in the event of emergencies or other unforeseen circumstances in the country, which have a significant impact on public welfare and security, the Group of Companies will be socially responsible and will look for opportunities to contribute to the State's efforts to deal with the consequences of such emergencies and circumstances. Taking into account the changed threat structure, the Company has to update the approved Security Plan and implement the measures provided for the Company in the Mobilization Plan of the Ministry of Transport and Communications.

Transparency and risk management. The Group of Companies must have in place corruption resilience measures and processes to ensure that its activities are carried out in a transparent and fair manner and that public procurement is conducted in accordance with the provisions of the Republic of Lithuania Law on Public Procurement and other normative legal acts. The Group must have in place and continuously improve an effective risk management system, allocate sufficient resources to risk management processes and adequately safeguard the national security interests of the State. The planning and use of investments must be based on an assessment of the risks involved. The Group of Companies must ensure that all the information specified in the Description of the guidelines for transparency of the activities of state-owned enterprises approved by the Government of the Republic of Lithuania is made public.

The impartiality and independence of the decision-making of LTG Infra, a public limited company acting as the manager of the public railway infrastructure, must be ensured, as provided for by the legislation. LTG Infra has to consult with market players on infrastructure development and expansion planning, and timing of traffic breaks.

The Group of Companies shall ensure that the data to be re-used is inventoried, opened and made available to the Lithuanian Open Data Portal, in accordance with the provisions of the Republic of Lithuania Law on Access to Information and Data Re-Use and other legal acts regulating the submission of data for re-use.

Good governance. The Group of Companies shall ensure corporate governance in line with best practice, taking into account the recommendations for improving governance provided by the Governance Coordination Centre (GCC), a public body, and shall strive to ensure that the Group's annual reports on the assessment of the Good Governance Index of State-Owned Enterprises give the Group a rating not lower than A. The corporate governance of the Group must be focused on long-term value creation, the sustainable development of the Group in the long term, and assurance of a proper alignment of interests among all stakeholders. The Group must also follow the recommendations of the Organisation for Economic Co-operation and Development. The Group's activities should include the protection and enhancement of its reputation, research into changes in its reputation, and the effective use of external and internal communication.

The Company shall ensure that the specialised non-financial performance indicators, which are agreed annually with the GCC, are achieved.

IV. Financial expectations

The Group's long-term profitability must be in line with the targets of the Government.

Dividends shall be calculated in accordance with the legislation governing the determination of the share of profits to be distributed as dividends.

The Group of Companies must ensure that the optimal capital structure ratio is in line with the Government's target.

The Group shall aim to achieve a balance between the operating income and costs of the public railway infrastructure manager.

The Group needs to evaluate and seek alternatives for securing long-term financing, cheaper borrowing and more profitable investment opportunities.

The Company shall ensure that the specialised financial performance indicators, which are agreed annually with the GCC, are achieved.

V. Common expectations on operational principles

The ultimate owners of the Company are the taxpayers, therefore the governing bodies of the Company must make every effort to manage the Group and its assets in a transparent and efficient manner, taking into account the expectations and needs of the population and economic operators of the Republic of Lithuania.

The governing bodies of the Group of Companies are directly responsible for meeting the expectations and objectives set. The Company shall provide information on the implementation of the State expectations set out in the Letter to the Ministry of Transport and Communications within 20 calendar days after the end of a quarter.

The Chairperson of the Board and the CEO of the Company shall present annually to the management of the Ministry of Transport and Communications an updated strategic plan, annual budgets and results, and the annual self-assessments of the Board.

The Board of the Company operates independently, but the Ministry of Transport and Communications expects the Company and the Board to inform in advance about the Company's key decisions and to perform the functions assigned to them by the Company's Articles of Association and the Republic of Lithuania Law on Companies. Key decisions are decisions on:

- potential conflicts of interest for members of the boards of the Group;
- potential major litigation;
- possible fraud by employees of the Group of Companies or related parties;
- material changes in the Group's operations;
- higher levels of staff turnover in the Group of Companies;
- changes in the top management of companies of the Group;
- large acquisitions or divestments;
- passenger and freight transport projects that have a significant impact on the Company's operations;
- potential damage to society, nature, the economy or national security;
- press releases, which may require comments from representatives of the Ministry of Transport and Communications;
- potential threats to national security;
- corruption or political interference of any scale;
- other material risks to the Group's going concern and reputation.

The Board of the Company should use the principle of reasonableness and inform of other decisions potentially relevant to the interests of the Company's shareholder.
