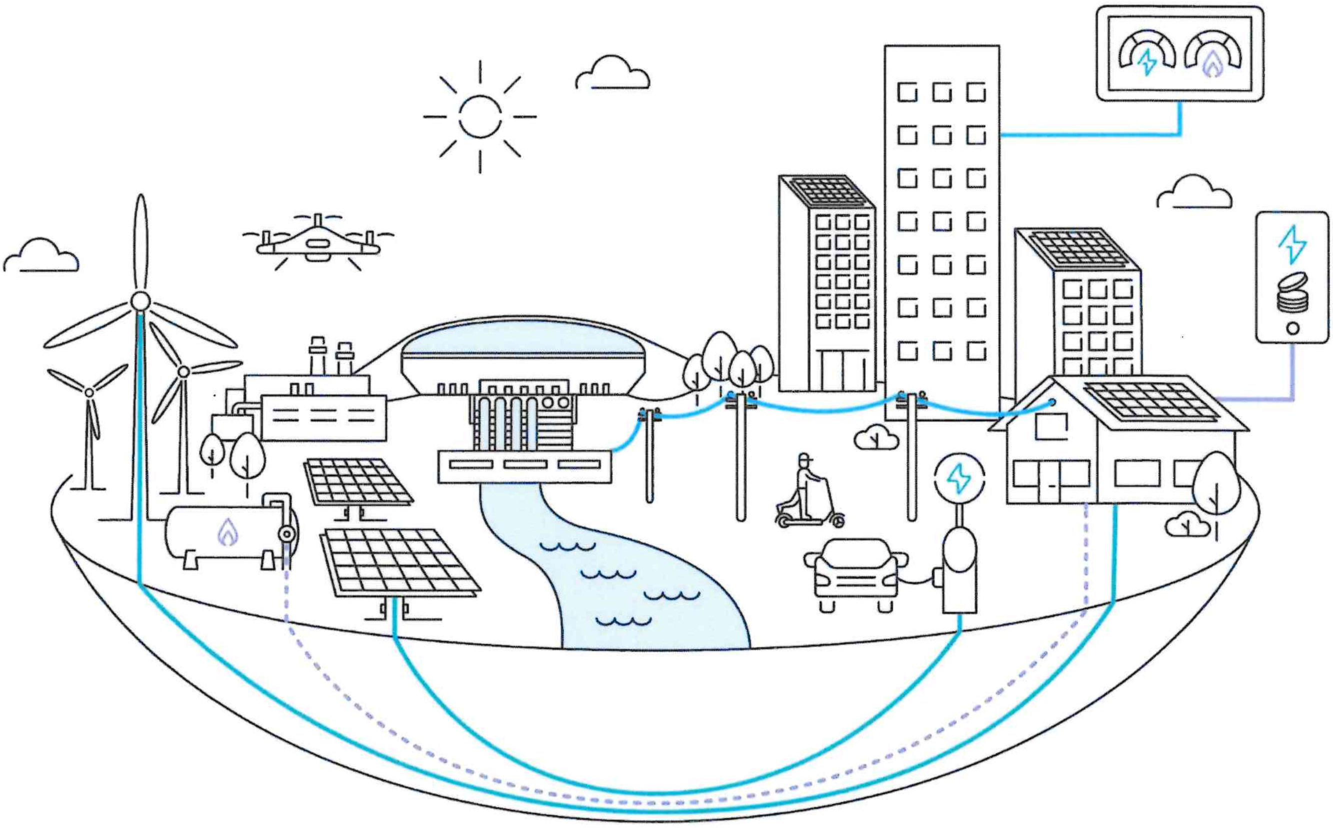
# UAB Kauno Kogeneracinė Jėgainė Annual report 2023

Annual report for the year ended 31 December 2023 and the financial statements of the Company for the year ended 31 December 2023, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, presented together with an Independent Auditor's Report for the year ended 31 December 2023



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# CONTENTS

# 1. OVERVIEW

# 1.1 CEO's statement

The year 2023 was a successful and stable year for Kauno Kogeneracinė Jėgainė (Kauno KJ). The impact of the energy crisis, which started back in 2022, has been significantly reduced in the market as a whole, and the power plant has continued to look for ways to not only better ensure a stable continuity of operations, but also to increase the efficiency of its heat and power generation day after day.

The work of the Kauno KJ team has ensured that the plant has not faced any challenges affecting our operations in the past year, which is also reflected in our performance. Kauno KJ EBITDA in 2023 reached EUR 35.8 million, compared to EUR 34.4 million in 2022. A significant drop in the electricity exchange price last year and the half-year cap on the electricity sales price (EUR 180/MWh) have significantly reduced the revenue from sales of electricity. The loss of revenue was more than offset by optimised costs. The Company's costs fell by 19.5% in 2023. This was due to the absence of electricity price swaps in 2023. In 2022, costs were strongly driven by the cost of derivatives related to electricity price fixing, which amounted to EUR 7.6 million. Costs were also optimised by part of free emission allowances, which led to a reduction of 28.6%, compared to 2022. Although EBITDA grew, net profit fell to EUR 25.4 million (EUR 26.8 million in 2022). The decrease in net profit was mainly driven by an increase in deferred income tax expense due to the change in the net value of derivative financial instruments.

One of the most important developments of the previous year was that Kauno KJ received the award of the ISO 14001:2015 certificate from international certification company Bureau Veritas Certification Holding SAS. The scope of the certification is the production of heat and electricity from the combustion of non-hazardous municipal and industrial waste, logging waste and biofuels. The international environmental certificate shows that the Company is committed to strict environmental and sustainability principles in its operations and applies them in its management.

The Company has no operations in foreign countries and no transactions with any sanctioned companies.

Last year, Kauno KJ also signed four support agreements with neighbouring communities in Kaunas city and district, under which a park in the Ramučiai region will be landscaped, a recreation area by the quarry will be built in Lapės, a food exchange kiosk will be erected in the Dainava eldership, and the fences separating the Biruliškės garden community from the electricity grid and the water tower will be renovated. The total amount of support for all projects exceeds EUR 180,000.

The support is an example of Kauno KJ cooperation, but the power plant is not limited to that. Therefore, in 2023 we continued to organise regular guided tours for all those who want to learn more about Kauno KJ activities. These tours are a great opportunity for anyone interested to see our plant up close and get a deeper insight into the day-to-day operations of Kauno KJ, the waste-to-energy technology and equipment, and to dispel the various myths surrounding Kauno KJ.

Cooperation with local communities, education on waste-to-energy and other consistent actions by Kauno KJ staff, we believe, have a significant impact on the favourable evaluation of the plant. A public opinion survey, conducted in the first quarter of last year, showed that 70% of the public voted in favour of KKJ. The survey showed that 70% of the residents of Kaunas city and district have a positive view of Kauno KJ activities and as many as 89% support the use of waste no longer suitable for further recycling as fuel for energy production.

In 2024, our ambition remains unchanged: to minimise the environmental impact of our activities, to enable the country's landfill sites to be reduced as rapidly as possible, and thus to contribute to a safer and cleaner environment.

# 1.2 Business highlights

### During the reporting period

February

- A survey carried out in February showed that 70% of Kaunas city and district residents have a positive view of Kauno KJ.

June

- On 30 June 2023, the EUR 180/MWh electricity price cap under European Council Regulation (EU) 2022/1854 expired.

October

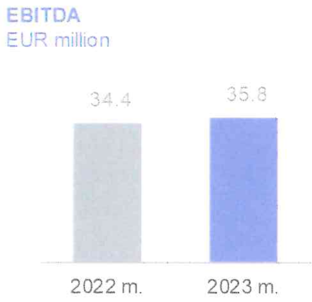
- On 19 October 2023, the international certification company Bureau Veritas Certification Holding SAS issued the ISO 14001:2015 certificate, confirming that the Company complies with, and remains committed to, strict environmental and sustainability principles in its operations and management.

December

- On 7 December 2023, the heat capacity assurance auction was won for the nine-months period (January - September 2024), which ensures stable capacity assurance payments for this period.
- Kauno KJ signed four support agreements with neighbouring communities in Kaunas city and district for a total value of more than EUR 180,000.

# 1.3 Performance highlights

## Financial

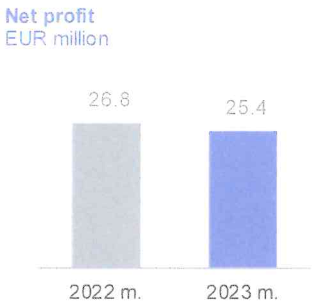



The company's cost control has allowed it to maintain EBITDA growth of 4% despite the decline in its underlying revenues.

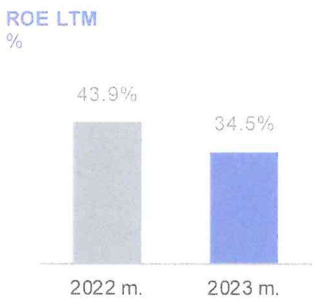
Company's costs decreased by 19.5% in 2023. The main factors of the cost reduction are:

- No electricity price swaps were applied in 2023. In 2022, costs were strongly driven by the cost of derivatives related to electricity price fixing, which amounted to EUR 7.6 million.
- The costs of emission allowances (EUA) were also optimised by part of free emission allowances, which led to a reduction of 28.6%, compared to 2022.

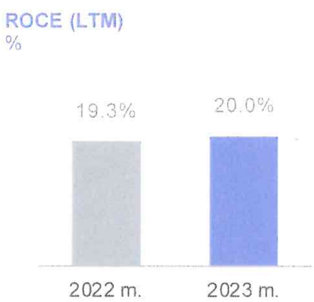
Revenue from electricity sales declined due to a significant drop in the exchange price and the half-year cap on the maximum price of electricity (EUR 180/MWh).




The net profit in 2023 was lower compared to 2022. The decrease in net profit was mainly driven by an increase in deferred income tax expense due to the change in the net value of derivative financial instruments.

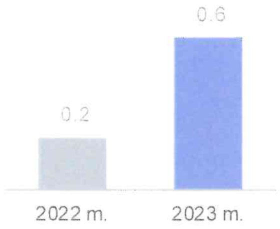



The increase in equity was due to accumulated retained earnings and the unrealised value of the interest rate hedge on the power plant loan, which leads to a decrease in the return on equity, although the decrease in net profit was insignificant.



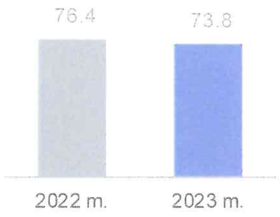

The profitability of fixed capital grew marginally. The indicator was positively influenced by the decrease in fixed capital due to the periodic repayment of credit contributions and a slight increase in EBIT.

Investments
EUR million



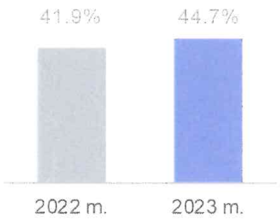

In 2023, investments were made to optimise and improve equipment. Due to the procurement process, not all the planned investments have been completed in time and some of them will be carried out in 2024.

Net debt
EUR million



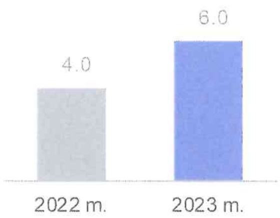

Net debt decreased due to the periodic repayment of the loan by the power plant.

FFO (LTM) / Net debt
%



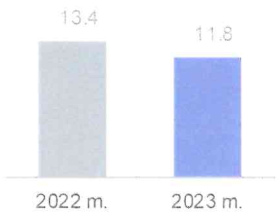

Net cash flows did not change significantly, so the growth of the indicator was mainly influenced by the decreasing net debt.

Operating expenses
EUR million




The increase in operating expenses was influenced by higher repair costs, compared to 2022, incurred as a result of the planned periodic overhaul of the power plant. The increase in other administrative expenses is due to the increase in market prices for goods and services.

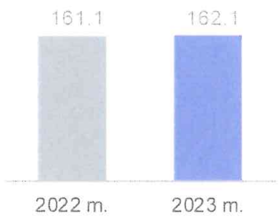
Production costs
EUR million




The share of emission allowances allocated free of charge has led to a significant reduction in production costs, compared to 2022.

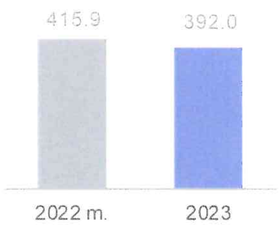
## Operating

Sales of electricity produced
GWh



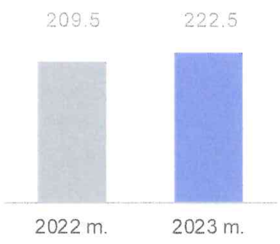

The higher volume of waste transformed in the boiler resulted in higher electricity production.

Sales of thermal energy produced
GWh




Due to the new heat auctioning procedure, the company cannot sell all the heat it produces at higher average daily temperatures.

Amount of waste handled
thousand t




The renewed Integrated Pollution Prevention and Control permit allows the company to manage up to 255,000 tonnes of waste per year.

# 2. Business overview

# 2.1 Business profile

### Description of the Company's activities

The main activity of Kauno Kogeneracinė Jėgainė UAB is to treat municipal and non-hazardous industrial waste with energy value generated in the Kaunas region and its surroundings, and in order to provide financial benefit to the Company and its Shareholders, to sell the heat and electricity generated in the treatment process.

### Company's business model

The plant produces ~500 GWh of heat and ~170 GWh of electricity per year. The heat energy is fed into the centralised heat supply network of Kaunas city, and the electricity is fed into the national electricity transmission network. The plant operates continuously at base load and medium load for at least 8,000 hours per year and produces about 30% of the total heat demand of Kaunas city.

The plant uses non-recyclable municipal waste after secondary sorting and non-hazardous industrial waste with energy value to produce energy. Natural gas is used for start-up, shut-down and emergency situations.

### Major customers

The main customers of Kauno KJ by source of income are as follows:

- waste management - regional waste management centres and other waste managers;
- sale of electricity - electricity is sold to Ignitis UAB and on the Nord Pool AS exchange;
- sale of heat - at auctions organised by BALTPOOL in the centralised heat supply (CHS) system of Kaunas city. The operator of Kaunas city CHS system whose Kauno energija.

# 2.2 Business environment

The Company carries out commercial activities generating income from waste management, heat and electricity. The Company's main production costs consist of production raw materials (i. e. water and chemical substances), slag and ash treatment costs and the cost of purchasing CO2 emission allowances.

### Waste management business environment

The Company can treat up to 255 thousand tonnes of municipal and non-hazardous industrial waste (with a lower heating value of ~10-12 MJ/kg). The main fuel is municipal waste supplied from Kaunas mechanical biological treatment (MBT) facilities and MBTs in the surrounding counties (Alytus, Marijampolė and others). Kauno KJ participates in public tenders for municipal waste management services organised by regional waste management centres, where it competes for the price and quantity of municipal waste to be managed. For the non-hazardous industrial waste management service, Kauno KJ organises public tenders, where waste managers offer quantities of non-hazardous industrial waste at an agreed price.

### Heat and electricity trading business environment

Kauno Kogeneracinė Jėgainė UAB is connected to the centralised heat system (CHS) of Kaunas city, where the only heat supplier AB Kauno energija (KE) operates. Every month, the Company participates in the heat auction organised by the operator of the energy resources exchange BALTPOOL, where it submits a price and volume offer for the first month (after the current month). CHS of Kaunas city operates 10 energy production companies, most of them (8) are independent heat producers (IHPs).

Kauno Kogeneracinė Jėgainė UAB sells most of its electricity through bilateral electricity trading contracts, while the rest of the electricity is traded on Europe‘s largest electricity trading exchange Nord Pool.

# 2.3 Strategy

### Main purpose and integrated strategy

Kauno Kogeneracinė Jėgainė UAB is an important part of the integrated business model and strategy of Ignitis grupė. Ignitis grupė is a renewables-focused integrated utility and the largest energy group in the Baltic States.

**Our main purpose is to create a 100% green and secure energy ecosystem for current and future generations.** We are strengthening our contribution to Europe's decarbonisation and energy security in our region, accelerating the transition to green energy in the Baltic States, and building an exclusively green energy system.

1. **Green** (growing green and flexible generation capacities)
2. **Flexible** (creating a flexible system that can operate on 100% green energy in the short, medium, and long term)
3. **Integrated** (utilising the integrated business model to enable green and flexible generation build-out)
4. **Sustainable** (maximising sustainable value)

We plan to deliver 4–5 GW of installed green and flexible capacities by 2030 and to reach net zero emissions by 2040–2050 by developing a portfolio of green generation with the focus on offshore wind, onshore hybrid, P2X & storage technologies while leveraging our integrated business model.

### Integrated business model

**Green Generation**

**Strategic focus**

Delivering 4–5 GW of installed green and flexible capacities by 2030

**Networks**

**Strategic focus**

Expanding a resilient and efficient network that enables electrification

**Customers & Solutions**

**Strategic focus**

Utilising and further expanding customer portfolio to enable Green Generation build-out

**Reserve capacities**

**Strategic focus**

Contributing to the security of the energy system

Kauno Kogeneracinė Jėgainė UAB is part of Ignitis grupė and part of an integrated business model and strategy. We are guided by shared values and contribute to our common goal of creating a 100% green and secure energy ecosystem for present and future generations, through integrated strategic priorities and operational objectives.

### Sustainability and ESG focus

As part of our strategy, we focus on reducing greenhouse gas emissions based on science-based targets, promote safety at work with a focus on TRIR (Total Recordable Incident Rate) and zero fatalities, care for the employee experience through the initiatives related to well-being, education and growth, fair pay, diversity and inclusion, encourage diversity at the top, and create sustainable value through sustainable investments and returns.

### Our values

We are a team of diverse and energetic people united by a common purpose.

RESPONSIBILITY IMPROVEMENT PARTNERSHIP OPENNESS

## Strategic focus, targets and key performance indicators

Kauno Kogeneracinė Jėgainė UAB is part of Ignitis grupė and part of an integrated business model and strategy. We are guided by shared values and contribute to our common goal of creating a 100% green and secure energy ecosystem for present and future generations, through integrated strategic priorities and operational objectives.

## The Company's strategic directions and indicators

| Company's strategic directions | Specification of strategic directions | Strategic indicators |
|---|---|---|
| **Green production** | We reliably use the latest technologies to convert waste into energy, ensuring the highest environmental standards. Operations of Kauno KJ are based on sustainable principles, and the value created for shareholders is delivered through a targeted level of profit margins. Efficient and uninterrupted power plant operation. | Power plant availability factor, within emission limits, to energy 200-255 thousand tonnes of waste per month |
| **Sustainability** | Implementation of the Sustainable Development Goals - Environment, Social Responsibility and Good Governance Practices:<br>• affordable and clean energy (ESG 7);<br>• decent work and economic growth (ESG 8);<br>• industry, innovation and infrastructure (ESG 9);<br>• responsible consumption and production (ESG 12);<br>• mitigating the impact of climate change (ESG 13).<br>Aiming for CO2 neutrality by 2050. | Greenhouse gas emissions, CO2 thousand tonnes - change according to plan<br>Fatal accidents 0;<br>TRIR |
| **People and culture** | People and culture: engaged people, flexible teams, learning everywhere, all the time and fast. | eNPS,%<br>Stable and positive growth |
| **Attention financial discipline** | Return targets, dividends, stable return on capital. | Adjusted EBITDA; OPEX. |

The 2024 targets and the 2023 results linked to the CEO's variable remuneration are disclosed in section "4.4 People and remuneration".

## Main projects and investments

The main investments were made during the construction of the plant, i.e. until the end of 2020. As the Company operates in process mode, the need for investment decreases. The main investments in 2023 are for the improvement and modernisation of the plant. In 2024, it is planned to carry out upgrades to the plant's existing systems and to purchase additional equipment to enable safer (for environment and employees) operation of the plant.

# 3. Results

# 3.1 Annual results

## Revenue

In 2023, revenues decreased by 9.8%, compared to 2022, reaching EUR 53.6 million. Almost all of the Company's revenues are related to contractual customers and sales of recovered metal are classified as other revenues.

### Revenue by type of activity, million EUR

| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| Revenue from contracts with customers | 53.0 | 58.8 | *(5.8)* | *(9.8)%* |
| Other | 0.5 | 0.6 | *0.0* | *(7.8)%* |
| **Revenue** | **53.6** | **59.4** | ***(5.8)*** | ***(9.8)%*** |

The customer contract revenue group consists of the Company's three main revenue streams - electricity and heat sales, and waste processing revenues. Other income comes from sales of metal recovered from waste.

### Revenue by countries, million EUR

| | 2023 | 2022 | Δ | n/a |
|---|---|---|---|---|
| Lithuania | 53.6 | 59.4 | *(5.8)* | *(9.8)%* |
| Other[1] | 0.0 | 0.0 | *0.0* | *n/a* |
| **Revenue** | **53.6** | **59.4** | ***(5.8)*** | ***(9.8)%*** |

[1] *Other – Latvia, Estonia, Poland and Finland.*

On the basis of the results of heat auctions organised by BALTPOOL and the quantities of actually transferred heat, Kauno KJ sells electricity on the Nord Pool energy exchange, and heat is sold to AB Kauno energija - the operator of the CHS system of Kaunas city. The waste management fee is received only from waste handlers operating in Lithuania. All the revenue generated is earned in Lithuania.

### Revenue by type, million EUR

| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| Revenue from electricity | 29.9 | 36.5 | *(6.6)* | *(8.1)%* |
| Revenue from thermal energy | 12.4 | 12.3 | *0.1* | *0.8%* |
| Revenue from waste management | 10.7 | 10.0 | *0.7* | *7.4%* |
| Other | 0.5 | 0.6 | *0.0* | *(7.8)%* |
| **Revenue** | **53.6** | **59.4** | ***(5.8)*** | ***(9.8)%*** |

The decrease in revenue was affected by electricity sales, which fell by 18.1% to EUR 29.9 million. The fall in the exchange price of electricity and the half-year price cap (EUR 180/MWh) were the main factors behind the decrease in sales revenue. Thermal energy revenues grew by 0.8% to EUR 12.4 million. High thermal prices at the beginning of the year allowed maintaining sales at the 2022 level. Waste management revenues grew by 7.4% to EUR 10.7 million due to the higher volume of waste managed. Other revenues decreased by 7.8% to EUR 0.5 million. Other revenue consists of sales of metal recovered. Despite similar amounts recovered, metal sales declined due to the falling market price.

## Expenses

The Company's expenses in 2023 decreased by 19.5% to EUR 27.2 million. In 2022, expenses were strongly driven by the cost of derivatives related to electricity price fixing, which amounted to EUR 7.6 million. In 2023, no electricity price swaps were used, resulting in a 59% decrease in **other costs** to EUR 4.1 million.

Costs were also optimised by the free share of emission allowances, which reduced these costs by 28.6% and allowed the use of EUR 6.5 million in **emission allowances**.

Electricity and heat production costs increased due to the high cost of plant operation and the cost of buying back electricity. Under the direct sales contract, the company is obliged to sell electricity continuously throughout the year, so that during the maintenance of the plant, when no electricity is produced, the shortfall is repurchased at exchange prices. The cost of buying back the electricity, together with the high cost of the chemicals used to maintain the plant, increased the **cost of electricity and heat production** by 23,3 % to EUR 5,3 million.

**Finance expenses increased by 21.4% to EUR 3.4 million.** The interest rate hedge transaction of the power plant, signed in mid-2022, increased finance expenses of Kauno KJ, but protected it from even higher ones related to the increase in EURIBOR.

**Payroll costs** increased by 18.8% and amounted to EUR 1.9 million. Salary increases were driven by additional positions and rising remuneration ranges in order to remain competitive on the labour market.

### Expenses, EUR million

| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| Costs of utilised emission allowances | 6.5 | 9.1 | *(2.6)* | *(28.6)%* |
| Depreciation and amortisation | 6.0 | 6.0 | *0* | *0.0%* |
| Electricity and heat production | 5.3 | 4.3 | *1* | *23.3%* |
| Salaries and related costs | 1.9 | 1.6 | *0.3* | *18.8%* |
| Other expenses | 4.1 | 10.0 | *(5.9)* | *(59.0)%* |
| Financial expenses | 3.4 | 2.8 | *0.6* | *21.4%* |
| **Total:** | **27.2** | **33.8** | ***(6.6)*** | ***(19.5)%*** |

## EBITDA

The Company's cost control allowed it to maintain EBITDA growth of 4% and to achieve a result of EUR 35.8 million, even with the company's declining underlying revenues.

## Net profit

The net profit in 2023 amounts to EUR 25.4 million (5.2% less than in 2022). Despite the increase in EBITDA, net profit is lower due to the increase in deferred income tax expense related to the change in the net value of derivatives.

## Investments

In 2023, investments amounted to EUR 0.6 million (2022 - EUR 0.2 million). Not all the planned investments have been implemented and some have been carried over to the next year. The additional investments are aimed at improving and optimising the plant's equipment in order to maintain the high reliability of the equipment and to ensure the safety of the workers at the plant.

## Balance sheet

### Assets

The Company's assets decreased by 9.5% to EUR 179.1 million. The assets were reduced by depreciation and amortisation charges and the change in the unrealised value of the IRS transaction. The decrease in current assets was due to lower cash and inventory balances than in 2022 (dividends paid for 2021-2022).

### Equity

The equity decreased by 10.9% to EUR 69.4 million. The decrease in equity was due to the dividend paid and the change in the unrealised value of the IRS transaction.

### Liabilities

During 2023, liabilities decreased by 8.6% to EUR 109.7 million. The decrease in liabilities is driven by annual credit repayments.

Balance sheet, EUR million

| | 31/12/2023 | 31/12/2022 | Δ | Δ,% |
|---|---|---|---|---|
| Non-current assets | 129.7 | 141.5 | *(11.8)* | *(8.3)%* |
| Current assets | 49.4 | 56.5 | *(7.1)* | *(12.5)%* |
| **TOTAL ASSETS** | 179.1 | 198.0 | *(18.9)* | *(9.5)%* |
| Equity | 69.4 | 77.9 | *(8.5)* | *(10.9)%* |
| Total Liabilities | 109.7 | 120.1 | *(10.4)* | *(8.6)%* |
| Non-current liabilities | 93.5 | 100.9 | *(7.3)* | *(7.3)%* |
| Current liabilities | 16.2 | 19.2 | *(3.0)* | *(15.8)%* |
| **TOTAL EQUITY AND LIABILITIES** | 179.1 | 198.0 | *(18.9)* | *(9.5)%* |
| *Turnover of assets APM* | 0.3 | 0.3 | *0.0* | *(12.8)%* |
| *ROA APM* | 13.5% | 14.7% | *n/a* | *(1.2 p. p.)* |
| *Current ratio APM* | 3.1 | 2.9 | *0.1* | *3.9%* |
| *Working capital / Revenues (LTM) APM* | 38.2% | 37.9% | *n/a* | *0.3 p. p.* |

## Financing

### Net debt

Net debt in 2023 was 3.4% and amounted to EUR 73.8 million. Net debt was reduced by the repayment of the plant's credit facility, but the higher net balance at the end of the year did not reduce net debt to the same extent as the reduction in financial liabilities.

### Net debt, EUR million

| | 31/12/2023 | 31/12/2022 | Δ | Δ,% |
|---|---|---|---|---|
| **Total non-current financial liabilities** | **93.5** | **100.9** | ***(7.3)*** | ***(7.3)%*** |
| Long-term loans | 93.5 | 100.8 | *(7.3)* | *(7.3)%* |
| Bonds | - | - | *0.0* | *n/a* |
| Interest payable (including accrued) | - | - | *0.0* | *n/a* |
| Lease liabilities (IFRS 16) | 0.0 | 0.0 | *0.0* | *42.3%* |
| **Total current financial liabilities** | **7.3** | **7.3** | ***0.0*** | ***0.0%*** |
| Current part of long-term loans | 7.3 | 7.3 | *0.0* | *0.0%* |
| Short-term loans | - | - | *0.0* | *n/a* |
| Interest payable (including accrued) | - | - | *0.0* | *n/a* |
| Lease liabilities (IFRS 16) | 0.0 | 0.0 | *0.0* | *66.7%* |
| **Financial debts** APM | **100.9** | **108.2** | ***(7.3)*** | ***(6.8)%*** |
| **Cash, cash equivalents and funds in escrow account** | **27.1** | **31.8** | ***(4.7)*** | ***(14.9)%*** |
| **Net debt** APM | **73.8** | **76.4** | **(2.6)** | **(3.4)%** |
| *Net debt / EBITDA LTM* APM | 2.1 | 2.2 | *(0.2)* | *(7.0)%* |
| *FFO (LTM) / Net debt* APM | 44.7% | 41.9% | *n/a* | *2.7 p. p.* |
| *Gross debt / Equity* APM | 145.4% | 138.8% | *0.1* | *4.7%* |
| *Equity ratio* APM | 0.4 | 0.4 | *0.0* | *(1.8)%* |

## Dividends

The rules for distributing the Company's profits are set out in the shareholders' agreement. The shareholders of the Company have agreed that 100% of the profits shall be allocated to dividends if the covenants in the agreement are met. Shareholders also have the right to allocate a smaller share of distributable profits to dividends and to allocate part of the profits to support. In 2024, the Company plans to pay dividends out of the profits earned in 2023, after the compulsory reserves have been established.

### Dividends for the year, EUR million

| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| Amount of paid dividends for the period | **24.1** | **29.2** | ***(5.3)*** | ***(17.3%)*** |

## Key performance indicators

| | | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|---|
| Amount of waste handled | thousand t | 222.5 | 209.5 | *13.0* | *6.2%* |
| Sale of produced thermal energy | GWh | 392.0 | 415.9 | *(23.9)* | *(57)%* |
| Sale of produced electricity | GWh | 162.1 | 161.1 | *1.0* | *0.6%* |
| Fossil $CO_2$ emissions | thousand t | 117.3 | 121.8 | *(4.5)* | *(3.7)%* |

The Integrated Pollution Prevention and Control permit renewed in 2023 allows the Company to manage up to 255,000 tonnes of waste per year. The new permit enabled the Company not to limit the amount of waste received from the start of the year; therefore, more waste was incinerated during the year.

Due to the new procedure for purchasing heat in Kaunas city, the Company cannot sell the full amount of thermal energy produced during the heating season at high ambient temperatures, so the total amount of thermal energy produced and sold in 2023 has decreased.

Sales of electricity generated in 2023 increased due to the smooth operation of the plant throughout the year, resulting in the largest sales volumes of the produced electricity in the history of Kauno KJ.

# 3.2 Three-year annual summary

## Key financial indicators

| | | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| Revenue | EUR million | 53.6 | 59.4 | 29.1 |
| EBITDA APM | EUR million | 35.8 | 34.4 | 13.1 |
| EBIT APM | EUR million | 29.8 | 28.4 | 7.2 |
| Net profit | EUR million | 25.4 | 26.8 | 7.2 |
| Investments APM | EUR million | 0.6 | 0.2 | 1.5 |
| FFO APM | EUR million | 30.9 | 32.5 | 12.4 |
| FCF APM | EUR million | 34.5 | 20.0 | 0.1 |
| ROA APM | % | 34.5% | 43.9% | 17.8% |
| ROCE APM | % | 20.0% | 19.3% | 5.2% |
| ROA APM | % | 13.5% | 14.7% | 4.4% |
| | | 31/12/2023 | 31/12/2022 | 31/12/2021 |
| Total assets | EUR million | 179.1 | 198.0 | 166.4 |
| Equity | EUR million | 69.4 | 77.9 | 44.2 |
| Net debt APM | EUR million | 73.8 | 76.4 | 96.2 |
| Net working capital APM | EUR million | 20.5 | 22.5 | 10.6 |
| Net debt / EBITDA APM | times | 2.1 | 2.2 | 7.3 |
| FFO / Net debt APM | % | 44.7% | 41.9% | 12.9% |
| Current ratio APM | times | 3.1 | 2.9 | 0.2 |
| Asset turnover APM | times | 0.3 | 0.3 | 0.2 |

## Key performance measures

| | | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| Amount of waste handled | thousand t | 222.5 | 209.5 | 199.8 |
| Sale of produced thermal energy | GWh | 392.0 | 415.9 | 427.0 |
| Sale of produced electricity | GWh | 162.1 | 161.1 | 161.1 |
| Fossil CO2 emissions | thousand t | 117.3 | 121.8 | 112.1 |

# 4. Governance report

# 4.1 THE GOVERNANCE FRAMEWORK

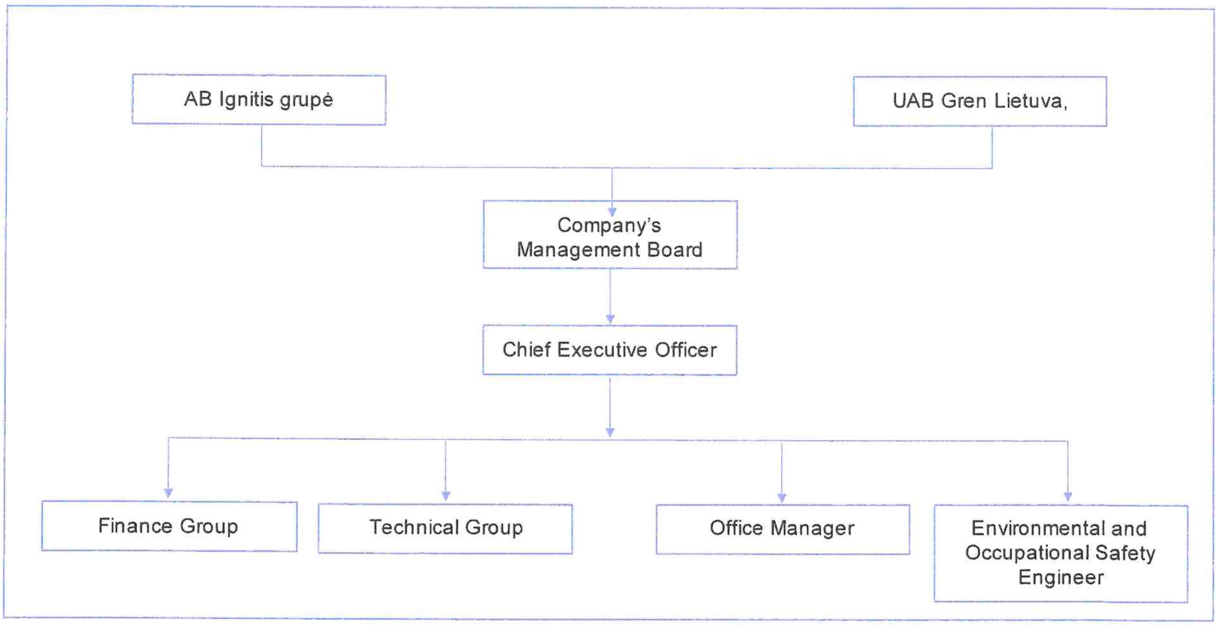
## THE COMPANY'S GOVERNANCE FRAMEWORK

The Company follows good governance practices as set out in the Good Governance Recommendations issued by the Organisation for Economic Co-operation and Development (OECD), the United Nations and Nasdaq Vilnius Recommendations, and other internationally recognised standards and recommendations for good governance.

In accordance with the Articles of Association of Kauno KJ, the Company's governing bodies as at the date of this report are:

- General Meeting of Shareholders,
- A collegial governing body – Management Board, a single-person governing body – Chief Executive Officer (Managing Director).

Organisation structure of the Company (as at 31 December 2023).




## Shareholders, their rights and functions

General Meeting of Shareholders is the highest governing body of the Company.

The competence of the General Meeting of Shareholders, the procedure for convening and taking decision is determined by the laws, other legal acts and the Company's Articles of Association. An additional competence of the Company's General Meeting of Shareholders is to decide whether to approve or disapprove the Management Board's decisions:

- on the conclusion, amendment and/or termination of the Company's long-term, i.e. at least 12-month, contracts for the transmission of electricity and/or thermal energy and/or waste incineration services;
- on the issue of the Company's bonds other than convertible bonds;
- on the Company becoming a founder or participant of other legal entities, as well as the conclusion, modification and/or termination of transactions for the acquisition, transfer or encumbrance of part or all of the Company's interest in other legal entities, or the acquisition, transfer or encumbrance of the Company's interest in other legal entities;
- on the establishment and liquidation of branches and representative offices of the Company;

- on the conclusion, amendment and/or termination of contracts for the investment, transfer, lease, pledge, mortgage or hypothecation of the Company's non-current assets with a carrying amount exceeding EUR 2,500,000;
- on the conclusion, modification and/or termination of surety or guarantee agreements for the performance of obligations of other persons in excess of EUR 2,500,000;
- on the conclusion, modification and/or termination of contracts for the acquisition of non-current assets with a price exceeding EUR 2,500,000;
- on the transfer the Company's business (assets) to a third party (under a lease, concession, management and operating or other similar agreement);
- on the approval or amendment of the Company's business plan for the coming calendar year;
- on the adoption of the Company's operational budget for the coming calendar year;
- on approval or amendment of the Company's lending policy;
- on the disposal of all or a substantial part of the Company's assets, being at least 10% of the Company's assets (at the book value);
- on the approval and amendment of the Company's investment plan;
- on third-party investment in the Company's capital;
- on the adoption of the Company's anti-corruption guidelines;
- the Company to engage in activities other than those set out in Clause 8 of the Articles of Association of the Company.

During the period under review, the Company's shareholders had equal rights (property and non-property) under the laws, regulations, and the Company's Articles of Association. None of the Company's shareholders had any special rights of control and the rights of the shareholders are uniform.

During the reporting period, the Company's governing bodies created appropriate conditions for exercise of the rights of the Company's shareholders.

The shareholders of the Company are:

- AB Ignitis grupė, company code 301844044, registered office at Laisvės Ave. 10, Vilnius.
- UAB Gren Lietuva, company code 111679436, registered office at J. Jasinskio St. 16B, LT-03163 Vilnius (until 4 July 2021, the name of the company was UAB FORTUM HEAT Lietuva).

In 2023, the Company's authorised capital amounted to EUR 40,000,000. It is divided into 40,000,000 ordinary registered uncertificated shares with a nominal value of EUR 1. All shares are fully paid in.

| Shareholder of the Company | Number of shares | Nominal value of share, EUR | Share capital | Ownership, % |
|---|---|---|---|---|
| AB Ignitis grupė | 20,400,000 units | EUR 1 | EUR 20,400,000 | 51 |
| UAB Gren Lietuva, | 19,600,000 units | EUR 1 | EUR 19,600,000 | 49 |

The Company's shares are not subject to any restrictions on the transfer of securities other than those provided for by law. The Company has not issued any convertible securities. The Company has not acquired any of its own shares. The Company has not acquired or disposed of any of its own shares during the reporting period.

# 4.2 Management Board

## OVERVIEW

The Board is the Company's collegial management body. The competence of the Board, the procedure for making decisions, electing and recalling members shall be determined by laws, other legal acts and the Articles of Association, and by the Rules of Procedure of the Board.

The main roles and responsibilities of the Management Board of the Company, within the framework of which the annual activities of the Management Board are planned, include the following competence to adopt decisions on:

- the Company's management structure and staff positions, and the maximum number of the Company's staff posts;
- the pricing principles applied on an ongoing basis for the Company's business-related energy services and commodities, and the pricing ranges for non-business-related services;
- conclusion, modification and/or termination of contracts for the supply of fuel needed to run the business;
- conclusion, modification and/or cancellation of contracts for the acquisition of non-current assets for a price exceeding EUR 2,500,000;
- conclusion, amendment and/or termination of other major contracts necessary for the implementation of business projects where the value of the contract in question exceeds EUR 300,000;
- conclusion, amendment and/or termination of contracts for the investment, transfer, lease, pledge, mortgage or hypothecation of the Company's non-current assets with a carrying amount exceeding EUR 2,500,000;
- conclusion, amendment and/or termination of the Company's long-term contracts for the transmission of electricity and/or thermal energy and/or waste incineration services;
- approval of the Company's annual report and interim report;
- Company becoming a founder or participant of other legal entities;
- establishment and liquidation of branches and representative offices of the Company;
- transfer of an undertaking (asset complex) belonging to the Company to a third party;
- approval or amendment of the Company's business plan for the coming calendar year, approval of the operating budget;
- disposal of all or substantially all of the assets of the Company;
- adoption of other decisions provided for in the Company's Articles of Association.
- certain decisions of the Management Board may be implemented only upon approval of the General Meeting of Shareholders for the relevant decision of the Management Board.
- The Board elects and recalls the Company's Chief Executive Officer (Managing Director), determines his/her remuneration and other terms and conditions of his/her employment, approves his/her job descriptions, and gives him/her incentives and penalties.

The term of office of the Management Board as at the date of publication of this report ends on 30 April 2024.

## Information on selection criteria for the members of the Management Board

The Management Board consists of three members elected by the General Meeting of Shareholders. Each member is elected for a term of four years. One member of the Management Board shall be elected from the candidates proposed (delegated) by the shareholder AB Ignitis grupė, one member of the Board shall be elected from the candidates proposed (delegated) by the shareholder UAB Gren Lietuva, and one member of the Board shall be elected from the independent members of the Board.

The position of a member of the Management Board shall not be held by a member of the management body or administration of another legal entity operating in the field of energy, who, if elected as a member of the Management Board, would fail to comply with the requirements for the separation of activities in the energy sector laid down in the legislation of the Republic of Lithuania and in the European Third Energy Package, or by a person who, according to the legislation, is not entitled to hold such position. The members of the Management Board of the Company must meet the general and specific criteria laid down by the legislation.

## Priorities for the reporting period and their implementation

Overall 27 meetings of the Management Board were held in 2023. The table below provides an overview of the attendance at meetings.

### Overview of attendance of the Management Board members at Board meetings

| Name, surname | |
|---|---|
| Andrius Vilkauskas (Chairman of the Board) | 27 / 27* |
| Vitalijus Žuta | 27 / 27* |
| Mantas Mikalajūnas | 27 / 27* |

*The figures show the number of meetings attended by members out of the total number of meetings organised in 2023.

The Management Board's priorities in 2023 covered the following main areas:

- approval of the Company's business planning documents;
- approval of the planned contracts to be concluded by the Company, and their amendments, approval of material terms and conditions of such contracts;
- approval of the Company's annual management report;
- approval of the Company's set of annual financial statements and draft statement on appropriation of profit (loss);
- approval of the pricing principles and ranges for the Company's energy services and business-related goods;
- convening the Company's general meetings of shareholders.

Further information on the members of the Company's Management Board is provided in the table below.

### Members of the Management Board

| | Description | Experience | Education | Other currently held positions |
|---|---|---|---|---|
|  | **Andrius Vilkauskas** Chairman, Term of office: from 30-06-2020 to 29-04-2024 | 2001 - 2012: worked at AB Giraitės Ginkluotės Gamykla (hereinafter referred to as "GGG"), where he coordinated the construction of the testing laboratory and the installation of the equipment, prepared and trained the staff of the testing laboratory, and coordinated the activities of the assessment of the compliance with the NATO Qualification Requirements for the products manufactured by the GGG, and the submission of the products to the Qualification Tests, and the preparation of the technical documentation. In 2005, he received his PhD degree in the field of technological sciences for his mechanical engineering thesis "Modelling and study of ballistic processes of small calibre bullets". In the | Graduated from Kaunas University of Technology (KUT).<br>1997 - Bachelor's degree in Mechanical Engineering at KUT;<br>1998- Bachelor's degree in Production Management at KUT;<br>1999 - Master's degree in Mechanical Engineering at KUT;<br>2005 - Doctor of Science in the field of technological sciences for Mechanical Engineering. | Main place of work: Kaunas University of Technology (K. Donelaičio St. 73, Kaunas, company code 111950581) Dean of the Faculty of Mechanical Engineering and Design.<br><br>Senior Researcher, Institute of Mechatronics, Kaunas University of Technology<br><br>Other managerial positions held:<br><br>Vice President and member of the Presidium of the Lithuanian Engineering Industry Association LINPRA (Savanorių Ave. 176 C - 803, Vilnius, company code |

| | | | | |
|---|---|---|---|---|
| | | same year, GGG's 5.56x45 (GP21) and 7.62x51 (GP11) products were tested at the NATO European Regional Test Centre (Pendine, United Kingdom) and were awarded NATO Design numbers and officially certified as NATO compliant products.<br>From 2009 to 2011, he coordinated GGG's new product development activities, developing products for the civilian sports and hunting market. These products were considered to be among the best in their class, appreciated by Lithuanian and foreign military and force structure representatives.<br>Since 2012, he has been working in various managerial positions at KTU. He has initiated and implemented a number of organisational change projects for the development of the organisation. He has served as Director of the Research Centre and Dean of the Faculty of Mechanics and Mechatronics. Currently holds the position of the Dean of the Faculty of Mechanical Engineering and Design.<br>Since 2016, he has been an independent member of the Board of Kauno Kogeneracinė Jėgainė UAB. | | 121895717).<br><br>Founder and shareholder of Pažangūs pozicionavimo sprendimai UAB (Baltijos St. 53-2, Kaunas, company code 303339813).<br><br>Member of the Senate of Kaunas University of Technology.<br><br>Member of the Council of BĮ KTU inžinerijos licėjus (S.Lozoraičio St. 13, LT-50137 Kaunas, company code 190136353). |
|  | **Mantas Mikalajūnas**<br>Member<br>Term of office: from 01-04-2022 to 29-04-2024 | He has worked in the energy sector for almost 20 years. He started his career at Lietuvos Dujos, then spent a year and a half in an energy concern in Germany. After returning to Lithuania, he worked in strategic positions at Lietuvos Dujos, where he was a member of the management team responsible for relations with investors, state authorities and the regulator, and for the integration of Lietuvos Dujos into Lietuvos Energija (now Ignitis grupė). Before moving to his current position as Head of Business Development at Ignitis grupė, Mantas was the General Director of Lietuvos dujų tiekimas (later Lietuvos energijos tiekimas). | He graduated in Communication and Information Management from Vilnius University with a Bachelor's degree and later obtained a Master's degree in Business Administration and Management. | Main place of work: Head of Regulated Activities of the Group, AB Ignitis grupė.<br><br>Member of the Board at the following companies:<br>AB Ignitis grupė (Laisvės pr. 10, Vilnius company code 301844044)<br><br>UAB Vilniaus kogeneracinė jėgainė (Laisvės pr. 10, Vilnius company code 303782367)<br>Member of the Supervisory Council at:<br><br>UAB Ignitis (Laisvės pr. 10, Vilnius company code 303383884) |

| | | | | |
|---|---|---|---|---|
|  | **Vitalijus Žuta**<br>Member<br>Term of office: from 30-04-2020 to 29-04-2024 | He has many years of experience in the energy sector and has completed a number of major projects. While working at Tena, a branch of AB Lietuvos Energija, he was responsible for the material and technical supply of the branches of Lietuvos Energija, the implementation of loans from the European Bank for Reconstruction and Development and the World Bank, and the implementation of projects. For the first time in the Baltic region, he implemented a waste-to-fuel cogeneration power plant project in Klaipėda.<br>He worked for a long time at Vilnius CHP, and since 2000 as Technical Director at Finnish Energy. From 2005 to 2021, he managed the Finnish energy company Fortum's operations in Lithuania. From 2021, he is the head of GREN Holding's activities in Lithuania. | Graduated in Mechanical Engineering from Kaunas University of Technology. | General Director at UAB Gren Lietuva (J. Jasinskio St. 16B, Vilnius, company code 111679436)<br><br>Chairman of the Board at the following companies:<br><br>UAB Gren Lietuva (J. Jasinskio St. 16B, Vilnius, company code 111679436)<br><br>UAB Gren Švenčionys (Vilniaus St. 16A, Švenčionys, company code 178860251)<br><br>UAB Gren Joniškis (Bažnyčios St. 4, Joniškis, company code 157687636)<br><br>UAB Gren Klaipėda (Kretainio St. 3, Klaipėda, company code 301276531) |

## Chief Executive Officer

### OVERVIEW

The Chief Executive Officer is a single-person governing body of the Company. The competence of the Chief Executive Officer, election and recalling procedures are establish by laws, other legal acts and the Articles of Association of the Company. The Chief Executive Officer of the Company shall organise the Company's activities, direct the Company and its activities, act on behalf of the Company and conclude transactions on his/her own behalf, except as provided for in the Company's Articles of Association and the legal acts.

The Company's Chief Executive Officer is elected and dismissed by the Company's Management Board. The competence, election and dismissal procedures, and number of terms of office of the Company's Chief Executive Officer shall be determined by the Law on Companies of the Republic of Lithuania, the implementing legal acts of this Law, and the Articles of Association of the Company. It should be noted that the CEO of the Company, as a subsidiary of a State-owned company, is also subject to the special peculiarities of recruitment provided for in the Law on Companies, according to which the CEO's term of office is limited to a period of five years. The Law on Companies provides that the same person may be elected as the CEO for not more than two consecutive terms.

### Profile

| | Description | Experience | Education | Other currently held positions |
|---|---|---|---|---|
|  | **Ramūnas Paškauskas**<br>**CEO of the Company**<br>Term of office: from 01-01-2023 to 01-01-2028 | He has been working in the energy sector since 2001, including 14 years in senior management positions. Since 2016, he has been working as the CEO of UAB Kauno kogeneracinė jėgainė. Participated in various projects related to the construction and operation of cogeneration power plants. | Graduated in Electrical Engineering from Kaunas University of Technology.<br><br>Master's degree in Management and Business Administration from ISM University of Management and Economics. | - |

# 4.3 People and Remuneration

## People and culture

### Overview

Ignitis grupė, of which the Company is a part, is one of the largest employers in Lithuania. Maintaining good employee relations and contributing to employee engagement and well-being is a huge responsibility, a challenge and an opportunity at the same time.

Ignitis grupė develops and strives to maintain an organisational culture that fosters a long-term partnership between employer and employee, based on values and a Code of Ethics, mutual understanding and the opportunity to work together to create an energy smart future.

The Group's remuneration policy aims to attract and retain competent, fast-learning, technologically advanced, globally minded and creative employees. The policy includes remuneration elements that support the strategy and sustainability of Ignitis grupė. The Group is rapidly moving towards sustainability, including the management of human resources. Accordingly, the transformation of the energy sector requires new skills and competences and continuous cultural development. In 2023, the Remuneration Policy was further developed in order to maintain the principles of transparency and clarity.

### Employees, diversity, and representation

As at 31 December 2023, the Company had 41 employees (41 employees at 31 December 2022). In the Company, as in the whole Ignitis grupė, the nature of the job opportunities is not dependent on the gender of the employee. The Company ensures equality of opportunity and diversity among its employees and does not tolerate direct or indirect discrimination in all areas of their activities. As at 31 December 2023, the Company's workforce was composed of 85% of men and 15% of women. The proportion of male specialists was 81% and 19% of female specialists. Distribution of middle-level managers: 100% male, 0% female. Distribution of top-level managers: 50% male, 50% female.

The Company grants job opportunities for people of all ages. As at 31 December 2023, the Company had the largest number of employees in the 25-36 age group (49%), and the lowest number of employees in the 17-24 age group (2%) and 57-76 age group (2%). More than 70% of the Company's employees have higher education.

The Company promotes and maintains social dialogue with employee representatives. Employees are represented by a Labour Council, which consists of 3 employee representatives.

## Remuneration in the Company

### OVERVIEW

The remuneration structure of the Ignitis grupė is based on two key documents: Remuneration Policy and Remuneration Guidelines. The Remuneration Policy defines the key principles and essential provisions on remuneration management and structure whereas Remuneration Guidelines, which is an internal document, is a supporting document detailing the provisions of Remuneration Policy (e.g., setting and evaluation of objectives, determination and payment of short-term incentives). Both documents are integrated and apply to all companies of the Group.

### Remuneration Policy

Remuneration Policy is approved in accordance with the provisions of the Labour Code of the Republic of Lithuania, the Corporate Governance Code For Companies Listed On Nasdaq Vilnius and the Law on Companies of the Republic of Lithuania. Ignitis grupė is obliged to submit any amendments to the Remuneration Policy to the General Meeting of Shareholders for approval. Prior to this, the Remuneration and Nomination Committee of Ignitis grupė shall provide comments and suggestions on changes to the Remuneration Policy. Employee representatives of Ignitis grupė and its companies and other stakeholders are also consulted on these issues. The latest version of the Remuneration Policy is published on the website of Ignitis grupė.

The Remuneration Guidelines are approved by the management Board of the parent company. The key objective of the Remuneration Policy is to support the pathway towards achievement of targets of Ignitis grupė through 5 key principles detailed below.

Key principles of the Group's Remuneration Policy

| | |
|---|---|
| **Internal fairness** | The same salary is paid for the same or equivalent (equal value-creating) work throughout the organisation. |
| **External competitiveness** | Employees are paid a remuneration that is competitive with the labour market in the country where they work. |
| **Clarity** | It must be clear to every worker how his or her salary is determined and how his or her performance, competences and qualifications determine its level. |
| **Transparency** | In line with the principle of transparency, staff are informed of the objective criteria for determining remuneration. |
| **Equal opportunities and non-discrimination** | Decisions on remuneration must be made in accordance with the provisions of the Remuneration Policy and Equal Opportunities and Diversity policy. |

The Remuneration Policy sets out the remuneration structure, the process for reviewing and setting the fixed remuneration component (FBS), the maximum variable remuneration component, related guidelines, principles, etc. In order to remain competitive in the market and to ensure the principles of internal equity, the remuneration market surveys are carried out annually. This provides an objective assessment of local market expectations and trends.

Our Remuneration Policy aims to attract, retain and motivate employees to achieve the Group's objectives. Therefore, we try to pay the average of the market in which Ignitis grupė companies operate. Depending on the competitiveness of the environment in a given country or the strategic objectives set for an entity of the Ignitis grupė, different remuneration multipliers (higher or lower) may be applied compared to the market median. In order to ensure the principle of external competitiveness, FBS frames may be set and reviewed annually, taking into account data from an independent national remuneration survey and remuneration market trends. Salary scales are set for each level of post on the basis of the market median of remuneration.

The remuneration structure consists of fixed and variable components, the elements of which are detailed in the table below. In addition, on the following pages we provide more information on the variable components of the remuneration paid for the achievement of short-term (VRC) and long-term (LVRC) objectives.
The Remuneration Policy and other information related to human resources management is available at the website of Ignitis grupė.

### Remuneration structure of Ignitis grupė

**Remuneration structure**

| Type | Element | Applicability |
|---|---|---|
| Fixed remuneration | Fixed base salary (FBS) | All Group employees |
| Fixed remuneration | Payment for being a board member (PBM)[1] | Members of the parent company's or Group companies' collegial bodies |
| Variable remuneration | Short-term incentives (STI) | All Group employees |
| Variable remuneration | Long-term incentives (LTI) | Key Executives[2] |
| Variable remuneration | Long-term incentives (LTI) | Managers with strategic responsibilities[3] |
| Other rewards | Additional financial incentives | All Group employees except CEOs, members of the Management Board of the parent company and the executive committees of the Group companies |
| Other rewards | Expatriate's/attraction package | Employees who are hired from a foreign country |
| Other rewards | Additional benefits | All Group employees |

The entire Remuneration Policy is available on the Ignitis grupė website (link).

### Remuneration of the Company's employees

The Company's payroll fund in 2023 amounted to EUR 1.9 million, compared to EUR 1.6 million in 2022. Average monthly salary (FBS and VRC) for the period of 2022–2023 is provided in the following table.

Average monthly remuneration of the Company's employees, EUR (before taxes)

| Position category | 2023 | | 2022 | |
|---|---|---|---|---|
| | Number of employees | Average salary | Number of employees | Average salary |
| Chief Executive Officer | 1 | 9,951 | 1 | 8,907 |
| Top-level managers | 2 | 7,456 | 2 | 6,810 |
| Mid-level executives | 2 | 6,098 | 2 | 5,030 |
| Experts, specialists | 26 | 3,238 | 36 | 2,757 |
| Employees | 10 | 2,939 | - | - |
| **Total** | **41** | **3,657** | **41** | **2,952** |

### Remuneration of the Company's Management Board and CEO

In order to attract high level professionals to management positions, we aim to maintain remuneration close to the market median in the country, in which the Group operates. The remuneration structure for the Company's CEO corresponds to the remuneration structure for the rest Group employees (except for the provision of a company car). For a more detailed description of the elements of remuneration applicable to the Board and the Chief Executive Officer of the Company, please refer to the "Remuneration structure" table above.

### Remuneration of the Company's members of the Management Board in 2022, EUR (before tax)

| Name, surname (position) | FBS | VRC | CBM | Total |
|---|---|---|---|---|
| Andrius Vilkauskas (Chairman of the Board) | | | 13,065 | 13,065 |

### Remuneration of members of the Management Board of the Company in 2023, EUR (before tax)

| Name, surname (position) | FBS | VRC | CBM | Total |
|---|---|---|---|---|
| Andrius Vilkauskas (Chairman of the Board) | | | 14,786 | 14,786 |

### Remuneration of the Company's CEO in 2022, EUR (before tax)

| Name, surname | FBS | VRC | CBM | Total |
|---|---|---|---|---|
| Ramūnas Paškauskas | 92,004 | 14,514 | - | 106,518 |

### Remuneration of the Company's CEO in 2023, EUR (before tax)

| Name, surname | FBS | VRC | CBM | Total |
|---|---|---|---|---|
| Ramūnas Paškauskas | 102,329 | 17,086 | - | 119,415 |

## Goals

Variable remuneration component (VRC), depending on the employee's function, is paid quarterly, semi-annually or annually and is linked to the performance of the employee, the team and/or the company / Ignitis grupė.

### Meeting the 2023 targets

| Criteria | Weight, % | Items | Realisation |
|---|---|---|---|
| Finance | 50% | Ensured operating profit rate (adjusted EBITDA) (20%)<br>Operational costs are in line with the budget (OPEX) (15%)<br>Impact of the regulatory environment on adjusted EBITDA ratio (15%) | 100% |
| Strategic projects and key milestones | 20% | Power plant availability ensured during continuous operation (20%) | 100% |
| Sustainability targets | 30% | Ensured environmental requirements under the Integrated Pollution Prevention Control (IPPC) permit (15%)<br>Improving safety at work*:<br>Fatal accidents at work (company employees and contractors); TRIR indicator | 100% |

### Objectives for 2024

| Criteria | Weight, % | Items |
|---|---|---|
| Financial targets | 35% | Operating expenses are in line with the budget (OPEX EUR million)<br>Ensured operating profit rate (adjusted EUR million) |
| Strategic projects and key milestones | 35% | Power plant availability ensured during continuous operation<br>Ensuring environmental protection requirements within the limits of the potential exceedance of emissions to the environment set out in the IPPC permit (60 hours per year) |
| Sustainability targets | 30% | No infringements under the IPPC operating conditions are detected by the authorised public authorities (except for possible exceedance of emission limits)<br>Improving safety at work*:<br>*Fatal accidents at work (company employees and contractors) and:*<br>*TRIR company employees*<br>*TRIR contractors* |

More information on Ignitis Group's remuneration principles is available in the Annual Report of Ignitis grupė for 2023.

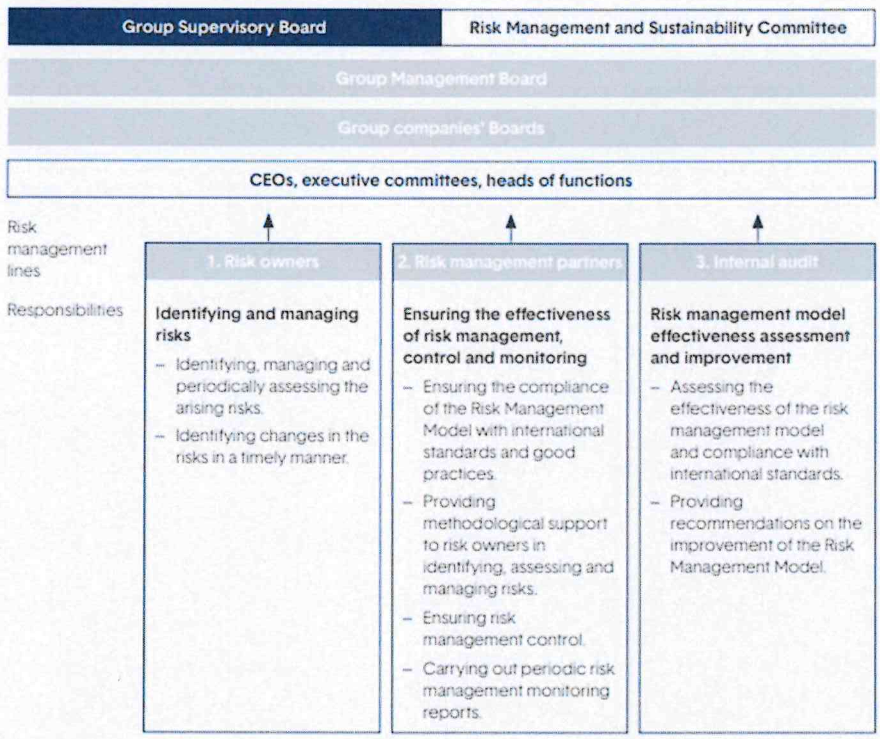
# 4.4 Risks and their management

## Risk management framework

The Company's business environment is subject to internal and external risks that affect the Company's operations and performance. In order to protect against and manage risks to an acceptable level, the Company and the Group apply uniform risk management principles reflecting good risk management practices, including the core principles of COSO (Committee of Sponsoring Organisations of the Treadway Commission) and AS/NZS ISO 31000:2018 Risk management – Principles and guidelines.

A clear division of responsibilities for risk management and control between management and supervisory bodies, business units and functions within the Company and across the Group is ensured by the Three-Lines Enterprise Risk Management Framework.

Three-lines risk management framework




To ensure that the decisions taken by the Company's management reflect all changes in its operations, the Company and the Group have a single risk management process covering all areas of activity. For effective control of risk management, quarterly monitoring of risks is carried out, and risk management measures, key risk indicators and reporting is provided to the Company's Management Board with supervisory function.

**Risk management objectives:**

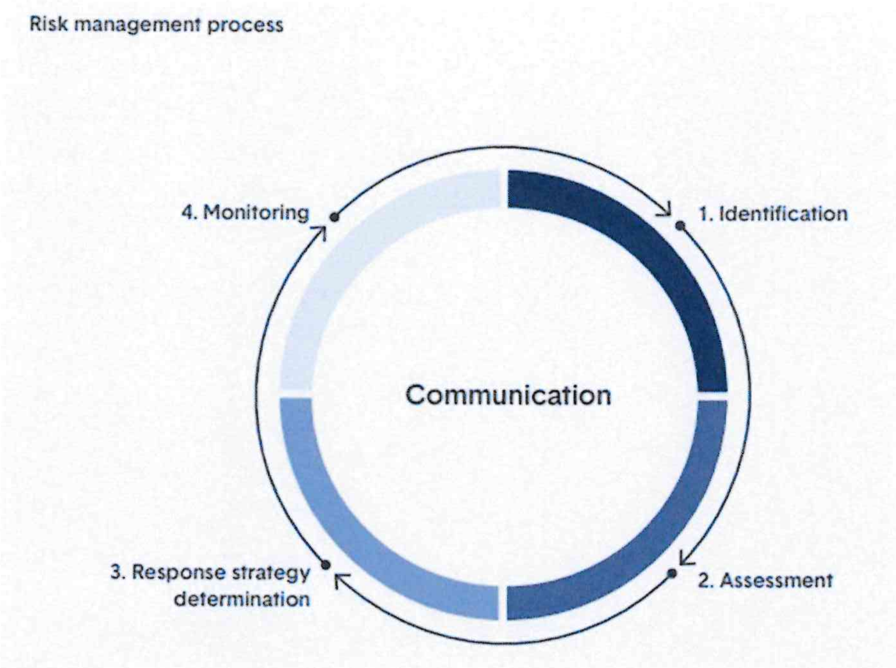
- To ensure that the Group's values of responsibility, partnership, openness and excellence are at the heart of decision-making to achieve the objectives;
- to eliminate or minimise the impact of risks on the goals for different periods;
- to protect the interests of customers, stakeholders, and the public;
- to ensure that correct information is provided to decision-makers, shareholders, and other stakeholders in a timely manner;
- to protect the Group's reputation and ensure reliability;

- to ensure the stability and sustainability of the Group's activities.

## Risk management process and key principles

In order to achieve strategic goals and respond to a dynamic business environment, the Company pays great attention to proactive risk management. Therefore, on a quarterly basis, the Company reviews risk levels, plans risk management measures as needed, refines key risk indicators, and identifies new sources of risk or new risks. The ability to proactively react to changing risks is extremely important and helps to ensure that the management receives the most relevant information to make necessary decisions in a timely manner. In addition, the overall risk management process, applied to the Company and the Group as a whole, integrates the opportunities arising from ESG (Environmental, Social and Governance) risks and uncertainties.

The Company's risk management process consists of four phases: risk identification, assessment, response strategy definition and monitoring.




**1. Identification stage.** We constantly assess a potential impact of different sources of risks such as climate change, regulation changes, geopolitical and economic situation, raw materials/services/labour market trends, cultural and social issues that affect the achievement of the Company's and the Group's goals. All of the Company's employees are responsible for timely risk identification. Based on the potential impact of risks on the Company's goals, all risks are assessed based on the periods of when they could potentially materialise and are categorised as follows:

- short-term (0–1 years), which can influence the annual goals of the Company;
- medium-term (2–4 years), which relate to the implementation of strategic goals defined in the Company's 4-year strategic plans;
- long-term (≥5), which can affect the implementation of the Company's strategy.

**2. Assessment stage.** Assessment stage is where risk levels are determined. Risk levels are defined from low to very high and are based on the ratio of probability of the risk occurrence to its potential impact. We also assign risks to a specific category, ESG type, the Group's strategic direction (which is affected) and establish key risk indicators.

We classify the risks arising from the Group's activities into 4 different types. They are described below.

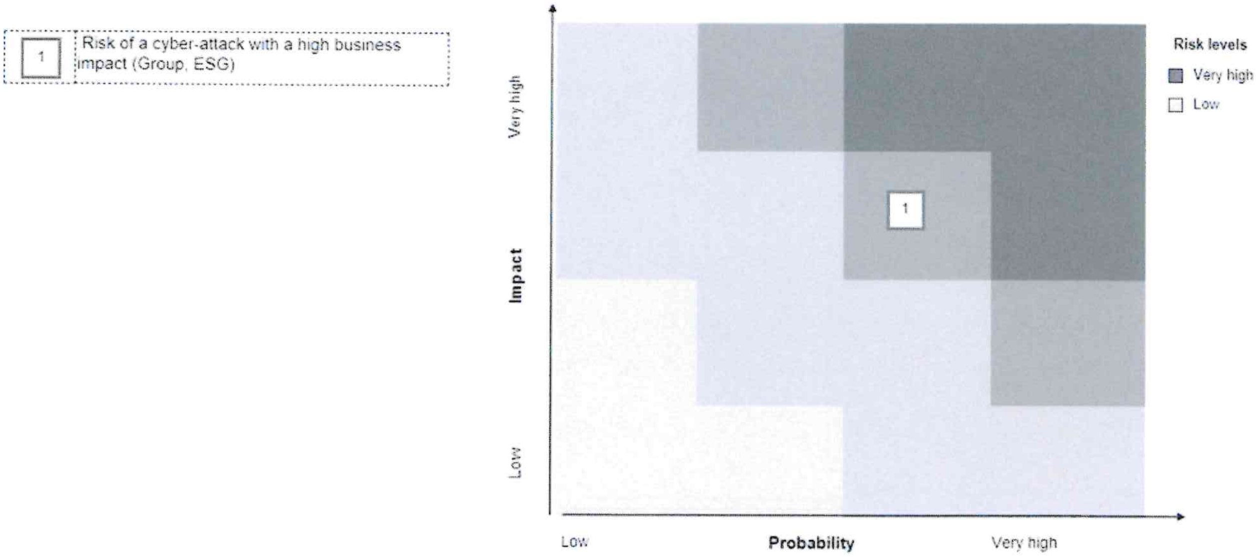
| Strategic risks | Financial risks | Operational risks | External risks |
|---|---|---|---|
| Risks that may impact the strategic objectives of the Group. They can materialise due to unfavourable or erroneous business decisions, inadequate implementation of decisions or as a result of the external factors, e.g., political, legislative changes. | Risks from financial assets and/or obligations of the Company. This category includes the risks such as the credit risk, liquidity risk, insufficient capital risk, interest rate risk, currency exchange risk, risk related to fluctuation of shares and market prices, etc. | Risks that materialise due to inadequate or poorly organised internal processes, failed or ineffective internal control procedures, employee errors and/or improper/insufficient management of IT operations, etc. | Risks that materialise due to changes in market conditions, regulatory and legislation changes, natural resources, natural disasters, etc. |

The Company also assesses whether the risks meets the criteria for ESG risks. Risks are assigned to the relevant ESG risk type based on the following criteria: "A" risks are those related to climate change, transition and other environmental risks, "S" risks are those related to social responsibility and "V" risks are those related to governance. The Company is carefully assessing the potential impacts of climate change and the associated economic and transitional changes on the Company's operations. This impact may arise from physical (extreme) weather phenomena and from the aspiration of states to switch to the Green Deal, which could cause additional requirements for energy sector: to comply with new regulations, implement new technological solutions, manage reputational risks, respond to fast growing market demand for green solutions, etc. Climate change can be a negative factor in assessing the likelihood of materialisation of various risks and/or assessing the potential impact of risks on finance, reputation, compliance, people's health and safety.

**3. Establishing strategy**. This stage involves choosing one of the risk management strategies (accept, reduce, avoid or transfer). The Company accepts only those risks that are consistent with the Company's core objectives, strategy and values. Risks above the Company's risk appetite, including high and very high level risks and risks with significant financial impact on the Company (>2% of the Company's Adjusted EBITDA) – must be managed. To manage these risks, a plan is drawn up to implement a risk mitigation strategy. Plan implementation control is carried out in the monitoring stage.

**4. Monitoring stage.** Each quarter, risk monitoring is carried out, and information on risk management measures, key risk indicators, and signals is provided to the management and collegial bodies. In this stage, the risk levels are re-assessed, new risks are registered, and the risks that are no longer relevant are eliminated.

## Map of the key risks of the Company




The reassessment of the Company's risks at the end of 2023 did not result in any risks above the Company's risk appetite, i.e. at a high or very high level, which would be attributed to an ESG risk type. The risk map shows one high-level risk of the Ignitis grupė, namely the risk of cyber-attack (No 1), the occurrence of which could have an impact also on the Company. This risk is classified as an ASV - Governance risk and is managed centrally by the digital security function across the Group. The high-level Accident risk of Ignitis grupė (employees and contractors) is assessed as medium in the Company's activities and is not included in the Company's list of key risks.

### 1 Risk of a cyber-attack with a high business impact

**Main sources of risk:**

- cyber-attacks against the Group (including the Company) organised by third parties;
- social engineering attacks, data theft;
- delayed or inadequate elimination of publicly known system vulnerabilities.

**Key risk indicators:**

- number of internal and external critical vulnerabilities;
- average time to eliminate critical vulnerabilities.

**Impact on the strategic direction**
Organisation

**The main possible effects**
Compliance/Reputation

**Risk level**
High

**Type of risk**
Operational

**Type of ESG risk**
Governance

**Key areas of risk management:**

- digital security in AB Ignitis grupė is centrally managed, thus consolidating key competences, tools and best management practices;
- the staff of the Digital Security Operations Centre of AB Ignitis grupė improve their skills by participating in national and international cyber security exercises;
- improving the cyber-attack detection/prevention systems;
- cooperation with external organisations in the field of cyber security;
- continuous education and training of the Company's employees;
- measures in the business security functional area to prevent corruption and possible espionage;
- internal audit;
- a 24-hour cyber security supervision provided by the Digital Security Operations Centre of AB Ignitis grupė.

For more information on the risk management model, risk factors and their management by Ignitis grupė, please refer to the Annual Report of Ignitis grupė for 2023 (link).

# 5.Sustainability report (Social responsibility report)

# 5.1 Overview of sustainability

The sustainability performance and results of the Ignitis grupė companies, including its subsidiary Kauno Kogeneracinė Jėgainė UAB, are summarised in the consolidated Annual Report 2023 of AB Ignitis grupė, of which the Group's Sustainability (Social Responsibility) Report (hereinafter "the Group's Sustainability Report") is an integral part. This report is available on www.ignitisgrupe.lt under "For Investors" and "Sustainability".

Article 23[2] of the Law of the Republic of Lithuania on Financial Reporting by Undertakings effective as at the date of issue of these financial statements stipulates that a company which is a subsidiary is exempt from the obligation to prepare a Corporate Social Responsibility Report if the information of the company and of its subsidiaries is included in the parent company's consolidated annual report prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, or the legislation of another Member State, or in a separate report containing the information required in the Consolidated Social Responsibility Report. Since the Group prepares and publicly discloses such a report, which is integrated into the Group's annual report, the Company does not prepare a separate corporate social responsibility report. The following provides a summarised overview of the sustainability information relevant for the Company and where it can be found in the Group's Sustainability Report.
To meet the requirements of various stakeholders, the Group's Sustainability Report, which covers the period from 1 January to 31 December 2023, has been prepared in accordance with the regulatory requirements and recommendations of several reporting frameworks and standards.
Information in the Group's Sustainability Report is disclosed on a materiality basis and reflects the Group's progress in implementing the principles of the United Nations Global Compact (UNGC) and the Group's contribution to the United Nations Sustainable Development Goals (SDGs).
The Sustainability Report complies with the Global Reporting Initiative (GRI) standards.

The Group's Sustainability Report complies with the requirements for social responsibility reports, as provided for in Lithuanian legislation. In addition, the Group demonstrates in this report its compliance with the provisions and guidelines of the Corporate Sustainability Reporting Directive (CSRD). Part of the requirements and recommendations of the European Sustainability Reporting Standards (ESRS) developed by EFRAG have already been applied in preparing the Group's Sustainability Report. The Group understands that it will need to implement the remaining requirements into future reports. The Group will prepare the reports once the provisions of the CSRD have been transposed into national law.

The Sustainability Report also includes an assessment of the compliance with the EU Taxonomy Regulation.

# 5.2. Sustainability in the Group and Kauno Kogeneracinė Jėgainė

As part of the Group's strategy and ambition to create a 100% green and safe energy ecosystem for today's and future generations, we focus on our Environmental, Social and Governance (ESG) activities and accountability.

The Group's Sustainability Policy establishes shared sustainability principles of the Group and their implementation measures at the Group, which shape the culture and practice of responsible and sustainable business development. The Sustainability Policy discloses, among other things, the

Group's commitment to the principles of the United Nations Global Compact and to aligning its strategic goals and activities with the Sustainable Development Goals, to contributing to the Paris Agreement in the fight against climate change, and to adhering to good governance practices.

Information on other policies and sustainability management is publicly disclosed and presented in this report. Alongside detailed information on our sustainability management, we periodically publish a sustainability overview and ESG data in our interim and annual reports. This ensures that all our stakeholders receive the necessary information about the Group's sustainability objectives.

Sustainability activities in the Group companies are coordinated centrally through a separate Sustainability function reporting directly to the CEO of the parent company. The Group's Management Board decides on the formulation, approval and updating of sustainability strategic directions, policies and activities of the organisation. A detailed description of the management of sustainable activities within the Group is available in the Group's Sustainability Report 2023 and in the Sustainability section on the website of the Group.

Sustainability goals of the Group and the Company are available on the Group's website www.ignitisgrupe.lt under "Sustainability" and on the website of the Company.

Below is a general overview of the Group's sustainability management framework, showing how we are improving ESG performance.

### The Group's sustainability management framework

**Embedding sustainability / ESG in governance and processes**

We follow good governance practices and take into account the recommendations of international institutions and the scientific community.

**Setting measurable sustainability / ESG targets**

We adhered to the principles of the UN Global Compact and directly contribute to Sustainable Development Goals, and the Paris Agreement. Following the approved Group's short-term goals based on SBTi, we are committed to reduce net GHG emissions to zero by 2040–2050.

**Our main purpose is to create a 100% green and secure energy ecosystem for current and future generations.**

**Progress evaluation and continuous refining**

We aim to benchmark our continuous improvement using ESG ratings provided by independent leading ESG ratings agencies and certification companies, and seek to improve our ESG ratings.

**Strengthening disclosures**

We disclose information on the Group's progress on material issues in accordance with globally recognised frameworks, standards and channels tailored to a wide range of stakeholders.

### Sustainability goals and target indicators

Kaunas CHP places great importance on ESG aspects, it has set key status indicators for ESG and constantly monitors their values.

### Key ESG indicators monitored by the Company

| Sustainable direction | Indicator | Unit of measure | 2022 | 2023 |
|---|---|---|---|---|
| **Reducing climate impacts** | GHG emissions | million tonnes CO2 eq. | 0.220 | 0.221 |
| | Scope 1 | million tonnes CO2 eq. | 0.126 | 0.128 |
| | Scope 2 | million tonnes CO2 eq. | 0.001 | 0.0003 |
| | Scope 3 | million tonnes CO2 eq. | 0.002 | 0.003 |
| | Other emissions (of biological origin) | million tonnes CO2 eq. | 0.090 | 0.090 |
| **Protection of natural resources** | Proportion of green procurements within public procurements | % | 99 | 100 |
| **Future-fit employees** | Fatal accidents (total) | number | 0 | 0 |
| | Employees | number | 0 | 0 |
| | Contractors | number | 0 | 0 |
| | TRIR (indicator of overall occupational injuries of employees) | Indicators | 13.70 | 0.0 |
| | eNPS (indicator of employee satisfaction) | % | 37.01 | 67.2 |
| | Proportion of women in management positions | % | 16.67 | 16.67 |
| | Proportion of women in engineering and IT positions | % | 0 | 0 |
| | Proportion of employees having participated in voluntary initiatives at least once | % | 43.9 | 12.2 |
| **Reliable organisation** | Intolerance of corruption among employees | % | 94.0 | 95.2 |
| | Proportion of employees who has taken and passed a knowledge test on the Code of Ethics and anti-corruption | % | 95.12 | 100 |

[1]The indicator is measured at Group level.

# 5.3 Stakeholder relations and assessment of ESG priorities

Stakeholder engagement is crucial to ensure that Group companies respond proactively to trends, emerging issues and opportunities. By applying the ESG principles in our relationships with stakeholders, as set out in the Sustainability Policy, we aim not only to effectively manage their expectations and interests, but also to look for opportunities where our collaboration can increase the positive impact of our activities.

Within the Group, we disclose sustainability-related information based on a comprehensive materiality assessment conducted in 2021. It identified and prioritised the key aspects of sustainability that are most relevant and material to the Group and its stakeholders.

With the new sustainability reporting requirements in place, the Group is currently undertaking a two-tier materiality assessment. The goal of this approach is to determine the extent to which sustainability aspects affect the company and the extent to which the company affects these aspects. The results of the Group's two-tier materiality assessment will be published on the Group's website and included in the 2024 Sustainability Report.
The expectations of stakeholders expressed during this process were aligned with existing goals and objectives of the Company, which led to the identification of priority themes that are in line with both stakeholders' expectations and determined operational objectives of the Company. The outcome of the materiality assessment provides the basis for further embedding sustainable development in the Company's activities in a way that takes into account the overall impact of the

Company on its stakeholders and aligns the expectations expressed by the stakeholders with the strategic objectives.

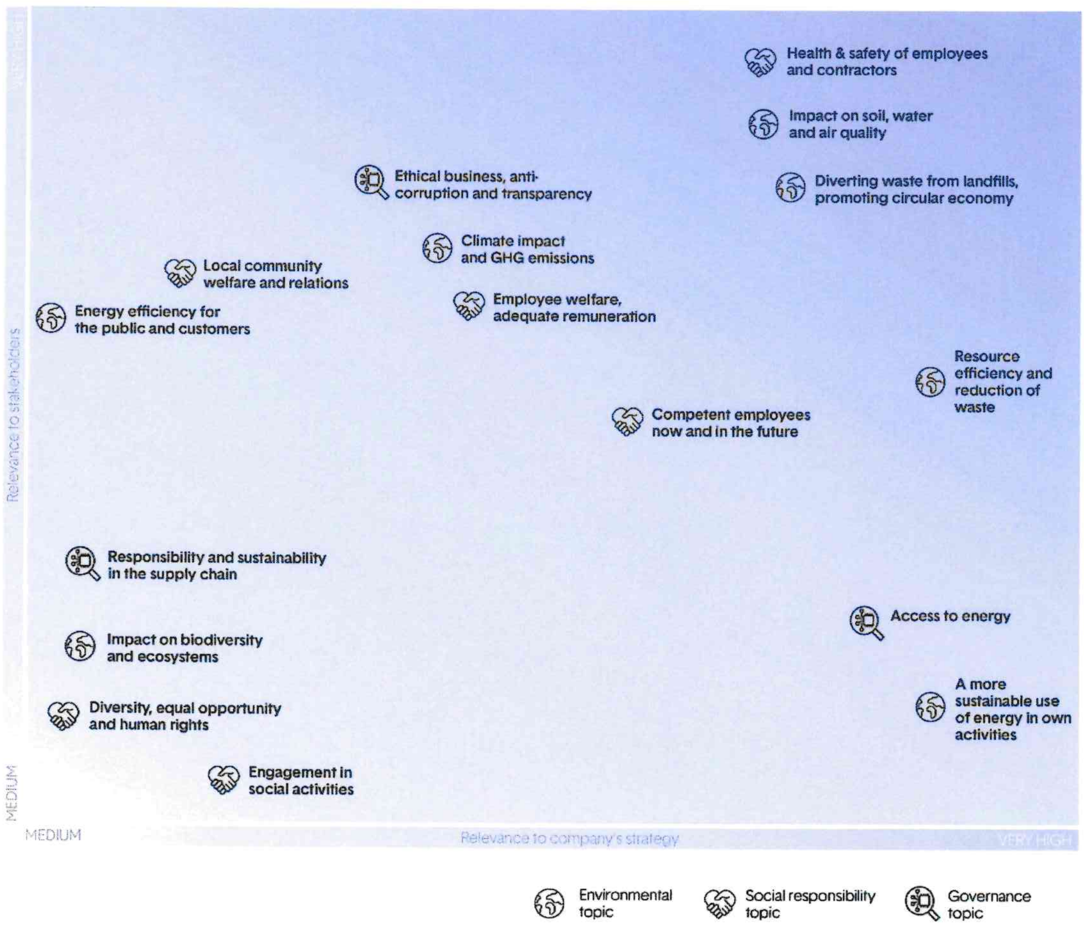
In the course of stakeholder engagement in 2021, 6 main stakeholder groups were identified and interviewed:

- Employees;
- Customers;
- Contractors and suppliers;
- Media representatives;
- Communities;
- State, municipalities and their subordinate institutions.

Key facts for assessing the Company's materiality:

- 47 stakeholder representatives were interviewed;
- 16 thematic aspects of the ASV that are of greatest importance to the Company and its stakeholders were identified;
- the stakeholders shared their views on ESG aspects that are most relevant to the Company;
- during the internal strategy sessions, the Company's management clarified the links between stakeholders' expectations and the operational strategy.

### Jėgainė materiality assessment matrix 2023



# 5.4 ESG risks and their management

The key ESG risks and their management solutions are disclosed in more detail in the section 4.7. "Risk Management" in the Annual Report of the Group.

# 5.5 Overview of key sustainability effects and implemented initiatives / measures of the Company in 2023

## Environmental area

| Main impacts of Kaunas Kogeneracinė Jėgainė | Impact management is described in this section of the Group's Sustainability Report |
|---|---|
| 1. Climate change impact/GHG emissions - reduction of greenhouse gases ($CO_2$, etc.) from activities. | 6.2 Environment – Climate change |
| 2. Impact on soil, water and air quality - maintenance of soil, water and air quality, prevention of environmental pollution. | 6.2 Environment – Pollution |
| 3. Impact on biodiversity and ecosystems - protecting biodiversity, flora and fauna. | 6.2 Environment – Biological diversity and ecosystems |
| 4. Use of secondary raw materials and waste minimisation - use of secondary raw materials in the operation of the plant and minimisation of the waste generated by the operations. | 6.2 Environment – Use of resources and circular economy |
| 5. Diversion of waste from landfill, promotion of circular economy principles - energy recovery from unsortable waste. | 6.2 Environment – Use of resources and circular economy |
| 6. More sustainable self-consumption of energy - using green energy for own needs; reducing consumption for own needs. | 6.2 Environment – Climate change |
| 7. Energy efficiency for society and customers - promoting energy efficiency for consumers. | 6.2 Environment – Climate change |

## Social aspects

| Main impacts of Kaunas Kogeneracinė Jėgainė | Impact management is described in this section of the Group's Sustainability Report |
|---|---|
| 1. Occupational health and safety - ensuring work safety and promoting the health of workers and contractors. | 6.3 Social aspects - Our Employees - Occupational Health and Safety<br>6.3 Social aspects – Value chain employees |
| 2. Competent employees now and in the future - professional and personal development of employees, building the competences needed for the energy sector; | 6.3 Social aspects - Our Employees - Competent employees |
| 3. Employee welfare and cooperation with employees - fair pay, employee job satisfaction, ensuring freedom of associations. | 6.3 Social aspects - Our Employees - Employee welfare, fair pay and cooperation with employees |
| 4. Welfare of local communities and relationship with them - Protecting the health of community members and the natural environment; listening to the needs of communities. | 6.3 Social aspects - Affected communities |
| 5. Diversity, equal opportunities and human rights - ensuring gender equality and equal opportunities, promoting diversity at work. | 6.3 Social aspects - Our Employees - Diversity, inclusion and welfare |
| 6. Involvement in community activities – participation in civic initiatives and NGOs; volunteering. | 6.3 Social aspects - Our Employees - Diversity, inclusion and welfare |

## Governance

| Main impacts of Kauno KJ | Impact management is described in this section of the Group's Sustainability Report |
|---|---|
| 1. Ethical business, anti-corruption and transparency - transparent corporate governance, anti-corruption, fair and ethical market conduct | 6.4 Governance - Preventing and detecting corruption |
| 2. Ensuring access to energy - affordability of electricity and heating. | 6.3 Social aspects - Consumers and end-users |
| 3. Responsibility and sustainability in the company's supply chain - buying more environmentally friendly goods and services for own use and reducing the negative impact of suppliers on the natural and social environment. | 6.2 Environment - Group and environment<br>6.4 Governance - Sustainable supply chain |

We encourage to report possible unethical behaviour of the Group employees or representatives, cases of discrimination or corruption, as well as other breaches of the principles of sustainability or concerns to the Trust Line by email pasitikejimolinija@ignitis.lt, by phone +370 640 88889 or by filling out an online form. Both employees and all stakeholders can use these contacts.

If you have any questions concerning the content of the Group's Sustainability Report or sustainability activities of the Company, please contact sustainability@ignitis.lt.

# Financial Statements

# 6.1 Company's financial statements

Prepared for the year ended 31 December 2023 in accordance with International Financial Reporting Standards as adopted by the European Union



The Company's financial statements were prepared and signed by management of Kauno Kogeneracinė Jėgainė UAB on 25 March 2024:

| Ramūnas Paškauskas | Aksana Stankevičienė | Pranas Miltenis |
|---|---|---|
| Chief Executive Officer | Head of Finance | Head of Group Accounting of UAB Ignitis grupės paslaugų centras, acting under Order No 24_GSC_SP_0004 of 10 January 2024 |

# Statement of profit or loss and other comprehensive income

**For the year ended 31 December 2023**

| EUR thousand | Notes | 2023 | 2022 |
|---|---|---|---|
| Revenue from contracts with customers | 6 | 53,045 | 58,809 |
| Other income | | 518 | 562 |
| **Total revenue and other income** | | **53,563** | **59,371** |
| Purchase of electricity, natural gas and other services | 7 | (11,775) | (13,356) |
| Depreciation and amortisation | 11, 12, 13 | (5,981) | (5,968) |
| Salaries and related expenses | | (1,943) | (1,629) |
| Other expenses | 8 | (4,083) | (9,975) |
| **Total expenses** | | **(23,782)** | **(30,928)** |
| **Operating profit (loss)** | | **29,781** | **28,443** |
| Finance income | | 541 | 247 |
| Financial expenses | 9 | (3,378) | (2,765) |
| **Finance activity result, net** | | **(2,837)** | **(2,518)** |
| **Profit (loss) before tax** | | **26,944** | **25,925** |
| Deferred tax (expenses)/benefit | 10 | (1,556) | 880 |
| **Net profit for the year** | | **25,388** | **26,805** |
| **Other comprehensive income (loss)** | | | |
| **Items that will not be reclassified to profit or loss in subsequent periods (net of tax)** | | | |
| Change in actuarial assumptions | | 20 | - |
| **Items that will not be reclassified to profit or loss in subsequent periods, total** | | **20** | **-** |
| **Items that may be reclassified to profit or loss in subsequent periods (net of tax)** | | | |
| Cash flow hedges – effective portion of changes in fair value | 23 | (4,707) | 6,889 |
| **Total items that can be reclassified to profit or loss in subsequent periods** | | **(4,707)** | **6,889** |
| **Total other comprehensive income (expenses) for the year** | | **(4,687)** | **6,889** |
| **Total comprehensive income (expenses) for the year** | | **20,701** | **33,694** |

# Statement of financial position

**31 December 2023**

| EUR thousand | Notes | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 11 | 1,743 | 1,912 |
| Property, plant and equipment | 12 | 122,503 | 127,733 |
| Right-of-use assets | 13 | 1,176 | 1,155 |
| Non-current receivables | | 501 | 612 |
| Deferred tax assets | 10 | 1,215 | 2,950 |
| Other non-current assets | 23 | 2,559 | 7,136 |
| **Non-current assets** | | **129,697** | **141,498** |
| Inventories | 14 | 12,882 | 17,439 |
| Prepayments and deferred expenses | | 988 | 101 |
| Trade receivables | 15 | 8,389 | 6,984 |
| Other receivables | | 99 | 171 |
| Cash and cash equivalents | 16 | 27,055 | 31,794 |
| **Current assets** | | **49,413** | **56,489** |
| **TOTAL ASSETS** | | **179,110** | **197,987** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Issued capital | 17 | 40,000 | 40,000 |
| Legal reserve | 18 | 1,702 | 361 |
| Hedging reserve | 18 | 2,182 | 6,889 |
| Retained earnings | | 25,508 | 30,666 |
| **Equity** | | **69,392** | **77,916** |
| Non-current loans | 19 | 93,500 | 100,833 |
| Non-current lease liabilities | | 29 | - |
| Provisions | 21 | 8 | 26 |
| **Non-current liabilities** | | **93,537** | **100,859** |
| Loans | 19 | 7,333 | 7,333 |
| Lease liabilities | | 15 | 9 |
| Trade payables | | 630 | 927 |
| Prepayments received | | 143 | 24 |
| Provisions | 21 | 6,430 | 9,086 |
| Other current liabilities | 22 | 1,630 | 1,833 |
| **Current liabilities** | | **16,181** | **19,212** |
| **Total Liabilities** | | **109,718** | **120,071** |
| **TOTAL EQUITY AND LIABILITIES** | | **179,110** | **197,987** |

# Statement of changes in equity

**For the year ended 31 December 2023**

| EUR thousand | Notes | Issued capital | Legal reserve | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2022** | | **40,000** | **-** | **-** | **4,222** | **44,222** |
| Net profit for the year | | - | - | - | 26,805 | **26,805** |
| **Other comprehensive income (loss)** | | | | | | |
| Cash flow hedging | 23 | - | - | 6,889 | - | **6,889** |
| **Total other comprehensive income (expenses) for the year** | | **-** | **-** | **6,889** | **-** | **6,889** |
| **Total comprehensive income (expenses) for the year** | | **-** | **-** | **6,889** | **26,805** | **33,694** |
| Transfer to reserves and changes in reserves | | - | 361 | - | (361) | **-** |
| **Balance as at 31 December 2022** | | **40,000** | **361** | **6,889** | **30,666** | **77,916** |
| **Balance as at 1 January 2023** | | **40,000** | **361** | **6,889** | **30,666** | **77,916** |
| Net profit for the year | | - | - | - | 25,388 | **25,388** |
| **Other comprehensive income (loss)** | | | | | | |
| Result from change in actuarial assumptions | | - | - | - | 20 | **20** |
| Cash flow hedging | 23 | - | - | (4,707) | - | **(4,707)** |
| **Total other comprehensive income (expenses) for the year** | | **-** | **-** | **(4,707)** | **20** | **(4,687)** |
| **Total comprehensive income (expenses) for the year** | | **-** | **-** | **(4,707)** | **25,408** | **20,701** |
| Transfer to reserves and changes in reserves | 18.1 | - | 1,341 | - | (1,341) | **-** |
| Dividends | 17.3 | - | - | - | (29,225) | **(29,225)** |
| **Balance as at 31 December 2023** | | **40,000** | **1,702** | **2,182** | **25,508** | **69,392** |

# Statement of cash flows

**For the year ended 31 December 2023**

| EUR thousand | Notes | 2023 | 2022 |
|---|---|---|---|
| Net profit for the year | | 25,388 | 26,805 |
| **Adjustments to reconcile net profit to net cash flows:** | | | |
| Depreciation and amortisation expenses | 11, 12, 13 | 5,981 | 5,968 |
| Change in the fair value of derivatives | 23 | 46 | (2,563) |
| Income tax expenses (benefit ) | 10 | 1,556 | (880) |
| Increase (decrease) in provisions | 21 | (2,652) | 2,596 |
| Interest income | 9 | (541) | |
| Interest expenses | 9 | 3,332 | 2,771 |
| Other finance expenses (income) | | 46 | (253) |
| Other non-cash adjustments | | 78 | - |
| **Changes in working capital:** | | | |
| (Increase)/decrease in trade and other receivables | | (1,222) | (3,681) |
| (Increase)/decrease in inventories, prepayments, deferred expenses, other current and non-current assets | | 3,596 | (8,818) |
| Increase/(decrease) in trade payables, deferred income, prepayments received, other non-current and current liabilities | | (558) | 956 |
| **Net cash from/(used in) operating activities** | | **35,050** | **22,901** |
| Acquisition of property, plant and equipment and intangible assets | | (430) | (374) |
| Interest received | | 541 | - |
| **Net cash flows from investing activities** | | **111** | **(374)** |
| Repayment of loans | 20 | (7,333) | (1,834) |
| Lease payments | 20 | (10) | (14) |
| Interest paid | 20 | (3,332) | (3,010) |
| Dividends paid | 17.3 | (29,225) | - |
| **Net cash flows from/(used in) financing activities** | | **(39,900)** | **(4,858)** |
| **Increase (decrease) in cash and cash equivalents** | | **(4,739)** | **17,669** |
| Cash and cash equivalents at the beginning of the year | | 31,794 | 14,125 |
| **Cash and cash equivalents at the end of the period** | | **27,055** | **31,794** |

# Notes to the financial statements

## 1 General information

Kauno Kogeneracinė Jėgainė UAB (hereinafter "the Company") is a private limited liability company registered in the Republic of Lithuania. The Company was registered on 27 February 2015 with the Register of Legal Entities managed by the State enterprise the Centre of Registers. The registered address of the Company is Jėgainės St. 6, Biruliškių village, Kaunas district, Lithuania. The Company is a limited liability profit-oriented entity. Company code is 303792888, VAT payer's code – LT100009225616. The Company has been founded for an indefinite period. The reporting period is one year ended 31 December 2023.

The Company's main activity is the operation of a high-efficiency cogeneration power plant in Kaunas, the production of local, competitive electricity and heat from waste.

The shareholders of the Company were as follows:

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | Number of shares held | Ownership interest (%) | Number of shares held | Ownership interest (%) |
| AB Ignitis grupė | 20,400 | 51 | 20,400 | 51 |
| UAB Gren Lietuva | 19,600 | 49 | 19,600 | 49 |
| **Total** | **40,000** | **100** | **40,000** | **100** |

The Company's parent company is AB Ignitis grupė (company code 301844044, registered address Laisvės pr. 10, LT-04215 Vilnius, Lithuania), which owns 51% of shares of the Company as at 31 December 2023 and 2022. As at 31 December 2023, the shareholder structure of AB Ignitis grupė were the Ministry of Finance of the Republic of Lithuania (74.99%), retail and institutional investors (25.01%). As at 31 December 2022: the Ministry of Finance of the Republic of Lithuania (74.99%), retail and institutional investors (25.01%).

AB Ignitis grupė is an ultimate controlling company. The Group comprises AB Ignitis grupė and all of its subsidiaries ("the Group").

As at 31 December 2023 and 2022, the Company did not have any subsidiaries.

These financial statements were signed by the management of Kauno Kogeneracinė Jėgainė UAB on 25 March 2024. The Company's shareholders have the right to approve the present financial statements, refuse to approve them and require that new financial statements are drawn up.

# 2 Basis of preparation of the financial statements

## 2.1 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") for application in the European Union.

The Company's financial statements as at and for the year ended 31 December 2023 (hereinafter – the financial statements) have been prepared on a going concern basis applying measurement based on historical acquisition cost, except for certain financial instruments being measured at fair value.

These financial statements are presented in euros, which is the Company's functional currency and all values are rounded to the nearest thousand (EUR '000), except when otherwise indicated. The Company's financial statements provide comparative information in respect of the previous period.

The Company's financial year coincides with a calendar year.

## 2.2 Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised under profit or loss in the Statement of Profit or Loss and other Comprehensive Income.

# 3 Summary of material accounting policies

## 3.1 Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2022, with the exception of the new standards that became effective during 2023.

### 3.1.1 New standards, amendments to standards and interpretations

#### 3.1.1.1 Disclosure of material accounting policy information

The Company has adopted the amendments to Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice statement 2) from 1 January 2023. Although the amendments did not change the accounting policies, they had an impact on the accounting policy disclosures in the financial statements.

The amendments require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments also state that information about accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence the decisions that the primary users of those financial statements make.

#### 3.1.1.2 Standards and their interpretations, announced and adopted by the European Union, effective for the current reporting year

The new standards and/or amendments to standards approved by the IASB and adopted by the European Union during the year ended 31 December 2023 are stated below.

| Standards and/or amendments that became effective in 2023 |
|---|
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) |
| Amendments to IAS 1 and IFRS 2 Practice Statement 2 |
| International tax reform - Pillar Two Model Rules - Amendments to IAS 12 |
| IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts |

The adoption of these standards, amendments and interpretations had no material impact on the financial statements.

### 3.1.1.3 Standards issued but not yet effective and not early adopted

While preparing the financial statements, the Company did not adopt new IFRS, International Accounting Standards (hereinafter – IAS), their amendments and interpretations issued by IASB, the effective date of which is later than 31 December 2023 and early adoption is permitted. The following are new standards and/or amendments to the standards that have been issued but not yet effective:

#### Other standards

The following new and amended standards are not expected to have a material impact on the Company's financial statements.

| Other new standards and amendments | IASB Effective date | EU Endorsement status |
|---|---|---|
| Classification of Liabilities as Current or Non-current (Amendments to IAS 1) | 1 January 2024 | Endorsed |
| Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback | 1 January 2024 | Endorsed |
| Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Disclosures of Financial Instruments: Supplier Financing Arrangements | 1 January 2024 | Not yet endorsed |
| Amendments to IAS 21 Lack of Exchangeability Lack of Exchangeability | 1 January 2025 | Not yet endorsed |

## 3.2 Revenue from contracts with customers

The Company in the contracts with customers identifies performance obligations (stated either explicitly or implied) to transfer either distinct goods or services or series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Promised goods or services represent separate performance obligation if the goods or services are distinct. A promised good or service is considered distinct if both of the following criteria are met:

(i) customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and

(ii) the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract).

The Company's performance obligations set out in the agreements with customers are as follows: sale of electricity, sale of heat energy, waste management.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. When recognising revenue, the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

### 3.2.1 Revenue from the sale of electricity

The sales of electricity produced using own resources are conducted at the Power Exchange (hereinafter "the Exchange") by submitting electricity sale offers to the Exchange. On the Day-Ahead market, the transaction for the purchase and sale of electricity is considered as concluded if the automatic coupling algorithm does not by default reject the submitted offer of selling electricity. Transactions on the Intraday market are approved by market participants. Following the approval of the transaction, the system of the exchange sends a confirmation of the concluded electricity sale transaction to the seller. The seller's performance obligation under the concluded transaction is to supply the volume of electricity as indicated in the seller's offer to the electricity transmission system. The performance obligation is to be carried out throughout a certain period during which the supply of the agreed volume of electricity is maintained to the network. The progress of fulfilment of the performance obligation is assessed considering the volume of electricity indicated in respect of the transaction.

The price of the transaction and consideration to be paid to the seller correspond to the amount indicated in the confirmation notice of the transaction. The entire consideration of the seller payable at a flat rate. Upon receipt of the confirmation on the conclusion of the transaction on the sale of electricity, the prices of that transaction remain unchanged.

Revenue is recognised considering the actually supplied electricity pertaining to the transaction, without any deduction of commissions that might be deducted by trading intermediaries representing the Company at the Exchange.

Electricity revenue also includes sales of electricity to a Group company. The Company sells the contracted amount of electricity generated at a fixed price. Revenue is recognised over the period in each accounting period based on the VAT invoices issued.

### 3.2.2 Revenue from waste management

Based on contracts with customers, the Company is committed to provide non-hazardous waste disposal (incineration) services. In the contract with customer, the consideration paid to the Company comprises the fixed consideration per waste unit. The Company recognises revenue over time, progress of performance obligation is measured by considering the quantity of waste actually delivered. Revenue is recognised when waste acceptance and transfer deed has been approved by both parties.

### 3.2.3 Revenue from supply of thermal energy

Under contracts with customers, the seller commits to supply thermal energy to its customers in compliance with the defined technical requirements (temperature graph, pressure, flow, quality of water for heating, etc.). Contract with customer includes one performance obligation, i.e. supply of heat energy. The customer receives and simultaneously consumes the benefits of the service relating to the supply of thermal energy. Revenue is recognised over time. The progress of satisfying of the performance obligation is assessed considering the volumes of thermal energy actually supplied to the customer as determined on the basis of data of metering devices.

The remuneration comprises the customer's payments for the actually delivered thermal energy.

### 3.3 Intangible assets

Intangible assets expected to provide economic benefits in future periods are measured at acquisition cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3 to 13 years. Amortisation of an asset begins when it is ready for use, i.e. when it is in the location and condition necessary for it to be available for operating in the manner intended by management.

### 3.4 Property, plant and equipment

Property, plant and equipment is stated at acquisition (production) cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis over the useful lives established for property, plant and equipment. Depreciation starts when an asset is ready for use, i.e. when it is in the location and condition necessary for it to be available for operating in the manner intended by management.

Cost includes expenditure incurred in relation to replacement of parts of property, plant and equipment if such expenditure meets the recognition criteria of the asset. The carrying amount of the replaced part is derecognised. Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with these costs will flow to the Company and the costs can be measured reliably. All other repairs and maintenance costs charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Property, plant and equipment include spare parts, spare equipment and maintenance equipment when they meet the definition of property, plant and equipment.

The assets' residual values and useful lives are reviewed at least once per year, and adjusted if appropriate.

When asset is retired or otherwise disposed of, the cost and related accumulated depreciation are derecognised and any related gains or losses are included in profit or loss of to the statement of profit or loss and other comprehensive income. Gains or losses on disposal of property, plant and equipment are determined as proceeds received on disposal less the carrying amount of assets disposed. When the revalued asset is sold, the corresponding portion of the revaluation reserve is transferred to retained earnings.

Construction in progress is transferred to appropriate categories of property, plant and equipment when asset is completed and ready for its intended use.

Depreciation periods (number of years):

| Category of property, plant and equipment | Useful lives (number of years) |
|---|---|
| Cogeneration plants and their installations | 10-45 |
| Information technologies and communication equipment | 15 |
| Vehicles | 13 |
| Other property, plant and equipment | 4-5 |

### 3.5 Right-of-use assets

Right-of-use asset is the asset that reflects the right of the Company to use the leased asset over the life of a lease. The Company recognises a right-of-use asset for all types of leases, including leases of right-of-use assets in sublease, with the exception of leases of intangible assets, short-term leases and leases for which the underlying asset is of low value.

#### 3.5.1 Initial measurement of right-of-use assets

On the lease commencement date, the Company measures right-of-use assets at cost. The cost of an asset managed under a right-of-use comprises of: the amount of the initial measurement of the lease liability, any lease payments at or before the inception date, less any lease incentives received; any initial direct costs incurred by the Company; and an estimate of the costs that the Company will incur in dismantling and disposing of the leased asset, maintaining its location or restoring the leased asset to the condition required by the lease conditions, unless those costs are incurred in producing the inventories. The Company incurs obligation for these costs either at the commencement date or as a consequence of having used the underlying asset during a particular period. The Company recognises these costs as part of the cost of the right-of-use assets when a liability is assumed for these costs.

#### 3.5.2 Subsequent measurement of right-of-use assets

Subsequent to initial recognition, the Company measures the right-of-use asset at cost. Under the cost model, the Company measures a right-of-use asset at cost less any depreciation and any accumulated impairment losses adjusted for any remeasurement of the lease liability.

Depreciation of the right-of-use assets is calculated by the Company in accordance with the requirements of IAS 16, Property, Plant and Equipment.

Depreciation of right-of-use assets is provided on a straight line basis:

| Group of right-of-use assets | Depreciation period (in years) |
|---|---|
| Land | 90-100 |
| Other property, plant and equipment | 2-5 |

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company calculates the depreciation of the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company presents rights-of-use assets separately from property, plant and equipment in the statement of financial position.

### 3.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### 3.6.1 Financial assets

The Company classifies its financial assets into the following three categories:

(i) financial assets subsequently measured at amortised cost;
(ii) financial assets subsequently measured at fair value recognising the change in fair value through other comprehensive income (hereinafter – "FVOCI"); and
(iii) financial assets subsequently measured at fair value recognising the change in fair value through profit or loss (hereinafter – "FVPL").

Transaction costs comprise all charges and commission that the Company would not have paid if it had not entered into an agreement on the financial instrument.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (hereinafter "SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model. Interest income calculated on these financial assets is recognised as finance income and amortised using the effective interest rate method. Any gain or loss arising from the write-off of assets is recognised in under profit or loss. Impairment loss is accounted for as the cost of receivables and impairment of loans in under profit or loss.

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets and characteristics of cash flows from these assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. The intentions of the Company's management regarding separate instruments has no effect on the applied business model. The Company may apply more than one business model to manage its financial assets. Given the business model, applied for managing the group of financial assets, the accounting for financial assets is as follows:

#### 3.1.1.4 Financial assets measured at FVOCI in subsequent periods

The Company only has financial instruments measured at FVOCI. For more information, see Note 3.6.3.

#### 3.6.1.1 Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest rate (herein after "EIR") method and are subject to impairment. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses.

Financial assets are recognised as current assets, except for maturities greater than 12 months after the date of the statement of financial position, in which case they are classified as non-current assets.

#### 3.6.1.2 Financial assets at FVPL

Debt and equity instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at FVOCI are stated as financial assets to be measured at FVPL. The Company only has financial instruments measured at FVPL.

#### 3.6.1.3 Effective interest rate method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss of the statement of profit or loss and other comprehensive income over the relevant period.

EIR is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating EIR, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, advance payment, extension, call and similar options) but does not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of EIR, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Company uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

#### 3.6.1.4 Impairment of financial assets – expected credit losses (hereinafter "ECL")

The Company recognises ECL for all debt financial instruments that are not measured at fair value through profit or loss. The ECLs are based on the difference between the contractual cash flows receivable and the cash flows expected to be received by the Company, discounted at the approximate original effective interest rate. Expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For current trade receivables without a significant financing component, the Company applies a simplified approach required by IFRS 9 and measures the loss allowance at expected lifetime credit losses from initial recognition of the receivables.

For the assessment of impairment of trade receivables, management assesses expected credit losses on an individual basis. The Company's management performs the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular debtor, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgement on the recognition of lifetime expected credit losses in respect of that particular borrower.

ECL of other receivables and contract assets is calculated based on individual assessment.

#### 3.6.1.5 Credit-impaired financial assets

Fair values of receivables from contracts with customers and other amounts receivable approximate their carrying amounts. Trade receivables are non-interest bearing and generally are collectable in 30 days. Impairment allowance for receivables - expected credit losses are recognised for receivables the credit risk of which, assessed individually and considering all valid and approved information, including forward-looking information, has significantly increased compared to initial recognition. When performing individual assessment of lifetime credit losses, credit risk is assessed when the following indications exist: significant financial difficulty of the customer; probability that the customer will enter bankruptcy; significant delay in payments.

#### 3.6.1.6 Derecognition of financial assets

Financial assets (or, where appropriate, part of financial assets or part of the group of similar financial assets) are derecognised when:

- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows from the asset is retained, but an obligation is assumed to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the rights to receive cash flows from the asset are transferred and either (a) substantially all the risks and rewards of the asset have been transferred, or (b) substantially all the risks and rewards of the asset have neither been transferred nor retained, but control of the asset has been transferred:
  - if control is not retained, the financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised separately as assets or liabilities;
  - if control is retained, it shall continue to recognise the financial asset is continued to be recognised to the extent of continuing involvement in the financial asset.

Whether the control of the transferred asset is retained depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, control is not retained. In all other cases, control is retained.

### 3.6.2 Financial liabilities and equity instruments issued

Debt or equity instruments are classified as financial liabilities or equity based on the substance of the arrangement.
The Company has not issued any equity instruments, except for issued capital.

#### 3.6.2.1 Initial recognition and measurement of financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL (change in fair value of which is accounted through profit or loss), loans, bonds, payables, or as derivatives designated as hedging instruments in an effective hedge. All financial liabilities are recognised initially at fair value and, in the case of loans, liabilities and payables, net of directly attributable transaction costs.

#### 3.6.2.2 Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at FVPL;
- Financial liabilities at amortised cost.

#### 3.6.2.3 Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL. The Company had only derivative financial instruments at FVPL.

Financial liabilities are classified as held for trading if they are incurred in the near term for redemption purposes. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedging transactions as defined in IFRS 9. Individual embedded derivatives are also classified as held-for-trading unless they qualify as effective hedging instruments.

Gain or loss arising from financial liabilities held for trading is recognised in the statement of profit or loss and other comprehensive income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

#### 3.6.2.4 Financial liabilities at amortised cost

This is the most relevant category for the Company. After initial recognition, interest-bearing loans and bonds are subsequently measured at amortised cost using the EIR method. Gain and loss is recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

#### 3.6.2.5 Presentation and borrowing costs

Financial liabilities are classified as current unless the Group has an unconditional right to postpone repayment for at least 12 months after the end of the reporting period.

If a financing agreement concluded before the reporting date proves that the financial liability was non-current by its nature as of the date of the balance sheet, that liability is classified as non-current.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income related to temporary investment of borrowed funds until they are utilised for acquisition of assets are deducted from cost of those assets.

#### 3.6.2.6 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the respective balances is recognised in the statement of profit or loss and other comprehensive income.

### 3.6.3 Derivatives and hedge accounting

The Company enters into derivative financial instruments transactions related to purchase and sale prices of electricity, future purchases of emission allowances as well as interest rate swaps and options. The Company enters into derivative transactions for hedging purposes.

At the inception of a hedging transaction, the Company defines and formally documents the hedging relationship for which it wishes to apply hedge accounting and its risk management objectives and strategy.
Such documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the Company prepares to assess whether the hedge ratio satisfies the hedging instrument's effectiveness requirements (including an analysis of the reasons for the hedge's ineffectiveness, and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

#### 3.6.3.1 Presentation

Fair value of derivative financial instruments is presented In the statement of financial position as "Other non-current assets", "Other current assets" and "Other current liabilities" (Note 23).

The result of the change in the fair value of derivatives that have been settled and are held for hedge accounting but do not meet the criteria for hedging accounting is disclosed in the statement of profit (loss) and other comprehensive income in 'Other finance income' if the aggregate result for the period of such a derivative is a gain, or in 'Other expense' if the aggregate result for the period of the derivative is a loss.

Changes in fair value and the result of derivatives that have been settled and qualify for hedge accounting and that meet the criteria for hedge accounting shall be accounted for as described below:

#### 3.6.3.2 Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised under other comprehensive income in the statement of profit or loss and other comprehensive income, in the cash flow hedge reserve. Ineffective portion of profit or loss is recognised directly under profit or loss in the statement of profit or loss and other comprehensive income as 'Other income' or 'Other expenses' (accounting method is similar to derivatives that do not meet the hedging criteria – Note 3.6.3). The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

### 3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is established using the FIFO method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Company from the tax authorities), transportation, handling and other costs directly attributable to the acquisition of inventories. Cost does not include loan costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### 3.8 Emission allowances

Based on the European Union (EU) Directive 2003/07/EC, the greenhouse gas emissions trading scheme was developed which came into force on 1 January 2005. The first period of operation of this scheme covered 3 years from 2005 to 2007; the second period covered 5 years from 2008 to 2012, and the third period covered 7 years from 2013 to 2020. From 2021 the fourth phase has started, which will last until 2030. The Scheme's operation period is in line with the period established under the Kyoto Agreement. The system functions on 'Cap' and 'Trade' basis.

The governments of the EU Member States are required to set caps for each emission unit in the scheme and for the period of implementation. These caps are specified in the National Allocation Plan (hereinafter "NPP") to be developed by a responsible authority of each Member State (in Lithuania – the Ministry of Environment). The National Allocation Plan determines the annual emission amount (measured as tons of carbon dioxide equivalent) for each emission unit and each period and allocates annual emission allowances.

Member States are required to allocate allowances to installations by 28 February each year according to the NAP (a certain number of allowances are kept in reserve for new installations).

A Member State is to assure that an operator of each emission unit will submit data on the unit's actual amount of greenhouse gas emissions during the current calendar year not later than by 30 April of the next year.

### 3.8.1 Inventories

EU emission allowances are inventories that are dedicated by the state or are acquired by the Company. EU emission allowances acquired by the Company are recognised at acquisition cost. EU emission allowances dedicated by the state are recognised in the accounts at nominal (zero) value.
The Company accounts for acquired and received free-of-charge emission allowances separately. Write-down to net realisable value is calculated for acquired emission allowances if the market price falls below acquisition price.

### 3.8.2 Provision for the utilisation of emission allowances

When a company emits pollutants into the environment, it triggers an obligation to pay the state for the pollution with allowances with a nominal value corresponding to the amount of pollutants emitted. This liability is a provision that is measured at an amount equal to the cost that the Company will incur to settle the resulting obligation at the statement of financial position date. If the Company has acquired emission allowances, the value of the provision is equal to their carrying amount. If actual emissions exceeds the quantity of emission allowances held, the Company accounts for an obligation to buy additional emission allowances, the value of which is equal to their market value.

The liability can be offset against inventories only when the actual quantity of emissions is approved by an appropriate regulatory state authority.

Changes in the value of the liability relating to missing allowances shall be recognised in profit or loss in the statement of profit or loss and other comprehensive income.

## 3.9 Lease liabilities

At the commencement date of the lease the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date: fixed payments less any lease incentives receivable; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable by the lessee under residual value guarantees; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

### 3.9.1 Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Also, low-value asset lease recognition exemption to office equipment that are considered to be low value is applied. Lease related discounts are charged to the lease income proportionally over the term of the lease.

## 3.10 Provisions

Provisions are recognised when the Company has a legal obligation or irrevocable commitment as a result of the past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses related to provisions are recorded in the profit or loss part of the statement of profit or loss and other comprehensive income, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. When discounting is used, an increase in the provision reflecting the past period, is accounted for as finance costs.

## 3.11 Employee benefits

### 3.11.1 State plans

The Company participates only in State plans. State plans are established by legislation to cover all entities and are operated by national or local government or by another body (for example, in the case of the Company, the State Social Security Fund). State Plans - a defined benefit plan under which the Company makes defined contributions and will have no legal or constructive obligation to continue to make those contributions in the future if the fund does not have sufficient assets to pay all employees their service-related benefits in the current or prior periods. The social security contributions are recognised as expenses on an accrual basis and are attributed to payroll expenses.

### 3.11.2 Termination benefits

As a general rule, termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Non-current benefits are recognised at present value discounted using market interest rate.

### 3.11.3 Non-current employee benefits

Each employee of retirement age who terminates his/her employment with the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries according to Lithuanian laws. If an employee is a member of a trade union, he or she is also entitled to an additional payment for his or her service under collective agreement. A liability for such pension benefits is recognised in the statement of financial position and it reflects the present value of these benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the reporting date is estimated with reference to actuarial valuations using the projected relative unit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government bonds denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

## 3.12 Fair value

The Company measures financial instruments such as derivatives, at fair value at each reporting date. Determination of the fair value is based on the assumption that the asset sale or liability transfer transaction is performed either:

- in the principal market for the asset or liability

or

- in the absence of principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
– Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
– Level 2: fair value of assets is based on other observable market data, directly or indirectly;
– Level 3: fair value of assets is based on non-observable market data.

For assets and liabilities that are recognised in the financial statements, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# Financial risk management

## 4.1 OVERVIEW

Risks are a natural and integral part of business activities, and risk profile changes continuously. The Group aims to mitigate its risks and reduce them to acceptable levels through risk management. This section only describes the management of the main financial risks. The management of other risks is set out in the Governance Report.

## 4.2 Financial risk factors

The Company is exposed to a variety of financial risks in their operations: market risk (including foreign exchange risk, interest rate risk in relation to cash flows), credit risk and liquidity risk. By managing these risks, the Company seeks to minimise potential adverse effects which could negatively impact the financial performance of the Company.

### 4.2.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and foreign currency exchange risk.

#### 4.2.1.1 Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

The sale/purchase contracts of the Company are denominated in the euro. Accordingly, currency risk is insignificant.

#### 4.2.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at 31 December 2023, the Company's income and cash flows from operating activities are not materially affected by changes in market interest rates as on 8 June 2022 the Company entered into interest rate swap and option transactions. As at 31 December 2023, the loans with fixed interest rate amounted to EUR 100,833 thousand.

The Company's income and cash flows were not affected by fluctuations in market interest rates because the Company's had borrowings with fixed interest rates as at 31 December 2022. As at 31 December 2022, the loans with fixed interest rate amounted to EUR 108,166 thousand.

### 4.2.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Company's exposure to credit risk arises from operating activities (trade and other amounts receivable) and from financing activities (granted loans, finance lease agreements, derivatives). The Company's risk related to cash is limited, as the Company keeps cash balances only in reliable financial institutions.

The majority of the Company's receivables are held by two companies. A Group company, from which receivables account for 53% of total receivables, and an external customer accounts for 47% of total receivables. The Company's credit risk related to receivables is low as the Company's main customers are financially stable companies.

The priority objective of the Company's treasury management is to ensure security of funds and maximize return on investments in pursuance of this objective. Risk of counterparties defaulting is managed by entering into transactions with reliable financial institutions (or subsidiaries of such institutions) with a long-term credit rating (in foreign currency) lower than 'A-' according to the rating agency Fitch Ratings (or an equivalent rating of other rating agencies).

The maximum exposure to credit risk is equal to the carrying amount of financial assets and the nominal value of guarantees issued.

| EUR thousand | Note | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Financial assets measured at amortised cost:** | | | |
| Non-current receivables | | 501 | 612 |
| Trade receivables | 15 | 8,389 | 6,984 |
| Other receivables | | 99 | 171 |
| Cash and cash equivalents | 16 | 27,055 | 31,794 |
| **Total** | | **36,044** | **39,561** |
| **Off-balance sheet commitments:** | | | |
| Nominal value of guarantees granted | | - | 1,812 |
| **Total** | | **36,044** | **41,373** |

### 4.2.3 Liquidity risk

The liquidity risk is managed by planning future cash flows of the Company and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support the Company's ordinary activities. The refinancing risk is managed by ensuring that loans over a certain period were repaid from available cash, from cash flows expected from operating activities of the Company over that period, and from unwithdrawn committed credit facilities which have to be repaid in later periods.

As at 31 December 2023, the Company's total liquidity ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 3.05 and 2.26, respectively (31 December 2022: 2.94 and 2.03, respectively).

The table below summarises the Company's financial liabilities by category:

| EUR thousand | Note | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Amounts payable stated at amortised cost** | | | |
| Loans | 19 | 100,833 | 108,166 |
| Lease liabilities | | 44 | 9 |
| Trade payables | | 630 | 927 |
| Other current liabilities | 22 | 245 | 203 |
| **Total** | | **101,752** | **109,305** |

The table below summarises the maturity profile of the Company's financial liabilities under the contracts (based on contractual undiscounted payments of interest-bearing financial liabilities and the carrying amounts of other financial liabilities):

| EUR thousand in EUR | 2023 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | 3 months to 1 year | From 1 to 5 years | After 5 years | Total |
| Loans | 1,890 | 5,670 | 37,802 | 58,593 | 103,955 |
| Lease liabilities | 4 | 12 | 30 | - | 46 |
| Trade payables | 630 | - | - | - | 630 |
| Other payables | 245 | - | - | - | 245 |
| **31 December 2023** | **2,769** | **5,682** | **37,832** | **58,593** | **104,876** |

| EUR thousand in EUR | 2022 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | 3 months to 1 year | From 1 to 5 years | After 5 years | Total |
| Loans | 2,670 | 7,926 | 40,117 | 79,186 | 129,899 |
| Lease liabilities | 3 | 6 | - | - | 9 |
| Trade payables | 927 | - | - | - | 927 |
| Other payables | 203 | - | - | - | 203 |
| **31 December 2022** | **3,803** | **7,932** | **40,117** | **79,186** | **131,038** |

# 5 Critical accounting estimates and judgements used in the preparation of the financial statements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements according to IFRS as adopted by the European Union requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. Change in the underlying assumptions, estimates and judgements may have a material effect on the Company's financial statements in the future.

Only significant accounting estimates and judgements used in the preparation of the financial statements are described in this note. For other estimates and judgements used refer to other notes of these financial statements.

## 5.1 Provision for emission allowances

As the Company makes emissions, a liability arises to pay for these emissions to the state using emission allowances, the nominal value of which is equal to the quantity of emissions. This liability falls within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It is measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. If the Company has acquired emission allowances, the value of the provision is equal to their carrying amount. If actual emissions exceeds the quantity of emission allowances held, the Company accounts for an obligation to buy additional emission allowances, the value of which is equal to their market value. The quantity of actual emissions is approved by a respective state authority during four months after the end of the year. The provision accounted for as at 31 December 2022 was consistent with actual quantities of emissions. The Company's management, based on its own experience, does not expect any significant differences to arise between the estimated provision at 31 December 2023 and the quantity of emissions which will be approved for 2024.

## 5.2 Provision for plant dismantling and closure works

At each reporting date, the Company assesses potential provision for dismantling and closure works. In the opinion of management, no basis exists for recognising provisions for plant dismantling and closure works as no such legal obligation exists; therefore, no provisions were recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

# 6 Revenue from contracts with customers

## 6.1 Revenue from contracts with customers per type

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Revenue from the sale of electricity | 29,929 | 36,526 |
| Revenue from distribution of thermal energy | 12,375 | 12,282 |
| Revenue from waste management | 10,741 | 10,001 |
| **Total** | **53,045** | **58,809** |

## 6.2 Contract balances

| EUR thousand in EUR | 2023 | 2022 |
|---|---|---|
| **Trade receivables** | **8,389** | **6,984** |
| **Contract liabilities** | **86** | **24** |
| Prepayments received | 86 | 24 |
| **Total** | **8,475** | **7,008** |

# 7 Purchases of electricity, natural gas and other services

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Costs of utilised emission allowances | 6,430 | 9,086 |
| Operating costs of cogeneration plants | 3,860 | 3,422 |
| Electricity, balancing services and purchases of related services | 1,243 | 568 |
| Purchases of natural gas and related services | 167 | 275 |
| Other purchases | 75 | 5 |
| **Total** | **11,775** | **13,356** |

# 8 Other expenses

| EUR thousand in EUR | 2023 | 2022 |
|---|---|---|
| Derivative financial instruments (Note 23) | - | 7,604 |
| Repair and maintenance expenses | 1,629 | 915 |
| Value of written-off materials | 521 | 66 |
| Insurance expenses | 382 | 158 |
| Asset management and administration | 276 | 100 |
| Telecommunications and IT services | 221 | 175 |
| Finance and accounting | 188 | 182 |
| Taxes (other than income tax) | 154 | 48 |
| People and culture | 110 | 74 |
| Other | 602 | 653 |
| **Total** | **4,083** | **9,975** |

[1] *In 2023, the Company classified the service costs in "Write-offs of other inventories", "Finance and accounting", "People and culture", "Asset management and administration", "Other"; therefore, the comparative figures for 2022 have been changed accordingly by reclassifying an amount of EUR 571 thousand from the lines "Consultancy services" and "Personnel training and administrative costs".*

# 9 Finance activity

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Interest income recognised at the effective interest rate | 541 | - |
| Other finance income | - | 247 |
| **Total finance income** | **541** | **247** |
| Interest expenses | 3,332 | 2,771 |
| Other finance expenses | 46 | (6) |
| **Total finance expenses** | **3,378** | **2,765** |
| **Total** | **(2,837)** | **(2,518)** |

## 9.1 The Company's interest income

The Company's interest income as at 31 December 2023 consists of interest earned on cash balances in bank accounts. The cash interest inflows are shown under 'Interest received' in the Statement of Cash Flows.

# 10 Income taxes

## 10.1 Recognised under profit or loss

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Deferred tax expenses (benefit) | 1,556 | (880) |
| **Total** | **1,556** | **(880)** |

The Company is a free economic zone company, whose capital investments reached EUR 1 million in 2016; therefore, the Company did not incur corporate income tax for next 6 tax periods starting from the tax period in which this amount of investments has been reached, and the Company will be subject to the reduced corporate income tax rate of 50% for the next 10 tax periods (until 31 December 2031). The Company was subject to a corporate tax rate of 7.5% in 2023 (7.5% in 2022).

## 10.2 Reconciliation of effective tax rate

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Company as follows:

| EUR thousand | 2023 | 2023 | 2022 | 2022 |
|---|---|---|---|---|
| Profit (loss) before tax | | 26,944 | | 25,925 |
| Income tax expenses (benefit) at tax rate of 7.5% | 7.5% | 2,021 | 7.5% | 1,945 |
| Non-taxable income and non-deductible expenses | 0.22% | 58 | 2.15% | 557 |
| Incentive on investment project | (0.02)% | (6) | (13.05)% | (3,382) |
| Other | (1.92)% | (517) | - | - |
| **Income tax expenses (benefit)** | **5.78%** | **1,556** | **(3.40)%** | **(880)** |

The incentive on investment project is included in the 2023 investment project incentive and the incentive from prior periods for which no deferred tax asset was recognised.

## 10.3 Deferred tax

| EUR thousand | 31 December 2021 | Recognised under profit or loss | 31 December 2022 | Recognised under profit or loss | Recognised under other comprehensive income | 31 December 2023 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Accrued expenses | 29 | (12) | 17 | 4 | - | 21 |
| Incentive on investment project | 1,878 | 1,082 | 2,960 | (1,569) | (177) | 1,214 |
| Derivative financial instruments | 174 | (174) | - | - | - | - |
| Lease liabilities (IFRS 16) | - | 1 | 1 | 2 | - | 3 |
| Capitalised income | 107 | (5) | 102 | (5) | - | 97 |
| Other | 7 | - | 7 | 3 | - | 10 |
| **Deferred tax asset, net** | **2,195** | **892** | **3,087** | **(1,565)** | **(177)** | **1,345** |
| **Deferred tax liability** | | | | | | |
| Capitalised interest | 125 | (7) | 118 | (6) | - | 112 |
| Right-of-use assets (IFRS 16) | - | 1 | 1 | 2 | - | 3 |
| Derivative financial instruments | - | 18 | 18 | (5) | 2 | 15 |
| **Deferred tax liability, net** | **125** | **12** | **137** | **(9)** | **2** | **130** |
| **Deferred tax, net** | **2,070** | **880** | **2,950** | **(1,556)** | **(179)** | **1,215** |

# 11 Intangible assets

| EUR thousand | Other Intangible assets | Total |
|---|---|---|
| **Acquisition cost at 1 January 2023** | **2,338** | **2,338** |
| Reclassified (to) / from property, plant and equipment | 12 | 12 |
| **Acquisition cost at 31 December 2023** | **2,350** | **2,350** |
| | | |
| **Accumulated amortisation at 1 January 2023** | **(426)** | **(426)** |
| Amortisation charge | (181) | (181) |
| **Accumulated amortisation at 31 December 2023** | **(607)** | **(607)** |
| **Carrying amount as at 31 December 2023** | **1,743** | **1,743** |
| | | |
| **Acquisition cost at 1 January 2022** | 2,336 | 2,336 |
| Additions | 2 | 2 |
| **Acquisition cost at 31 December 2022** | **2,338** | **2,338** |
| | | |
| **Accumulated amortisation at 1 January 2022** | **(245)** | **(245)** |
| Amortisation charge | (181) | (181) |
| **Accumulated amortisation at 31 December 2022** | **(426)** | **(426)** |
| **Carrying amounts as at 31 December 2022** | **1,912** | **1,912** |

## 11.1 Fully amortised intangible assets

As at 31 December 2023 and 2022, the Company had no fully amortised intangible assets used in operations.

## 11.2 Acquisition commitments

As at 31 December 2023 and 2022, the Company had no significant acquisition commitments of intangible assets which will have to be fulfilled during the later years.

### 11.3 Pledged assets

As at 31 December 2023 and 2022, the Company did not have pledged non-current intangible assets.

# 12 Property, plant and equipment

### 12.1 Company's property, plant and equipment

| EUR thousand | Cogeneration plants and their installations | Information technologies and communication equipment | Vehicles | Other property, plant and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost as at 1 January 2023** | **139,771** | **1,215** | **39** | **423** | **79** | **141,527** |
| Additions | 278 | 5 | 4 | 39 | 236 | **562** |
| Write-offs | (5) | - | - | (3) | - | **(8)** |
| Reclassified (to) from construction in progress | 292 | - | - | 11 | (303) | **-** |
| Reclassified (to) / from intangible assets | - | - | - | - | (12) | **(12)** |
| **Acquisition cost as at 31 December 2023** | **140,336** | **1,220** | **43** | **470** | **-** | **142,069** |
| **Accumulated depreciation and impairment at 1 January 2023** | **(13,434)** | **(237)** | **(7)** | **(116)** | **-** | **(13,794)** |
| Depreciation charge | (5,601) | (101) | (3) | (72) | - | **(5,777)** |
| Write-offs | 3 | - | - | 2 | - | **5** |
| **Accumulated depreciation and impairment at 31 December 2023** | **(19,032)** | **(338)** | **(10)** | **(186)** | **-** | **(19,566)** |
| **Carrying amount as at 31 December 2023** | **121,304** | **882** | **33** | **284** | **-** | **122,503** |
| **Acquisition cost as at 1 January 2022** | **139,717** | **1,215** | **39** | **347** | **20** | **141,338** |
| Additions | - | - | - | 66 | 123 | **189** |
| Reclassifications between categories | 54 | - | - | 10 | (64) | **-** |
| **Acquisition cost as at 31 December 2022** | **139,771** | **1,215** | **39** | **423** | **79** | **141,527** |
| **Accumulated depreciation and impairment at 1 January 2022** | **(7,836)** | **(137)** | **(4)** | **(58)** | **-** | **(8,035)** |
| Depreciation charge | (5,598) | (100) | (3) | (58) | - | **(5,759)** |
| **Accumulated depreciation and impairment at 31 December 2022** | **(13,434)** | **(237)** | **(7)** | **(116)** | **-** | **(13,794)** |
| Carrying amount as at 31 December 2022 | **126,337** | **978** | **32** | **307** | **79** | **127,733** |

### 12.2 Additions of property, plant and equipment

A at 31 December 2023 and 2022, the Company had no significant acquisition commitments of property, plant and equipment, which wil have to be fulfilled during the later years.

### 12.3 Fully depreciated property, plant and equipment

The cost of property, plant and equipment that is fully depreciated but used in operations is presented below:

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Information technologies and communication equipment | 4 | 1 |
| **Total** | **4** | **1** |

### 12.4 Pledged property, plant and equipment

As at 31 December 2023, the Company has pledged to banks property, plant and equipment with the carrying amount of EUR 121,223 thousand. As at 31 December 2022, the Company had pledged to banks property, plant and equipment with a carrying amount of EUR 126,255 thousand.

# 13 Right-of-use assets

## 13.1 The Company's right-of-use assets

| EUR thousand | Land | Other property, plant and equipment | Total |
|---|---|---|---|
| **1 January 2022** | | | |
| Acquisition cost | 1,196 | 72 | **1,268** |
| Accumulated depreciation | (37) | (45) | **(82)** |
| **Carrying amount** | **1,159** | **27** | **1,186** |
| **Carrying amounts as at 1 January 2022** | | | |
| Additions | - | 12 | **12** |
| Write-offs | - | (16) | **(16)** |
| Depreciation charge | (13) | (14) | **(27)** |
| **Carrying amounts as at 31 December 2022** | **1,146** | **9** | **1,155** |
| **31 December 2022** | | | |
| Acquisition cost | 1,196 | 68 | **1,264** |
| Accumulated depreciation | (50) | (59) | **(109)** |
| **Carrying amount** | **1,146** | **9** | **1,155** |
| **Carrying amounts as at 1 January 2023** | | | |
| Additions | - | 56 | **56** |
| Write-offs | - | (12) | **(12)** |
| Depreciation charge | (13) | (10) | **(23)** |
| **Carrying amount as at 31 December 2023** | **1,133** | **43** | **1,176** |
| **31 December 2023** | | | |
| Acquisition cost | 1,196 | 112 | **1,308** |
| Accumulated depreciation | (63) | (69) | **(132)** |
| **Carrying amount** | **1,133** | **43** | **1,176** |

## 13.2 Expenses related to lease agreements recognised in the statement of profit or loss

| EUR thousand in EUR | 2023 | 2022 |
|---|---|---|
| Depreciation | 23 | 28 |
| Expenses related to short-term leases (other expenses) | 36 | 12 |
| Write-off assets and liabilities | - | 16 |
| **Lease expenses, total** | **59** | **56** |

# 14 Inventories

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Emission allowances | 12,060 | 16,626 |
| Consumables, raw materials and spare parts | 483 | 388 |
| Other | 339 | 425 |
| **Carrying amount** | **12,882** | **17,439** |

The Company's inventories recognised as expenses were as follows:

| EUR thousand in EUR | 2023 | 2022 |
|---|---|---|
| Emission allowances | 6,430 | 9,086 |
| Biofuel | 1,481 | 5 |
| Natural gas | 167 | 275 |
| **Total** | **8,078** | **9,366** |

# 15 Trade receivables

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Amounts receivable from contracts with customers** | | |
| Receivables for supply of electricity | 4,466 | 3,077 |
| Receivables for supply of heat | 1,946 | 2,350 |
| Receivables for waste management | 1,867 | 1,470 |
| Other receivables | 110 | 87 |
| **Total** | **8,389** | **6,984** |
| Less: impairment allowance | - | - |
| **Carrying amount** | **8,389** | **6,984** |

As at 31 December 2023 and 2022, the Company has not pledged the right of claim to trade receivables.

No interest is charged on trade receivables, and the regular settlement period is 30 days.

The table below presents information on the Company's trade receivables from contracts with customers that are assessed on an individual basis:

| EUR thousand | 31 December 2023 Trade receivables | Loss allowance | 31 December 2022 Trade receivables | Loss allowance |
|---|---|---|---|---|
| Not past due | 8,222 | - | 6,533 | - |
| Up to 30 days | - | - | 412 | - |
| 30-60 days | 135 | - | 39 | - |
| 60-90 days | 26 | - | - | - |
| 90-120 days | - | - | - | - |
| More than 120 days | 6 | - | - | - |
| **Carrying amount** | **8,389** | **-** | **6,984** | **-** |

# 16 Cash and cash equivalents

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Cash balances in bank accounts | 27,055 | 31,794 |
| **Carrying amount** | **27,055** | **31,794** |

Under the loan agreements signed with the banks, the Company has pledged current and future cash inflows. The balance of pledged amounts as at 31 December 2023 amounted to EUR 11,722 thousand (31 December 2022: EUR 26,815 thousand).

# 17 Equity

## 17.1 Capital management

The management uses the equity as reported in the statement of financial position for capital management purposes.

According to the Law on Companies of the Republic of Lithuania, the issued capital of a private limited liability company must not be less than EUR 2,500. The equity must be at least 50% of the company's issued capital. As at 31 December 2023 and 2022, the Company was in compliance with the capital requirements.

## 17.2 Issued capital

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Issued capital** | | |
| Ordinary shares | 40,000 | 40,000 |
| **Ordinary shares issued and fully paid, EUR** | **40,000** | **40,000** |

As at 31 December 2023 and 2022, the Company's authorised capital amounted to EUR 40,000 thousand and was divided into 40,000,000 registered ordinary shares with par value of EUR 1 each. All the shares are fully paid.

## 17.3 Dividends

| EUR thousand | 2023 | 2022 |
|---|---|---|
| AB Ignitis grupė | 14,905 | - |
| UAB Gren Lietuva | 14,320 | - |
| **Total** | **29,225** | **-** |

EUR 29,225 thousand of dividends were approved by the general meeting of shareholders, held on 12 April 2023.

# 18 Reserves

## 18.1 Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Companies in Lithuania are required to transfer 5% of net profit from distributable profit until the total reserve reaches 10% of the issued capital. The legal reserve shall not be used for payment of dividends and is formed to cover future losses only.

As at 31 December 2023 and 2022, the legal reserve was not fully formed.

## 18.2 Hedging reserve

The hedge reserve includes hedging instruments used to hedge cash flows that will subsequently be recognised in profit or loss in the effective portion of the net change in fair value. As at 31 December 2023, the hedging reserve consisted of cash flow hedges - the effective portion of the change in fair value is EUR 2,182 thousand (as at 31 December 2022: EUR 6,889 thousand).

# 19 Loans

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Non-current** | | |
| Bank loan | 93,500 | 100,833 |
| **Current** | | |
| Current portion of the non-current loan | 7,333 | 7,333 |
| **Total** | **100,833** | **108,166** |

Loans by maturity:

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Up to 1 year | 7,333 | 7,333 |
| From 1 to 2 years | 7,333 | 7,333 |
| 2 and 5 years | 22,000 | 29,333 |
| After 5 years | 64,167 | 64,167 |
| **Total** | **100,833** | **108,166** |

All the Company's loans are denominated in EUR.

### 19.1 Commitments

The loan agreements provide for financial and non-financial covenants that the Company is obliged to comply with. The Company complied with all the covenants as at 31 December 2023 and 2022.

# 20 Net debt

Net debt is a non-IFRS liquidity metric used to determine the value of debt against highly liquid assets owned by the Company. Management monitors the Net Debt ratio for risk management purposes. Only debts to financial institutions and related interest payable and lease liabilities are included in the calculation of Net Debt. Management defines the Net Debt ratio for the purposes of preparing these financial statements as follows.

Net debt balances:

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Cash and cash equivalents | (27,055) | (31,794) |
| Non-current loans | 93,500 | 100,833 |
| Current loans (current portion of the non-current loan) | 7,333 | 7,333 |
| Lease liabilities | 44 | 9 |
| **Net debt** | **73,822** | **76,381** |

Reconciliation of the Company's net debt balances and cash flows from financing activities:

| | Assets | Lease Liabilities | | Borrowings | | |
|---|---|---|---|---|---|---|
| EUR thousand | Cash | Non-current | Current | Non-current | Current | Total |
| **Net debt as at 1 January 2022** | **(14,125)** | **12** | **15** | **-** | **110,334** | **96,236** |
| **Cash changes** | | | | | | |
| (Increase) decrease in cash and cash equivalents | (17,669) | - | - | - | - | **(17,669)** |
| Repayment of loans | - | - | - | - | (1,834) | **(1,834)** |
| Lease payments | - | - | (14) | - | - | **(14)** |
| Interest paid | - | - | - | - | (3,010) | **(3,010)** |
| **Non-cash changes** | | | | | | |
| Lease contracts concluded | - | - | 12 | - | - | **12** |
| Lease liabilities write-off | - | - | (16) | - | - | **(16)** |
| Accrual of interest payable | - | - | - | - | 2,623 | **2,623** |
| Reclassifications between items | - | (12) | 12 | 100,833 | (100,833) | **-** |
| VAT on payable interest | - | - | - | - | 53 | **53** |
| **Net debt as at 31 December 2022** | **(31,794)** | **-** | **9** | **100,833** | **7,333** | **76,381** |
| **Net debt as at 1 January 2023** | **(31,794)** | **-** | **9** | **100,833** | **7,333** | **76,381** |
| **Cash changes** | | | | | | |
| (Increase) decrease in cash and cash equivalents | 4,739 | - | - | - | - | **4,739** |
| Repayment of loans | - | - | - | - | (7,333) | **(7,333)** |
| Lease payments | - | - | (10) | - | - | **(10)** |
| Interest paid | - | - | - | - | (3,332) | **(3,332)** |
| **Non-cash changes** | | | | | | |
| Lease contracts concluded | - | 37 | 19 | - | - | **56** |
| Lease liabilities write-off | - | (4) | (7) | - | - | **(11)** |
| Accrual of interest payable | - | - | - | - | 3,332 | **3,332** |
| Reclassifications between items | - | (4) | 4 | (7,333) | 7,333 | **-** |
| **Net debt as at 31 December 2023** | **(27,055)** | **29** | **15** | **93,500** | **7,333** | **73,822** |

# 21 Provisions

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Non-current | 8 | 26 |
| Current | 6,430 | 9,086 |
| **Total** | **6,438** | **9,112** |

Movement of the Company's provisions was as follows:

| EUR thousand in EUR | Provision for emission allowances (Note 5.1) | Provisions for employee benefits | Total |
|---|---|---|---|
| **Balance as at 1 January 2022** | **6,494** | **22** | **6,516** |
| Increase during the year | 9,086 | 4 | **9,090** |
| Used during the year | (6,494) | - | **(6,494)** |
| **Balance as at 31 December 2022** | **9,086** | **26** | **9,112** |
| **Balance as at 1 January 2023** | **9,086** | **26** | **9,112** |
| Increase during the year | 6,430 | 4 | **6,434** |
| Used during the year | (9,086) | (22) | **(9,108)** |
| **Balance as at 31 December 2023** | **6,430** | **8** | **6,438** |
| Non-current portion | - | 8 | **8** |
| Current portion | 6,430 | - | **6,430** |
| **Balance as at 31 December 2023** | **6,430** | **8** | **6,438** |

### Description of the Company's provisions and the expected timing of realisation of economic benefits

Provisions for employee benefits include a statutory retirement benefit for the Group's employees (note 3.11.2). The duration of the provision is calculated for each employee using actuarial assumptions including the age of the employee, mortality risk, employee turnover rate, discount rate (3.37% at 31 December 2023, 0.55% at 31 December 2022), long-term salary increases (4% at 31 December 2023, 4% at 31 December 2022).

# 22 Other current liabilities

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Taxes (other than income tax) | 928 | 959 |
| Payroll related liabilities | 295 | 32 |
| Amounts payable for property, plant and equipment | 245 | 85 |
| Accrued expenses | 162 | 226 |
| Excess costs of the electricity revenue cap | - | 413 |
| Other amounts payable and liabilities | - | 118 |
| **Carrying amount** | **1,630** | **1,833** |

Financial liabilities amount to EUR 245 thousand (31 December 2022: EUR 203 thousand). Taxes (other than income tax), employment-related liabilities, electricity revenue cap excess costs and accrued expenses are not financial liabilities.

# 23 Derivatives

The Company's derivative financial instruments consist mainly of:

- other contracts – interest rate swap derivatives;
- contracts relating to electricity commodities;
- other contracts – derivatives of emission allowance futures;

On 27 October 2022, the Company agreed with a Group company on the terms of the physical sale and purchase of electricity, and as a result, as at 31 December 2022, there were no electricity transactions remaining to be accounted for as derivative financial instruments.

As at 31 December 2023, the Company has purchased all emission allowances, against which the emission allowance futures were accounted for.

## 23.1 Derivative financial instruments, included in the statement of financial position

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Other non-current assets | 2,559 | 7,136 |
| **Carrying amount** | **2,559** | **7,136** |

Movement of derivative financial instruments:

| EUR thousand in EUR | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Carrying amount** | **7,136** | **(2,316)** |
| Change in fair value of derivatives recognised in 'Financial income' | - | 247 |
| Change in fair value of derivatives recognised in 'Other expenses' | (46) | 2,316 |
| Change in fair value of derivatives recognised in 'Other comprehensive income' | (4,531) | 6,889 |
| **Carrying amount** | **2,559** | **7,136** |

## 23.2 Derivative financial instruments included in the statement of profit or loss

| EUR thousand in EUR | 2023 | 2022 |
|---|---|---|
| Other contracts - interest rate option derivatives | (46) | 247 |
| Contracts relating to electricity commodities (realised) | - | (9,920) |
| Contracts relating to electricity commodities (unrealised) | - | 3,372 |
| Other contracts - derivatives of emission allowance futures; | - | (1,056) |
| **Recognised in the statement of profit or loss** | **(46)** | **(7,357)** |

# 24 Contingent liabilities

## 24.1 Litigations

As at 31 December 2023 and 2022, the Company was not involved in any legal procedures which, in the opinion of the Management, could have a material influence on the financial statements.

# 25 Related-party transactions

| Related parties, EUR thousand | Amounts receivable 31 December 2023 | Amounts payable 31 December 2023 | Sales 2023 | Purchases 2023 | Finance income (costs) 2023 |
|---|---|---|---|---|---|
| Other Group companies | 4,414 | 87 | 27,851 | 976 | - |
| State-controlled UAB EPSO-G group companies | 43 | 6 | 276 | 950 | - |
| **Total** | **4,457** | **93** | **28,127** | **1,926** | **-** |

| Related parties, EUR thousand | Amounts receivable 31 December 2022 | Amounts payable 31 December 2022 | Sales 2022 | Purchases 2022 | Finance income (costs) 2022 |
|---|---|---|---|---|---|
| Parent company AB Ignitis grupė | - | - | - | - | (251) |
| Other group companies | 2,975 | 71 | 4,838 | 7,348 | - |
| State-controlled UAB EPSO-G group companies | 54 | - | 771 | 616 | - |
| Non-controlling shareholder UAB Gren Lietuva | - | - | - | - | (133) |
| **Total** | **3,029** | **71** | **5,609** | **7,964** | **(384)** |

The Company purchases services related to lease of property, IT and telecommunications, procurement organisation and implementation, accounting and personnel administration from related parties.

## 25.1 Terms of transactions with related parties

Settlement terms are set at 15-90 days. Receivable balances at year-end are not secured by collateral, do not accrue interest and are settled in cash. No guarantees have been issued or received to secure the repayment of receivables or payables from related parties.

## 25.2 Benefits to key management

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Wages and salaries and other current benefits to key management | 137 | 123 |
| Whereof: | | |
| *Current benefits* | 137 | 123 |
| Number of key management personnel | 4 | 4 |

In 2023 and 2022, the key management personnel of the Company were considered to be the CEO and the members of the Board. For more information on key management personnel, see Section 4 of the Annual Report.

# 26 Fair values of financial instruments

## 26.1 Financial instruments measured at fair value

The Company's derivatives are measured at fair value (all allocations to hierarchy levels are presented in a table below).

As at 31 December 2023, the Company held interest rate swap and option derivatives. The net value is calculated using exchange rates published by the European Central Bank. Level 2 of the hierarchy is used to determine the fair values of these derivatives as they are not traded in the direct markets and the calculations are based on information publicly available in the markets.

As at 31 December 2023, there were no derivative transactions related to electricity purchase and sale prices (Note 23).

## 26.2 Financial instruments for which fair value is disclosed

The fair value of the Company's loans granted by commercial banks is calculated by discounting future cash flows with reference to the interest rate observable in the market. The cash flows were discounted using a weighted average discount rate of 6.42% as at 31 December 2023 (31 December 2022: 4.80%). The measurement of financial liabilities related to the debts is attributed to Level 2 of the fair value hierarchy.

The table below presents allocation of the fair value among the hierarchy levels of the Company's financial instruments as at 31 December 2023.

| EUR thousand | Note | Carrying amount | Level 1 Quoted prices in active markets | Level 2 Other directly or indirectly observable inputs | Level 3 Unobserv-able inputs | Total |
|---|---|---|---|---|---|---|
| **Financial instruments at fair value through profit or loss** | | | | | | |
| **Assets** | | | | | | |
| Derivatives | 23 | **2,259** | - | 2,259 | - | **2,259** |
| **Financial instruments for which fair value is disclosed** | | | | | | |
| **Liabilities** | | | | | | |
| Bank loans | 19 | **100,833** | - | 81,088 | - | **81,088** |

The table below shows distribution of the fair value of the Company's financial instruments as at 31 December 2022 by hierarchy levels:

| EUR thousand | Note | Carrying amount | Level 1 Quoted prices in active markets | Level 2 Other directly or indirectly observable inputs | Level 3 Unobserv-able inputs | Total |
|---|---|---|---|---|---|---|
| **Financial instruments at fair value through profit or loss** | | | | | | |
| **Assets** | | | | | | |
| Derivatives | 23 | **7,136** | - | 7,136 | - | **7,136** |
| **Financial instruments for which fair value is disclosed** | | | | | | |
| **Liabilities** | | | | | | |
| Bank loans | 19 | **108,166** | - | 96,929 | - | **96,929** |

# 27 Events after the reporting period

There were no material events after the reporting period to the date of these financial statements.

KPMG Baltics, UAB
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LT-08104, Vilnius
Lithuania

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vilnius@kpmg.lt
home.kpmg/lt

# Independent Auditor's Report

### To the Shareholders of Kauno Kogeneracinė Jėgainė UAB

## Opinion

We have audited the financial statements of Kauno Kogeneracinė Jėgainė UAB ("the Company"). The Company's financial statements comprise:

- the statement of profit or loss and other comprehensive income as at 31 December 2023,
- the statement of financial position for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- notes to the financial statements, comprising material accounting policies and other explanatory inforr

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethics Standards Board for Accountants and the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

The other information comprises the information included in the Company's annual management report (or pages 3-38), but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.





Company code: 111494971
VAT payer's code: LT114949716

In addition, our responsibility is to consider whether information included in the Company's annual management report for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual management report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

- The information given in the Company's annual management report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Company's annual management report has been prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

Vilnius, the Republic of Lithuania
25 March 2024

# 6.3 Information about the auditor

## OVERVIEW

At the shareholders' meeting of the Company held on 17 April 2023, KPMG Baltics UAB was re-appointed to audit the Company's financial statements for the period 2023-2027. KPMG also audited the Company's accounts for the years 2021 and 2022 on the basis of the previous contract.

Worth noting that all independent auditor related tenders are carried out in accordance with best practice. Additionally, as public procurement law requirements are applicable to the parent company, all audit tenders are carried out in accordance to them. The main criterion for the implementation of public tenders is to ensure competitiveness; therefore, the only specific audit selection criterion that can be included is experience in auditing companies in the energy sector. Finally, the whole audit selection process is supervised by the Audit Committee and the independent auditor is appointed by the decision of the General Meeting of Shareholders of the parent company and subsequently by the General Meeting of Shareholders of each Group company.

Independent auditors and financial period during which audit services have been provided

| 2021–2023 |
|---|
| KPMG Baltics, UAB<br>Lvivo St. 101<br>LT-08104<br>Vilnius, Lithuania |

## Services and fees

During the period 2022-2023, the following services have been provided to the Company by the independent auditor in conjunction with the firm's international partners

Independent auditor's services and fees

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Audit of the annual financial statements under the agreements | 27 | 27 |
| Other[1] | 2 | 1 |
| **Total** | **29** | **28** |

[1] Other services included translation of the Company's financial statements and the annual management report into the English language.

In line with the Group's policy, the annual fee for non-audit services of our statutory auditor cannot exceed the annual fee for statutory audit services calculated at Group level. The cap may be exceeded subject to approval by the Audit Committee of the parent company.

# 7. Additional information

# 7.1 Other important statutory information

The Annual report provides information to the shareholders, creditors and other stakeholders of Kauno Kogeneracinė Jėgainė UAB (hereinafter – the Company) about the Company and the entities under its control, if any, and operations during the period of January–December 2023.

The Annual report has been prepared by the Company's administration in accordance with the requirements of the Law on Financial Reporting of Undertakings of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania, the Law on Consolidated Financial Reporting of Groups of Undertakings of the Republic of Lithuania, and taking into consideration the description of the guidelines for transparency of the activities of state-owned enterprises. The Company's securities are not listed or traded on a regulated market. Articles of Association of the Company do not set any other requirements for the content of the Company's Annual Report than the ones provided for in the legislation specified above.

The Company's management is responsible for the information contained in the Annual Report. The report and the documents, on the basis of which it was prepared, are available at the head office of the Company (Jėgainės St. 6, Biruliškių village, LT-54469 Kaunas region) on working days from Mondays to Thursdays from 7.30 am to 4.30 pm, and on Fridays from 7.30 am to 3.15 pm (with a prior arrangement).

**Company details**

1. Company name: Kauno Kogeneracinė Jėgainė UAB
2. Legal form: UAB (limited liability company)
3. Share capital: EUR 40,000,000.00
4. Registration date and place: 27 February 2015, Vilnius, the Register of Legal Entities of the Republic of Lithuania
5. Company code: 303792888
6. Company address: Jėgainės St. 6, Biruliškių village, LT-54469 Kaunas region
7. Company's register: SE Centre of Registers Register of Legal Entities
8. Phone: +370 615 69294
9. E-mail: info@kkj.lt
10. Website: www.kkj.lt

**Legal notes**

1. There were no significant events after the end of the financial year except those revealed in Business highlights.
2. The Company has not used financial and hedging instruments subject to hedge accounting that would be significant in assessing the Company's assets, equity, liabilities, financial position, and performance.
3. The Company had no treasury shares at the beginning of the reporting period and did not acquire any treasury shares during the reporting period.
4. The Company has no branches or representative offices.
5. The Company envisages further sustainable development of its existing operations to ensure higher profitability and asset efficiency in the long term. Research will be carried out as and when required.
6. The Company's operations are in compliance with the requirements of environmental protection legislation.

**Alternative performance measures**

Alternative Performance Measures (hereinafter - APM) – adjusted figures used in this report refer for measurement of internal performance management. These measures are not defined by the International Financial Reporting Standards (IFRS) and do not comply with the requirements of IFRS. Definitions of alternative performance measures are available on the website (link) of AB Ignitis grupė.

**Systems of internal control and risk management relevant to the preparation of financial statements**

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The staff of the company's accounting firm ensures that the financial statements are properly prepared and that the data is collected in a timely and accurate manner. The preparation of the Company's financial statements, the systems of internal control and financial risk management are controlled and managed in accordance with the legislation governing the preparation of financial statements

**Information on agreements between the Company and members of its management and supervisory bodies, or employees providing for compensation in the event of their resignation or dismissal without justified reason, or if their employment is terminated as a result of a change in control of the Company (formal offer).**

The Company and the members of the management and supervisory bodies or employees do not have agreements in place that provide for compensation in the event of their resignation or dismissal without justified reason, or in the event of the termination of their employment as a result of a change in control of the Company.

## Information on restrictions on the transfer of the Company's equity securities imposed by law, the Articles of Association or shareholders' agreements

There are no restrictions on the transfer of the Company's equity securities imposed by law, the Articles of Association or shareholders' agreements.

## Information on the Company's branches and representative offices and research and development activities

The Company does not have any branches or representative offices and does not carry out any research and development activities.

## Notice on the language

In the event of discrepancies between the Lithuanian and English versions of the documents, the Lithuanian version shall prevail.

# 7.2 Information on Compliance with the Guidelines on Transparency of State-Owned Companies

## Information on compliance with the Guidelines on Transparency of State-Owned Companies

| Point in the description of the Guidelines on Transparency of State-Owned Companies (version as at 30 April 2021) | Disclosure | Explanation |
|---|---|---|
| Chapter II. Disclosure of information by a State-owned enterprise | | |
| 5. The following data and information must be announced on the website of a state-owned enterprise: | | |
| 5.1. name; | Yes | Information available on www.kkj.lt |
| 5.2. the code and register in which the company's data is collected and stored; | Yes | |
| 5.3. registered office (address); | Yes | |
| 5.4. the legal status if the state-owned entity is being restructured, reorganised (indicating the type of reorganisation), liquidated, bankrupt or insolvent; | Yes | |
| 5.5. the name of the authority representing the State and a link to its website; | Yes | |
| 5.6. operational objectives, vision and mission; | Yes | |
| 5.7. structure; | Yes | |
| 5.8. data about the head of the company; | Yes | |
| 5.9. data about the chairman and members of the management board, if the management board established under the articles of association; | Yes | |
| 5.10. data about the chairman and members of the supervisory council, if the supervisory council is established under the articles of association; | Yes | |
| 5.11. names of committees, data about their chairmen and members, if committees are established under the articles of association; | Yes | |
| 5.12. the sum of the nominal values of the shares owned by the State (to the nearest euro cent) and the share (as a percentage) in the authorised capital of the State-owned company; | Yes | |
| 5.13. special obligations shall be carried out in accordance with the guidelines approved by the Minister of Economy and Innovation of the Republic of Lithuania: the purpose of the special obligations shall be specified, the state budget allocations for their execution in the current calendar year and the legal acts by which the state-owned companies is entrusted with the execution of the special obligation shall be indicated, the terms and conditions of the execution of the special obligation shall be set and/or the pricing shall be regulated; | Not applicable | |
| 5.14. information on social responsibility initiatives and measures, major investment projects underway or planned. | Yes | |
| 6. In order to ensure publicity regarding the professionalism of the members of the management and supervisory bodies and committees of State-owned companies, the following data shall be published for the persons referred to in sub-paragraphs 5.8 to 5.11 of the Description: name, surname, date of commencement of the current position, other managerial positions held in other legal entities, education, qualifications, professional experience. If the person referred to in points 5.9 to 5.11 is elected or appointed as an independent member, this shall be indicated in addition to his/her data. | Yes | Information available on www.kkj.lt |
| 7. The following documents shall be published on the website of a state-owned enterprise: | Yes | Information available on www.ignitisgrupe.lt www.kkj.lt |
| 7.1. Articles of Association; | Yes | |
| 7.2. statement from the representative body of the State on the definition of the State's objectives and expectations in a State-owned enterprise; | Yes | |
| 7.3. the business strategy or a summary thereof where the business strategy contains confidential information or information considered to be a commercial/industrial secret; | Yes | |
| 7.4. a document setting out the remuneration policy covering the remuneration of the chief executive of a State-owned enterprise and the remuneration of the members of the collegiate bodies and committees of a State-owned enterprise, | Yes | |

| | | |
|---|---|---|
| as detailed in the Corporate Governance Code; | | |
| 7.5. annual and interim reports of a State-owned enterprise , and annual and interim activity reports of a State-owned enterprise for a period of at least 5 years; | Yes | |
| 7.6. sets of annual and interim financial statements for a period of at least 5 years and auditor's reports on the annual financial statements. | Yes | |
| 8. If the state-owned company is the parent company, its website shall publish the structure of the group of companies, as well as the particulars referred to in points 5.1 to 5.3 of the Description concerning the subsidiaries and entities of subsequent rows, the website addresses, the percentage of the parent company's shareholding in their share capital as well as the annual consolidated financial statements and the consolidated annual reports. | Not applicable | |
| 9. If a State-owned company is a participant in legal entities other than those referred to in point 8 of the Description, the data and website addresses of those legal entities referred to in points 5.1 to 5.3 of the Description shall be published on its website. | Yes | Information available on www.kkj.lt |
| 9[1]. If the entity is a subsidiary or an entity of a subsequent row of the State-owned company, the website shall contain the parent company's data referred to in points 5.1 to 5.3 of the Description and a link to the website of the parent company. | Yes | Information available on www.ignitisgrupe.lt |
| 10. Any change or publication of incorrect data, information and documents referred to in points 5 and 6, 7.1 to 7.4, 8, 9 and 91 of the Schedule shall be promptly amended and published on the website. | Yes | Information and documents that have changed are updated immediately |
| 11. The set of annual financial statements of the State-owned company, the annual report of the State-owned company, the annual activity report of the State-owned company, as well as the auditor's report on the annual financial statements of the State-owned company, must be published on the website of the State-owned company within 10 working days from the date of the approval of the annual financial statements of the State-owned company. | Yes | Documents are published on the website within a set time limit |
| 12. The sets of interim financial statements of the State-owned company, the interim reports of the State-owned company and the interim activity reports of the State-owned company must be published on the website of the State-owned company at the latest 2 months after the end of the reporting period. | Yes | Documents are published on the website within a set time limit |
| 13. The documents referred to in point 7 of the Description shall be published in PDF format and shall be technically printable. | Yes | Documents are published in the PDF format |
| **Chapter III. Preparation of financial statements, reports and activity reports** | | |
| 14. State-owned companies shall maintain their accounting in such a way as to ensure the preparation of financial statements in accordance with international accounting standards. | Yes | The Company's accounting is in accordance with IFRS |
| 15. In addition to the annual financial statements, a State-owned company prepares a set of 6-month interim financial statements, and a state enterprise prepares sets of 3-month, 6-monthly and 9-month interim financial statements. | Not applicable | |
| 16. A State-owned company classified as a public interest entity under the Law on Audit of Financial Statements of the Republic of Lithuania prepares a 6-month interim report in addition to the annual report. A State-owned enterprise classified as a public-interest entity under the Law on Audit of Financial Statements of the Republic of Lithuania shall, in addition to the annual activity report, prepare a 6-month interim activity report. | Not applicable | |
| 17. The annual report of a State-owned company or the annual activity report of a State-owned company shall, in addition to the content requirements set out in the Law on Financial Reporting of Enterprises of the Republic of Lithuania or the Law on State and Municipal Enterprises of the Republic of Lithuania, contain: | Yes | |
| 17.1. a brief description of the business model of the State-owned company; | Yes | |
| 17.2. information on significant events that occurred during and after the financial year (prior to the preparation of the annual report or the annual activity report) that had a material impact on the activities of the State-owned enterprise; | Yes | The Company presents information in the annual report |
| 17.3. the results of the achievement of the objectives set out in the State-owned company's operational strategy; | Yes | |
| 17.4. profitability, liquidity, asset turnover, debt ratios; | Yes | |
| 17.5. fulfilment of specific obligations; | Not applicable | |
| 17.6. Implementation of the investment policy, ongoing and planned investment | Yes | |

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| projects and Investments during the year under review; | | |
| 17.7. implementation of the risk management policy in a State-owned company; | Yes | |
| 17.8. implementation of dividend policy in State-owned companies; | Yes | |
| 17.9. implementation of remuneration policy; | Yes | |
| 17.10. the total annual payroll fund, the average monthly salary by position and/or department; | Yes | |
| 17.11. information on compliance with the provisions of Chapters II and III of the Description: how they are being implemented, which provisions are not being complied with and an explanation of why. | Yes | |
| 18. State-owned companies and state enterprises that are not required to prepare a corporate social responsibility report are recommended to include in their annual report or annual activity report, as appropriate, information on environmental, social and human resources, human rights, anti-corruption and anti-bribery issues. | Not applicable | The Company prepares a social responsibility report (integrated into the annual report) |
| 19. If the information referred to in point 17 of the Description is considered to be a commercial (industrial) secret or confidential information of the State-owned company, the State-owned company may not disclose such information, but state in the annual report of the State-owned company or the annual activity report of the State-owned company, as the case may be, that the information is not to be disclosed and under what reason. | Not applicable | The Company presents information in the annual report |
| 20. The annual report of the State-owned company or the annual activity report of the State enterprise may also contain other information not specified in the Description. | Yes | The annual report also contains other information |
| 21. A State-owned company which is the parent company shall disclose in its consolidated annual report or, if it is not required by law to prepare a consolidated annual report, in its annual report, the structure of the group of companies, as well as the data referred to in points 5.1 to 5.3, for each of its subsidiaries and subsequent-row subsidiaries, the shareholding (in percentage of share capital) in the authorised capital of the subsidiary and the financial and non-financial results of its operations for the financial year. Where a State-owned company, which is the parent company, prepares a consolidated annual report, the requirements of point 17 of the Description shall apply *mutatis mutandis* to it. | Yes | The Company presents information in the annual report |
| 22. The interim report of a State-owned enterprise or the interim performance report of a State-owned enterprise shall include a brief description of the business model of the State-owned enterprise, an analysis of its financial performance for the period under review, information on significant events that occurred during the period under review, as well as the indicators of profitability, liquidity, turnover, assets and debt, and the changes of these indicators as compared to the corresponding period of the previous year. | Yes | The Company presents information in the annual report |

# Glossary

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| **#** | Number |
| **%** | In percent |
| **'000** | Thousand |
| **12-month** | The period of the previous twelve months |
| **AB** | Joint Stock Company |
| **RE** | Renewable energy |
| **Company** | Kauno Kogeneracinė Jėgainė UAB |
| **Ignitis grupė** | The group of companies AB Ignitis grupė |
| **Parent company** | AB Ignitis grupė |

# Certification statement

25 March 2024

We, Ramūnas Paškauskas, Chief Executive Officer and Aksana Stankevičienė, Head of Finance of Kauno Kogeneracinė Jėgainė UAB, and Pranas Miltenis, Head of Corporate Accounting at UAB Ignitis grupės paslaugų centras, acting in accordance with the Order No 24_GSC_SP_0004 of 10 January 2024, hereby confirm that, to the best of our knowledge, the financial statements of Kauno Kogeneracinė Jėgainė UAB for the year 2023, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the Company's assets, liabilities, financial position, profit or loss and cash flows for the period, and the Annual Report for 2023 includes a fair review of the development and performance of the business as well as the condition of the Company together with the description of the principle risks and uncertainties it faces.

| Ramūnas Paškauskas | Aksana Stankevičienė | Pranas Miltenis |
|---|---|---|
| CEO | Head of Finance | Head of Corporate Accounting of UAB Ignitis grupės paslaugų centras, acting under Order No 24_GSC_SP_0004 of 10 January 2024 |


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