# AB ENERGIJOS SKIRSTYMO OPERATORIUS

## 2023

## Annual report

Annual management report for the year ended 31 December 2023 and the Company's financial statements for the year ended 31 December 2023, prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

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eso

# OVERVIEW

# 1.1 CEO's statement

Dear customers, shareholders, partners, colleagues,

The three-year strategy (2023–2026) approved in 2023 defines how Energijos skirstymo operatorius (ESO) will operate in a changing market environment and how it will foster innovation and growth, not only in the domestic market, but also in the energy context of the European Union (EU).

The ongoing transformation of the energy sector opens up new opportunities for efficient and sustainable energy supply. This process requires not only technological change, but also an integrated approach that reflects global energy trends. Integrity and the ability to respond to the needs of market players are becoming increasingly important.

ESO transformation is also accelerated by the tens of thousands of prosumers, 26.5 thousand of whom were connected to the network in 2023, almost 95% of whom were connected without any additional premium for network reconstruction. The digitisation of the network continues, with more than 700 thousand smart meters installed between 2022 and 2023. The next-generation network is indispensable for managing renewable energy resources, such as the electricity streams generated by solar and wind, which are steadily increasing.

Another important aspect described in the strategy is an overview of the entire sector's development in the context of the EU from Lithuania's reference point. The projected leap in various segments sheds light on where we stand and which major decisions will allow us to evolve and transition to the next stage.

For example, green generation capacity, which depends entirely on the renewable energy capacity growth, should grow by 93% (+6.1 GW), while the growth required in the EU is 23% lower. In the first seven months of 2023 alone, the number of prosumers in Lithuania has grown at an immense rate. More prosumers were connected to the ESO network during this period than during the entire last year, and by the end of the year, we reached almost 27 thousand.

It is estimated that the development rate in this segment will remain high. Our objective is for prosumers to comprise around 10% of total consumers (+1 GW) by 2026. The growing number of prosumers is creating a new important problem, which is a need for smart energy storage devices. We expect a breakthrough in this area as well with +35 MW and +30 GW capacity additions in Lithuania and in the EU respectively. Meeting these needs is especially important as market participants become increasingly active.

By implementing these goals, we are also evolving as an organisation. We are expanding the concept of the customer to include not only traditional energy consumers, but also suppliers, energy storage companies as well as third-party service providers. We are cooperating and trying to dialogue with all of them.

One of the ways to achieve our goals is digitalisation, and, in a broader sense, investing into innovations is a solution for meeting our customers' expectations. One of such solutions is developing remote and digital service channels. It allows us to analyse customer experience and introduce effective solutions to the market. The data indicates that we are moving in the right direction: 97% of prosumers are submitting requests to receive technical conditions online.

A recent significant reduction in duration of electricity network interruptions is growing confidence in the network's reliability. The average duration is 1.06 h (in comparison, in 2016–2020 it was 1.18 h). We aim to maintain this rate for the next three years (annual average should improve to 1.05 h). Our efforts to increase the network's efficiency and automation enables us to maintain this rate. The number of customers connected to automated network solutions is constantly growing, and by 2026 it will comprise 63%.

Network modernisation, automation and digitalisation is what will allow us to meet the growing electricity demand (+45%, or +5.7 TWh, in Lithuania, and +23%, or +650 TWh, in the EU) which will be boosted by the EV market and the switch to heat pumps in the upcoming years.

By investing into sustainable innovations, ESO will ensure the development of a resilient and efficient network in the future.

**Renaldas Radvila**

**CEO**

# 1.2 Business highlights

## DURING THE REPORTING PERIOD

### January

- At the beginning of 2023 the consumers received an additional reminder about the postponed 3rd stage of the electricity market liberalisation. The decision to postpone it entered into force after the amendments to the Law on Electricity have been approved. After the amendments entered into force, the final deadline for liberalisation of the electricity market in order to consistently abandon monopolistic conditions, to deregulate the electricity supply prices and move to a competitive electricity supply market model has been extended until 1 January 2026. Previously, the deadline was set for 1 January 2023.
- After categorising the data, it was announced that in 2022 ESO connected twice as many prosumers to the network as in 2021. In 2022 ESO connected 18.6 thousand prosumers, in 2021 – 5.6 thousand, and in 2020 – 5.3 thousand. In 2022 this number increased by almost two times and reached 9.5 thousand new consumers with 69.5 MW allocated capacity.
- ESO and the Ministry of Finance concluded new agreements for the use of state budget funds for the first half of 2023 regarding the procedure for allocation and repayment of budget funds allocated for partial compensation. Under these agreements, up to EUR 382.83 million was allocated from state funds to reduce the expenses of household users for the electricity and (or) natural gas consumed, and up to EUR 174 million for non-household users. The funds allocated for partial compensation will be paid by the administrator – ESO. ESO is not the final recipient of the funds (it only administrates the payments).

### February

- The governance model of ESO has been optimised: the Boards now carry out supervisory functions. While implementing these changes, the executive boards formed from employees have been abandoned and instead Boards with supervisory function were formed, and the compositions of the Boards were approved. A single-tier governance model in subsidiaries will ensure simpler yet effective governance that continues to meet the highest standards of governance, rapid decision-making, responsive communication, and active involvement of independent members.
- National Energy Regulatory Council (NERC) approved the new fee for preparing technical conditions for new customers' connections to the electricity distribution network managed by ESO. When submitting a request to receive the technical conditions to connect to the electricity network, a one-time fee shall apply, which starting from 1 March will be EUR 41.89, including VAT. The current fee is EUR 31.75. The fee changes are related to increased expenses of utility, telecommunications, IT and partner services.
- The Lithuanian Court of Appeal by its ruling of 23 February 2023 decided to partially satisfy the claim of the plaintiff UAB VILNIAUS ENERGIJA in the case against the defendant AB Energijos skirstymo operatorius. ESO was ordered to pay EUR 1.7 million in damages for 2014 and EUR 0.5 million – for 2015, procedural interest at the rate of 6% on the amount ordered (EUR 2.2 million) from the date on which the case was brought into the court (24 March 2014) until the full execution, and EUR 0.1 million in legal costs. On 22 May 2023 and 5 July 2023, the Company filed cassation appeals to the Supreme Court of Lithuania, but they were not admitted due to the lack of special importance of the legal issue raised. ESO has fully complied with the ruling of the Court of Appeal of Lithuania.
- On 14 February 2023, with the entry into force of the new edition of the Company's Articles of Association, the Board with the supervisory function started its activities.

### March

- Approved ESO strategy (2023–2026) describing the following key objectives: to continue creating and developing resilient and efficient electricity network as well as allocating resources and investing into network expansion and market facilitation. Another important aspect described in the strategy is improving customer experience: establishing and maintaining dialogue with customers, receiving feedback (experience analysis, improving processes, expanding customer communications map).
- Electricity market in Lithuania has reached a significant milestone and the data sharing platform is playing an important role. It was created to meet the needs expressed by market participants and in order to facilitate an efficient, transparent and digitalised market. The objective of the data sharing platform is to facilitate the development of efficient and competitive energy retail market using transparent and neutral measures. An ability for customers to change their electricity supplier quickly and an ability for electricity

suppliers to get access to the necessary customer details in a timely manner are prerequisites for a smooth electricity market liberalisation process and a functioning market.

- The Description of the Procedure for the Use of Electricity Distribution Networks was adopted, amending the procedure for reserving the capacity and throughput of electricity networks for producers and prosumers' power plants, as well as for energy storage devices. This was done in accordance with the requirements of the Breakthrough Package and the Government-approved proportions for the distribution of electricity network capacities and shares of throughput for power plants using renewable energy sources on land territory. This procedure ensured that the capacity and throughput of electricity networks are accessible to the priority groups of network users specified in the Law on Electricity and by the Government.

**April**

- Agnė Domarkienė, a manager with extensive experience in customer engagement, has been appointed as the Head of Services. Some of the main responsibilities of the position is to improve the customer experience, implement smart and sustainable solutions, and transform services for customers. Customer communication, customer engagement and customer feedback are also very important factors.
- After an independent electricity supplier Birštono elektra announced that about terminating its activities, ESO made sure that the customers who chose the supplier would be ensured uninterrupted electricity supply. ESO participated as an intermediary during the entire process of transferring the customers. All the obligations of Birštono elektra to its customers were transferred to an independent supplier Elektrum Lietuva, which ensured electricity supply under the same conditions as the conditions set in the customers' original contracts. Detailed information about the electricity market liberalisation project is available at www.pasirinkitetiekėją.lt.

**May**

- ESO submitted the 10-year investment plan (further – Investment Plan) for the 2022–2031 period for public consultation according to the procedures and made it available on the Company's website.

**June**

- Following the abolition of partial compensation for electricity on 1 July, ESO has been actively communicating through the internet platform created specifically for communication on market liberalisation www.pasirinkitetiekėją.lt. The residents were encouraged to review the rates agreed in their active contracts and renegotiate them with their suppliers if there are more economically advantageous offers in the market at the moment. It must be noted that even though the 3rd stage of the market liberalisation was postponed, the number of consumers receiving the supply of last resort services is decreasing every month (on average, 800 customers leave the supply of last resort every month).
- ESO has been initiating and successfully implementing changes in robotisation and automation of processes for a couple of years now. Their benefits were recognised by both customers and employees. By automating processes, tasks can be performed faster, while employee motivation increases as they can focus on more creative tasks that add value. The automated processes also provide more accurate data about energy consumption, and the market can be advised on energy efficiency solutions based on this data.
- ESO and the Ministry of Finance concluded new agreement for the use of state budget funds for the second half of 2023 regarding the procedure for allocation and repayment of budget funds allocated for partial compensation. Under the agreement, up to EUR 54.48 million was allocated from state funds to reduce the expenses of household users for the natural gas consumed. The funds allocated for partial compensation will be paid by the administrator – ESO. ESO is not the final recipient of the funds (it only administrates the payments).

**July**

- As the number of new prosumers is growing and the operating prosumers are increasing their capacities, ESO has started to monitor and educate customers more thoroughly. A check of smart meter reading showed that some of the installed solar power plants do not activate the reactive power function (hereinafter – Q(U)), which helps regulate the voltage in the electricity grid. With this function disabled, the prosumers can generate more power than established in their technical conditions. Customers and contractors were sent notices, requesting to enable the Q(U) function. This is an important step in response to the active participation of market participants.
- Starting from 1 July, common restoration times for all customers in the event of unplanned disconnections or faults, depending on the area, have been applied. If deadlines are exceeded, compensation will

be paid by ESO. Also, as of that date, electricity consumers are no longer divided into reliability categories. The change is based on amendments to the Electricity Law. This change is mostly relevant to B2B customers who are in the Reliability Category I or II for more reliable electricity supply and who currently pay the reliability category component. Following the changes, electricity supply must be restored within 6 hours where the customer's electricity installations are located in cities with more than 80,000 inhabitants and free economic zones; within 12 hours where the customer's electricity installations are located in another territory of the Republic of Lithuania; if the electricity distribution is interrupted due to an accident of energy facilities and installations caused by natural phenomena, the criteria of which are laid down in the legislation governing the investigation of accidents and disturbances of energy facilities and installations, or due to a fire, the distribution network operator shall be required to restore the distribution of electricity to customers within 72 hours.

- As of July, more than 50 thousand natural and legal persons have already become prosumers, with a total installed capacity of over 615 MW of solar power plants. The vast majority of prosumers in Lithuania are installing solar power plants. During the first half of the year, the Company connected over 17 thousand prosumers to the network. Meanwhile, in 2022 the total number of connected prosumers was nearly 19 thousand. This year, both commercial and residential prosumers installed more than 714 thousand solar modules. The total area of these modules is equivalent to half the area of the city of Trakai.
- We installed over 500 thousand smart meters. Smart meter users are already enjoying the benefits of smart metering. Smart meter roll-out across Lithuania is progressing smoothly and on schedule. Almost 290 thousand meters have been installed this year – more than half of the 500 thousand meters planned for 2023. The largest number of smart meters has been installed in Marijampolė, Alytus and Kaunas regions. Here, the number of meters replaced is rapidly approaching the annual target.
- NERC has approved (the amendments to the methodology for determining electricity and natural gas weighted average cost of capital (hereinafter – WACC) for the Networks segment. The amendments will enter into force from 2024.
- The Company closed down the public consultation for the new Investment Plan for 2022–2031 period, which was announced earlier in May on the Company's website (link). The Company informed NERC about the closure of consultation period and indicated that no comments or questions were received to the new Investment Plan. The Company provided answers to NERC's additional questions.

**August**

- In 2023, the Company's plans were affected by natural disasters. One storm after another in the second half of the year caused damage to the residents and the Company. Temporal disruptions in the electricity supply were restored by the Company to some customers in record time. At the end of the month, almost 180 thousand consumers experienced simultaneous longer or shorter electricity disruptions. 60% of them had their supply restored by automation – within about 3 minutes. Of the remaining disconnected consumers, almost 90% were restored by ESO in less than 12 hours. Like in other storms, the vast majority of failures were caused when trees or their branches fell on overhead lines and disconnected wires. According to data, the vast majority (around 55%) of disconnections are caused by plants, i.e. untended and overgrown trees that break or fall and disconnect power line wires and break supports. The Company works hard to change this situation by continuing targeted customer education as well as consulting the foresters. The foresters share their knowledge with ESO employees who are responsible for removing dangerous trees and other plants that cause risk to power lines.

**September**

- The amendment to the Law on Energy from Renewable Sources adopted together with Breakthrough Package came into force on 1 September, enabling aggregation of prosumers' objects into a single billing group. Before this change, the objects of the prosumers aggregated the electricity supplied to the network individually and the aggregated electricity could not be transferred from one object of the prosumer to the other. Now, the grouped objects can share the aggregated electricity, which will make the accounting process for prosumers who have several objects easier.
- On 26 September, the Ministry of Energy submitted amendments to the Law on Energy and the Law on Electricity for public consultation and the amendments are aimed, inter alia, at regulating the exchange of energy data in the electricity sector. It has been proposed to determine the entities in the electricity sector the data between which the exchange would be centralised through a centralised energy data platform (Data Hub) which would be developed, maintained and managed by a distribution network operator providing services to more than 100,000 customers. Currently, the common platform for data storage and exchange is used by two main players in the retail market: consumers and suppliers. Users can access functionalities of the data platform through self-service of AB Energijos skirstymo operatorius, where they have a possibility to provide their consent and to indicate specific suppliers to which they

agree, based on the consent provided, to transfer data of the object and detailed data of consumption. Each consumer has a possibility to generate historical energy consumption data for his/her objects and can freely share such data with interested parties. It is aimed to create a fully operational Data Hub in the second stage of the development of Data Hub. This stage of the project involves the development and introduction of all the modules planned in the project by placing them on the market according to the project's plan and priorities. It should be noted that the data platform is currently under development and 9 out of the 9 planned individual modules are already operating (total development progress is 70%). Further development of services and functionalities is planned until the end of 2024 by involving more and more stakeholders and not limiting to professional and licensed market players, such as third parties (entities providing services related to energy efficiency, entities that own or manage under any right groups of objects, managers of buildings, operators of electric vehicle network, developers of price comparison systems, consultants, etc.). Further coordination with interested institutions and consideration of the project in the Seimas of the Republic of Lithuania are planned in 2024.

- The Company continues its good practice and does not carry out planned work during major holidays and other important days of the year. One of them is 1 September. Such work is not carried out at Christmas and Easter, New Years Eve and 1 January as well as during the preparation for them.
- When the independent electricity supplier UAB EGTO Energija suspended its activities and their liabilities to the customers were taken over by UAB Enefit, the Company ensured smooth transfer of the customers' data to UAB Enefit's systems. The operator skilfully used its experience and modern solutions and all transfer procedures were carried out smoothly.
- Network modernisation and reliability is a strategic direction that becomes particularly important in the transformation stage. In the first nine months of last year, ESO invested more than EUR 30 million in modernisation of the network and installed 53 km of overhead power lines and 342 km of underground cables. Currently, according to ESO's strategic plan it is expected to install an average of 437 km of underground cables and about 134 km of overhead cable lines each year between 2024 and 2031. More than EUR 26 million each year is planned for this work. ESO identifies cabling as one of the most important priorities in the modernisation of power lines as it helps to ensure the reliability of the network and to make its development more efficient. Disconnections of overhead lines make more than half (around 56%) of all disconnections in the power network. For comparison, cable failures make 34% of failures and the remaining failures occur in transformer stations.

**October**

- The Company continued education of the customers in all directions and did not forget about declaration of actual data of electricity. This is especially important as the rapid roll-out of smart meters continues. When the meters are changed, a part of consumers get higher bills within the first months for the previous periods when data was inaccurately declared. When smart meters were introduced in the middle of 2022, some consumers were against them but eventually became convinced of the benefits of the new metering devices. Also, they appreciate the work of engineers who were installing more than 2 thousand meters per day across Lithuania in 2023. According to the survey of electricity consumers, 1.9 thousand out of 2.6 thousand respondents rated their experience of changing their meter into a smart one positively, while only 207 rated this negatively. So the Company is rated positively by 7 out of 10 customers who would recommend it to others. The survey was performed in compliance with the methodology of the customer recommendation index (Net Promoter Score, NPS).
- In the first three quarters of this year, more than 41 thousand new customers were connected to the network and electrical input power was increased in more than 19 thousand cases. The increasing demand for the latter service is partially related to the increasing popularity of electric vehicles, private charging stations and solar power plants. Investments in the development of the electricity distribution network in the first nine months of 2023 amounted to EUR 132.9 million and they were higher by 64.2% (EUR 51.9 million) compared to the same period in the previous year. A large part of ESO's investments (EUR 62.9 million) during the period considered was directed towards reconstruction of the network which included renewal of 685 kilometres of power lines. Most of them (95%) were reconstructed by laying underground cables.

**November**

- When the National Audit Office published its audit report and findings in the energy sector at the end of October, the Company focused on finding common solutions by negotiating a shorter period for the repayment of the regulatory difference with the regulator – the National Energy Regulatory Council (NERC). It was decided that the regulatory difference amounting to EUR 160 million would be repaid to residents through the ESO tariff over a period of 2.5 years and to B2B customers over a period of 7.5

years, while ensuring the necessary investments in the network at the same time. The Company fulfilled all liabilities specified in its long-term investment plan, which was also submitted to the NERC, and invested EUR 0.8 billion in the network between 2016 and 2021. Investments further increased within the last two years and more than EUR 0.5 billion was invested in the network.

**December**

- Amendments to the Law on Energy from Renewable Sources introducing net billing for electricity produced from renewable sources were adopted (entered into force on 1 January 2024). Net billing will be applicable to the persons for whom this method is compulsory when the conditions for the connection of their power plants to the network or the permit for the development of electricity generation capacity (where necessary) are issued after the entry into force of the law. The same package of laws also clarified the provisions that will allow improving the procedure for reserving power and capacity on electricity networks for power plants of producers and prosumers, and provide clarity on connection of hybrid power plants to the electricity network and on the change of the activity/status of producers and prosumers.
- More than 700 thousand smart meters are already operating in the country. Rapid development of smart metering allows more and more residents in the country to use electricity more efficiently and thus reduce their costs. The Company has a possibility to manage the network more effectively and restore power more quickly, for example in case of natural disasters. The data centre processes 700 GB of data every day and analysis of this data allows making decisions that help customers save money. So far the roll-out of smart meters has been most rapid in Marijampolė, Alytus and Kaunas districts where the number of meters replaced has already exceeded the numbers expected in 2022–2023.
- On 21 December, the Company disposed all its shares in UAB “Ignitis grupės paslaugų centras” to AB “Ignitis grupė”. AB “Ignitis grupė” became the sole shareholder of UAB “Ignitis grupės paslaugų centras”, holding 100% of its shares.

## AFTER THE REPORTING PERIOD

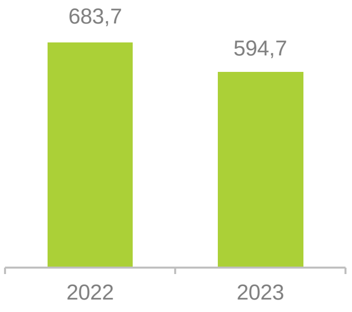
**January**

- ESO together with the regulator National Energy Regulatory Council (NERC) adopted a decision to accelerate repayment of the regulatory difference. Repayment through the ESO tariff will start in April 2024 and it will be repaid over a period of 2 years and 3 months (compared to the previous planned period of 2.5 years) for residents, and over a period of 7.5 years for B2B customers, while ensuring the necessary investments in the network at the same time. The agreements are laid down in the methodology adopted after a public consultation held in December 2023. The Company invested more than EUR 800 million in the network during the regulatory period 2016-2021 and the regulatory difference during this period was a result of different calculation methodologies from the network restoration value applied by NERC and ESO.

# 1.3 Performance highlights

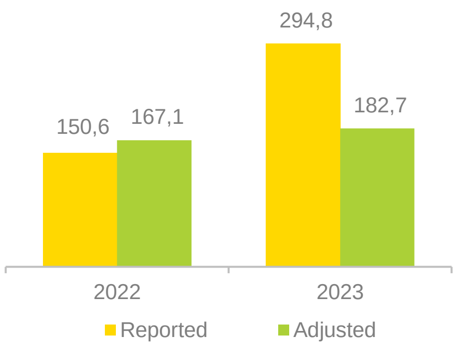
## FINANCIAL

**Revenue**
EURm




In 2023, the Company's revenues amounted to EUR 594.7 million and were 13% or EUR -89.0 million lower than in 2022. The decrease was mainly driven by lower revenue from electricity distribution (EUR -79.9 million) due to lower transmission tariff component determined by the regulator, and to lower revenue from supply of last resort (EUR -45.8 million) as a result of the declining electricity market price. This was partly offset by revenues from natural gas distribution (EUR +31.2 million), due to a higher natural gas distribution tariff component determined by the regulator.

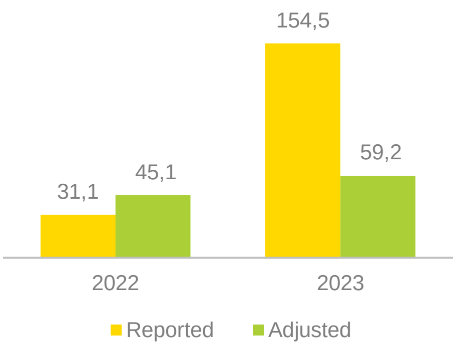
**EBITDA, Adjusted EBITDA** APM[1]
EURm




Reported EBITDA reached EUR 294.8, an increase of EUR +144.2 million compared to 2022, mainly due to a 66% decrease in the cost of electricity and natural gas purchases (EUR +263.2 million).

Adjusted EBITDA amounted to EUR 182.7 million and was 9.3%, or +EUR 15.6 million, higher than in 2022, mainly due to higher RAB effect (EUR +10.7 million).

**Net profit, adjusted Net profit** APM
EURm

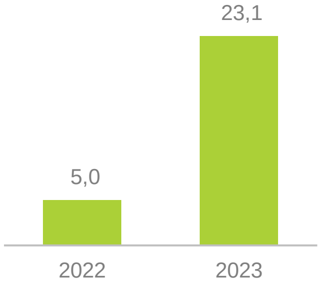



In 2023, adjusted Net profit increased by EUR +14.0 million, mainly due to growth in Adjusted EBITDA (EUR +15.6 million).

Reported net profit increased by EUR 123.3 million in 2023. The increase in reported net profit was higher compared to increase in Adjusted net profit, mainly due to the impact of temporary regulatory differences (EUR +128.6 million).

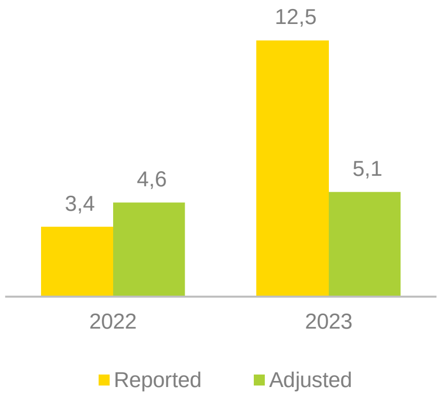
*[1] Alternative performance measures (APM) – the adjusted numbers presented in this report used for internal assessment of operating activities. These measures are not defined by the International Financial Reporting Standards (IFRS) and do not comply with the requirements of IFRS. Definitions of alternative performance measures are provided on the Group's website (link).*

**ROE LTM**
%



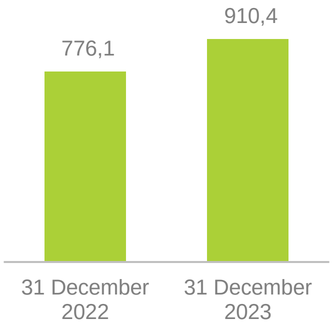

The indicator of return on equity (ROE LTM) increased by 18.1 percentage points mainly due to higher net profit.

**ROCE LTM, Adjusted ROCE LTM** APM
%



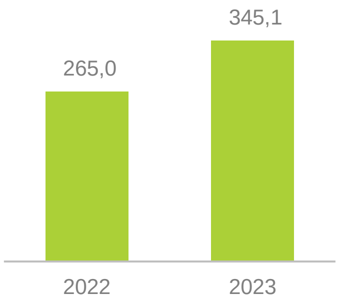

The indicator for return on capital employed (ROCE LTM) increased by 9.1 percentage points in 2023 due to higher equity and EBIT. Adjusted ROCE increased by 0.5 percentage point due to higher Adjusted EBITDA.

**Net debt** APM
EURm



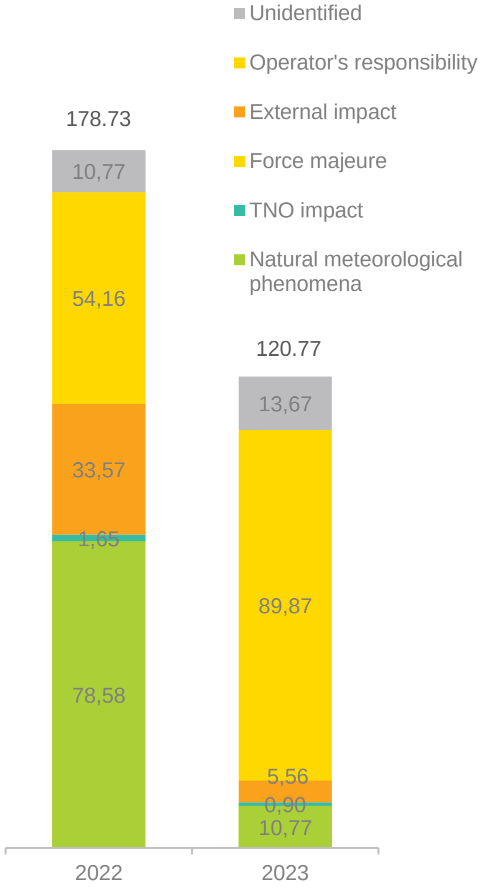

Net debt increased by 17.3% mainly due to higher need for working capital and the volumes of investments carried out.

**Investments** APM
EURm




In 2023, investments amounted to EUR 345.1 million, an increase of 30.2%, or EUR 80.1 million, mainly due to higher investments into expansion of the electricity distribution network (EUR +79.3 million, or 56.0%). The main reasons for the increase were higher number of new connections points and upgrades, as well as higher contractor fees. Contractor fees for new connections and upgrades increased on average by 47% per customer. Additionally, growth in investments was driven by smart meters roll-out (EUR 43.1 million), an increase by EUR 22.5 million compared to 2022.

## **Electricity distribution quality indicator**
**SAIDI**, unscheduled, minutes

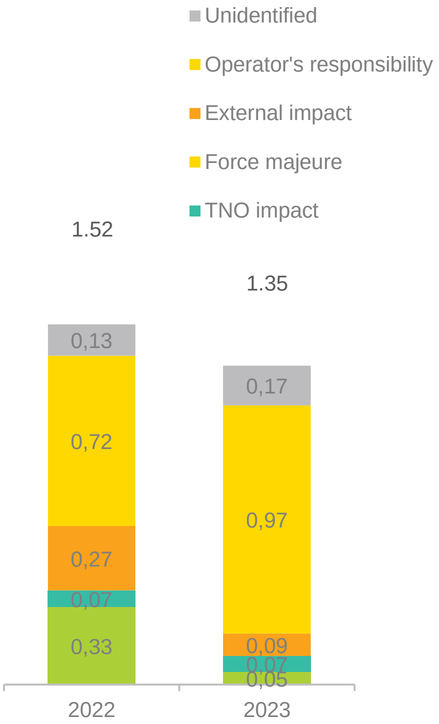



The impact of the average duration of interruptions in the electricity power supply (SAIDI) reached 120.77 minutes per customer in 2023, a drop of 57.96 minutes compared to 2022.

The improvement compared to 2022 is due to the introduction of automated solutions, remote network management, and the involvement of internal repair teams in troubleshooting during mass outages.

Excluding the impact of the events categorised as natural phenomena and failures in the transmission network, SAIDI increased by 11% in 2023. The most significant impact on the difference in the indicator was due to the mass outages caused by strong winds in Q3–Q4, which were close to the natural phenomena, but did not reach it.

## **Electricity distribution quality indicator**
**SAIFI**, unscheduled, times




The impact of the average number of unplanned electricity interruptions (SAIFI) per customer reached 1.35 times in 2023, a decrease of 0.17 times (11%) compared to 2022.

The improvement compared to 2022 is due to the implementation of automated solutions (FLIR), investments and the ongoing project to remove dangerous trees on 35–10 kV overhead lines.

Excluding the impact of the events categorised as natural phenomena and failures in the transmission network, SAIFI increased by 9% in 2023. The most significant impact on the difference in the indicator was due to failures of old cable lines as well as the mass outages caused by strong winds in Q3–Q4, which were close to the natural phenomena, but did not reach it.

**Natural gas supply quality indicator**
**SAIDI**, unscheduled, minutes


In 2023, the average duration of interruptions in natural gas distribution (SAIDI) under the influence of force majeure per customer was 0.30 minutes and increased by 0.03 minutes compared to 2022 (in 2022, SAIDI was 0.27 minutes).

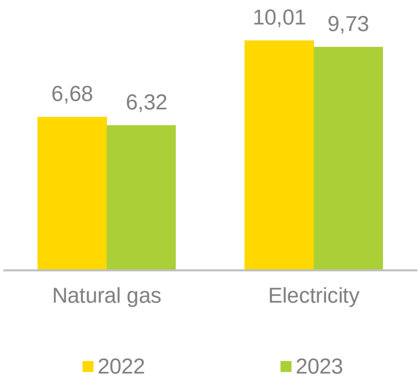
The main reason for this change in SAIDI was a slight increase in the average number of customers disconnected per accident and more complicated failures.

**Natural gas supply quality indicator**
**SAIFI**, unscheduled, times


The average number of unplanned long interruptions per customer (SAIFI) was 0.0034 times in 2023 and decreased by 0.0001 times compared to 2022 (0.0013 times in 2022).

The change in SAIFI is due to a slight increase in the average number of customers disconnected per accident. In 2023, the total number of disconnections was 7% lower compared to 2022.

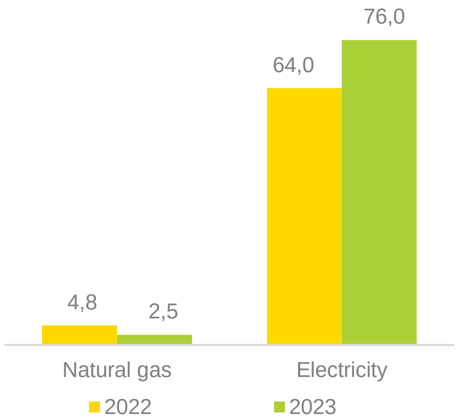
**Distributed volumes**,
TWh




In 2023, total distributed electricity decreased by 0.28 TWh, or 2.8%. The decrease was mainly driven by the B2B segment, due to a noticeable decline in industrial production, as well as a decrease in electricity consumption by retail and service industries.

Natural gas distribution volume has dropped by 0.36 TWh, or 5.4%, due to unfavourable market conditions over the last year, pushing B2B customers to reduce natural gas consumption, halt production or switch to alternative fuels.

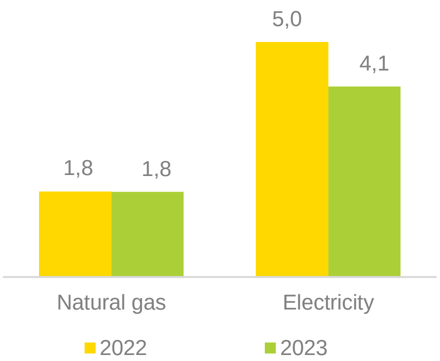
**New connection points and upgrades**
thousand units




In 2023, 34.5% more new customers were connected to the electricity distribution network, new connections and upgrades increased by 4%. The number of prosumers and producers increased by nearly 2 times. The increase was conditioned by high energy prices and government's support schemes for solar parks.

Reduced natural gas consumption influenced decrease in new connection points and upgrades to the natural gas distribution network, which dropped by 47.9%.

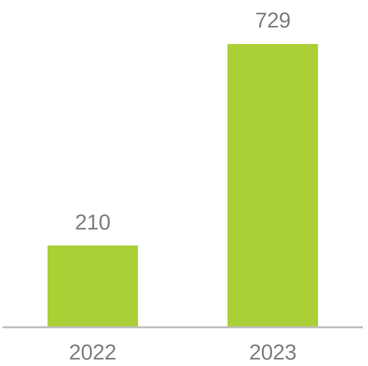
**Technological losses**
%




The technological losses ratio in electricity distribution network decreased by 1 pp in 2023. The decrease was influenced by reversal of the estimated amount of the over-declared consumption (-0.1 TWh).

The technological losses ratio in natural gas distribution network remained almost unchanged.

**Number of smart meters installed**
thousand units




From the beginning of smart meters mass roll-out in July 2022, around 729 thousand smart meters were successfully installed in total, out of which around 519 thousand meters were installed in 2023.

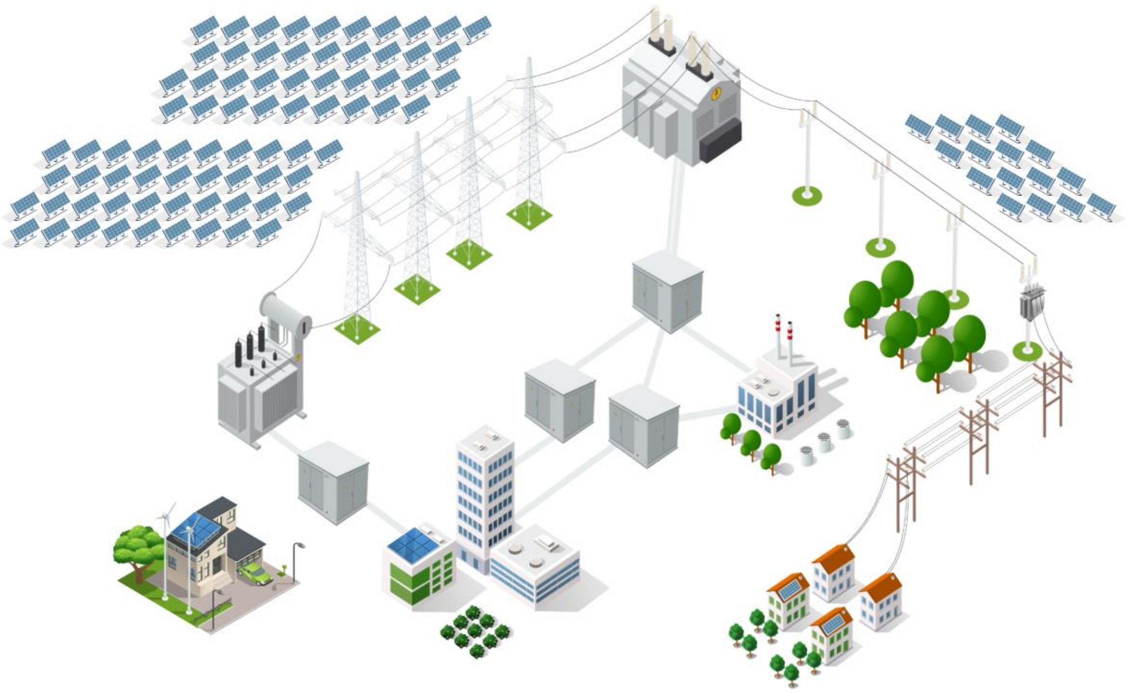
# BUSINESS OVERVIEW

# 2.1 Business profile

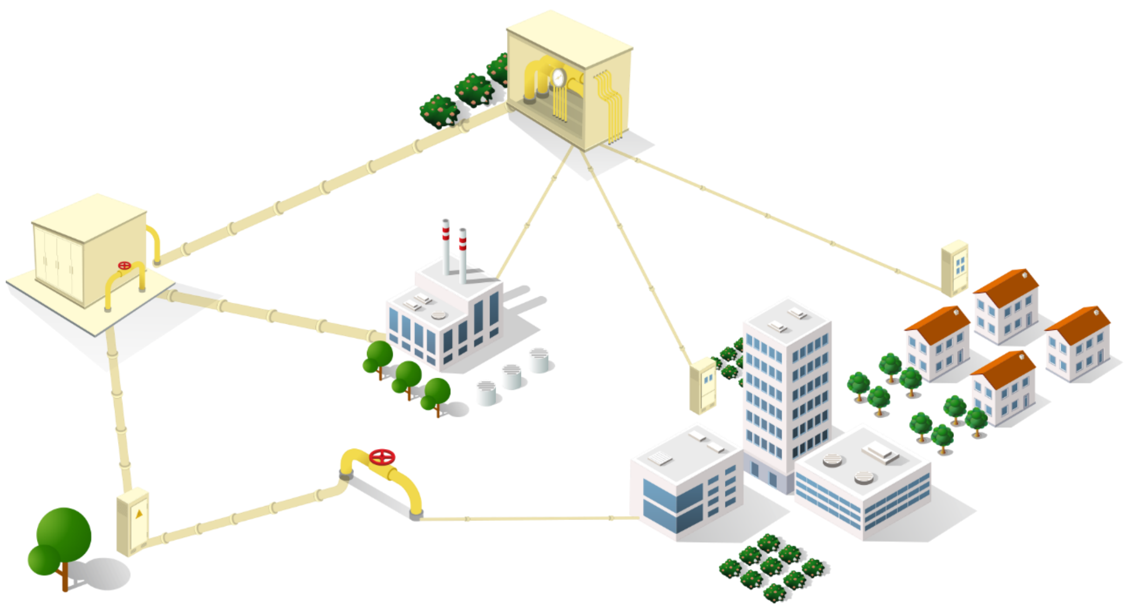
## KEY COMPANY NETWORK INDICATORS

ESO distributes electricity and natural gas, maintains distribution networks, implements smart solutions to make them reliable and efficient, troubleshoots and connects new customers.

**Electricity distribution network operated by ESO**



**Gas distribution network operated by ESO**

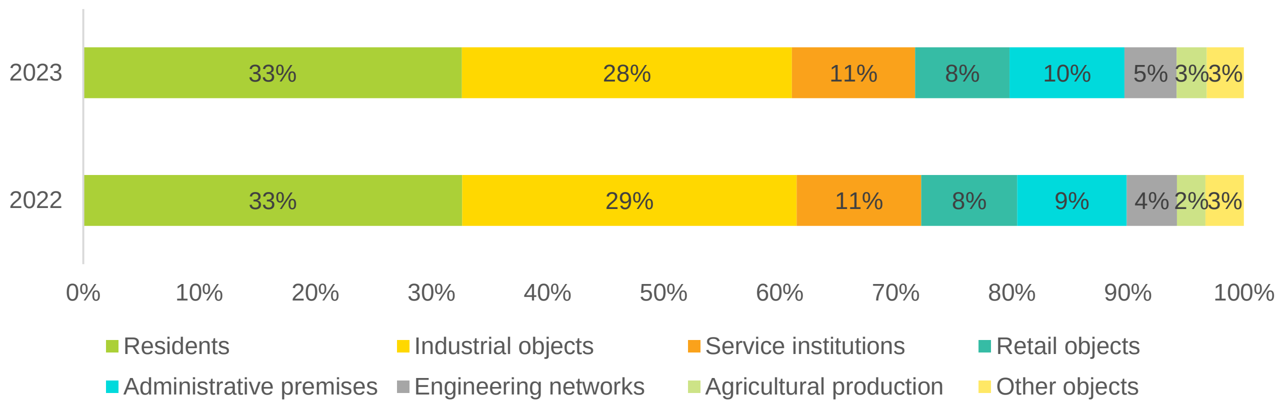


ESO ensures resilient and effective electricity distribution services throughout entire Lithuania, enabling transformation of the energy sector, continually invests and modernises its strategic assets used in the activities of electricity and natural gas distribution by increasing resilience, safety, and efficiency of the network in the entire country. The Company's activity is fully regulated with electricity and natural gas distribution licences granted by the National Energy Regulatory Council (NERC). Regulation has been implemented by establishing price caps for services rendered by ESO, which are measured for the regulatory period of 5 years (currently, the regulatory period of 2022–2026 is applied to the electricity sector, whereas the regulatory period of 2019–2023 is applied to the natural gas sector).

ESO is developing digitisation solutions of the distribution network aiming at developing one of the most advanced smart networks throughout the region. ESO also contributes to development of energy innovations and renewable energy production, and to promotion and efficiency increase of the local energy market.

### Electricity distribution

The Company owns and operates 128,405 thousand kilometres of electricity lines: out of which 64.5% are overhead electricity lines, and 35.5% – electricity cables. In 2023, the Company distributed to customers 9.73 TWh of electricity, which is 0.28 TWh or 2.8% less than in 2022 (2022: 10.01 TWh). In 2023, the Company distributed to B2C customers 3.5 TWh of electricity, and 6.47 TWh to B2B customers (in 2022, 3.20 TWh and 6.81 TWh respectively). The decrease in electricity distributed is mainly driven by the lower consumption of B2B segment due to a noticeable decline in industrial production, The supply of last resort made up 2.4% of this amount (2.6% in 2022). The remaining customers of the Company were provided only with the electricity distribution service.




### Natural gas distribution

The Company operates 9,687 thousand kilometres of natural gas distribution pipelines. In 2023, the Company transported 6.32 TWh of natural gas through the distribution pipelines, which is 0.36 TWh or 5.4% less than in the same period of 2022. In 2023, the Company distributed to B2C customers 2.29 TWh of natural gas, and 4.03 TWh to B2B customers (in 2022, 2.50 TWh and 4.19 TWh respectively).

Unfavourable market conditions over the last year, pushed B2B customers to reduce natural gas consumption, halt production or switch to alternative fuels. Commercial customers did not receive state compensations for natural gas as household customers did.

# 2.2 Strategy

## MAIN PURPOSE AND INTEGRATED STRATEGY

AB Energijos skirstymo operatorius is an important part of Ignitis Group's integrated business model and strategy. Ignitis Group 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)

Ignitis Group aims 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

**Flexible capacities**

**Strategic focus**

Contributing to the security of the energy system

AB Energijos skirstymo operatorius is part of Ignitis Group and belongs to Networks segment. Our activities include electricity and natural gas distribution, supply of last resort and maintenance of distribution networks, troubleshooting, installing smart solutions and connecting new customers.

**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 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**

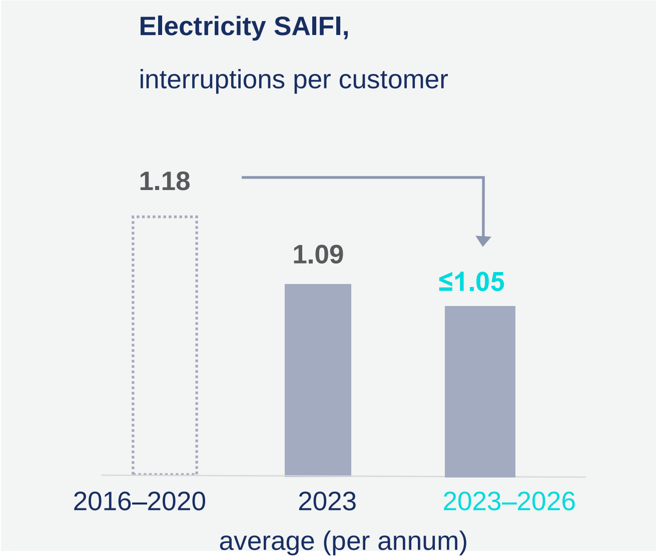
We are a team of diverse and energetic people united by a common purpose.

RESPONSIBILITY IMPROVEMEN PARTNERSHIP OPENNESS

## Strategic focus, targets and key performance indicators

**Strategic focus:**

1. Resilient and efficient electricity distribution
2. Network expansion and energy market facilitation
3. End-to-end customer experience




We invest in the electricity distribution network and ensure its resilience. We aim to reduce the SAIFI[2] to an average of ≤1.05 interruptions per customer in 2023–2026. We are improving network automation and aim to have 63% of consumers connected to automated control lines by 2026. For the period 2023–2026, the average technological losses in the electricity distribution network should remain ≤5.0%. By 2026, we plan to complete the roll-out of smart meters (1.2 million units).

### The Company’s strategic directions and indicators

| Company’s strategic directions | Detalisation of strategic directions | Strategic indicators |
|---|---|---|
| Resilient and efficient electricity distribution | We continually invest and modernise the strategic assets used in the activities of electricity and natural gas distribution to B2B customers and households therefore increasing resilience and efficiency of the network in the entire country. | Electricity distribution resilience and efficiency |
| Network expansion and energy market facilitation | We aim to enable the development of the energy market, including transport electrification/EV charging and energy efficiency. This also includes the electrification of the industrial sector and heating systems by expanding the electricity network with new connections, capacity upgrades and smart meters. | Electricity distribution network development and markets enabling |
| End-to-end customer experience | We focus on improving the end-to-end customer experience by implementing standardised solutions and channels to meet the growing needs of our customers. | The customer journey |

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

[2] *The SAIFI targets have been developed considering the minimum electricity distribution reliability level set by the National Energy Regulatory Council (NERC) for the 2022–2026 regulatory period (established based on the resolution No. O3E-79 of the National Energy Regulatory Council dated January 26, 2022: an average level for the 2022–2026 period). The achievement of the target shall be assessed in accordance with the principles used and the methodology in force at the time of level setting (as adopted in the provisions of the Description of the Electricity Distribution Reliability and Quality of Service Indicators, hereinafter referred to as "the Methodology"), according to which the following cases are excluded: (1) interruptions due to natural phenomena corresponding to the values of natural, catastrophic meteorological and hydrological phenomena indicators; (2) interruptions due to failures in the network of the transmission system operator. In the event of a change in the provisions of the Methodology, the achievement of the target would be assessed in accordance with the Methodology in force at the time the target was set.*

## Main projects and investments

**Investment plan: modernisation of the electricity and gas distribution networks**

Up to now, the Investment Plan used to be updated on an annual basis. From 2022, in accordance with the Law on Electricity and legislation, the Investment Plan must be provided to NERC ("the Council") for approval every second year. In December 2022, a new draft investment plan for 2022 – 2031 was submitted to the Council for approval, and an updated plan was submitted in September 2023 to reflect the newly set rate of return on investments. The investment plan submitted for approval was also published for public consultation on the Company's website (link).

The planned investments continue to focus on two main areas – improving network resilience and efficiency, as well as market enablement and customer experience:

- Increase in resilience and efficiency of network. This programme intends to accelerate restoration of energy supply after the failures, continue replacement of airways of electrical grid by underground line giving priority to replacement of frequently disconnecting and emergency airways, wooded territories. It will be continued to install equipment that ensures network automation by increasing the share of customers connected to automated control lines. In addition, focus will be put on increasing the efficiency of the grid by focusing on solutions reducing technological losses;
- Electricity network expansion and market facilitation and end-to-end customer experience. This programme is meant to create incentives for market formation in a balanced and systematic manner and to enable the market to provide new, higher quality services necessary for the transformation of the energy sector. The main tool of this programme is roll-out of smart meters. This technological solution will ensure accuracy and timeliness of data in the ESO network, will enable the market and customers to create services of higher quality as well as improve the efficiency of distribution network management.

During the coordination period of the plan, the Council, by resolution dated 5 January 2024, approved the draft methodology for electricity transmission, distribution and public supply services and the public price cap, as well as the schedule for the repayment of ESO's excess return on investments. A letter from the Council was received on 22 January 2024 expressing the need to prepare a new investment plan for the period 2024 – 2033 reflecting these resolutions. Therefore, the Company plans to submit a new investment plan for the period 2024 – 2033 before the set deadline, in coordination with the Council. Until the approval of the new investment plan for the period 2024 – 2033, the previously approved investment plan for 2021 – 2030 remains in force.

**Investment policy**

Since the end of 2022, we have successfully continued working on grid maintenance and expansion, including the smart meter roll-out. Smart meter roll-out for B2C and B2B customers whose energy consumption exceeds 1,000 kWh a year began in July 2022 and successfully continues today. New customers, electricity producers and remote producers are also receiving smart meters. In 2023, around 519 thousand smart meters were installed, reaching around 729 thousand installed smart meters in total (out of 1.1–1.2 million smart meters to be installed). Full functionality of the new smart metering solutions were deployed at the end of 2023. While the system is already operational and performs routine tasks, in 2024 we will aim to further improve, develop, and integrate new functionalities into it. We are also analysing how the smart metering system integrates into the distribution management system and plan to have it fully integrated by mid–2025. In addition, we aim to develop a smart metering data centre using cloud technologies to create a big data platform to collect and analyse smart meter data.

There are currently no disruptions in the production and supply of smart meters, so our goal of completing the mass roll-out by 2025 remains unchanged.

There were several regulatory changes in 2023 that are worth mentioning:

1. On 27 July 2023, the methodology for determining electricity and natural gas WACC was updated. The amendments will enter into force from 2024. The key changes include:

- the principle for calculating the risk-free rate has been changed to a 12-month yield average of the auctions for the 10-year Lithuanian Government Bond (in the previous version it was a 10-year average);

- a periodic annual recalculation and application of all WACC components has been established (in the previous version only the cost of debt was set to be recalculated annually, while the remaining WACC components were set to be recalculated every 5 years).
- For 2024, this update has resulted in electricity WACC increase to 5.09% (from 4.17% in 2023) and natural gas WACC increase to 5.03% (from 3.99% in 2023).

2. After the end of the reporting period, an agreement was reached with the regulator to change the repayment schedule of the 160 million regulatory difference to 2024 – 2031 (instead of 2024 – 2036). The revised schedule aims to repay the difference to household customers in 2 years and 3 months (compared to 2.5 years earlier), starting from 1 April 2024 and ending on 30 June 2026. For B2B customers, the repayment will take 7 years and 9 months from 1 April 2024 to 31 December 2031. The regulatory difference is related to the amendment of the Methodology for the Determination of the Price Caps of Electricity Transmission, Distribution and Public Supply Services (hereinafter – "the Methodology") and, in turn, to the recalculation of the return on investment and the depreciation and amortisation for the period 2018 – 2021.

   As mentioned above, on 5 January 2024, NERC adopted amendments to the Methodology, taking into account the recommendations made in the report of National Audit Office of Lithuania "Management of the Power Sector" on 24 October 2023. These amendments include setting criteria for evaluating the timeframe for the repayment of consumer overpayments. The changes include the following criteria on which the repayment schedule is based:

- Maintaining sustainable debt level (not exceeding 5.5 times net debt / adjusted EBITDA);
- Ensuring the implementation of the investments foreseen in the Company's 10-year investment plan;
- Delivering the maximum benefit at the minimum regulated service costs for consumers;
- Ensuring the reliability of the Company's services;
- Ensuring quality of the Company's services.

## Status on key investment projects

| Project | Maintenance and other | Expansion *New connection points and upgrades* | Expansion *Smart meter roll-out* | Total |
|---|---|---|---|---|
| Country | Lithuania | | | |
| Investments 2021–2030 (10-year investment plan) | ~ EUR 1 billion | ~ EUR 750 million | ~ EUR 150 million | **~ EUR 1.9 billion** |
| Investments 2023–2026 (Strategic plan) | EUR 350–450 million | EUR 470–600 million | EUR 80–120 million[3] | **EUR 0.9–1.1 billion** |
| Financing structure | Partially (11.0%, 3-year average) covered by EU funds (on a project-by-project basis) | Partially (30.7%, 3-year average) covered by customers' fees | Fully (100%, 3-year average) covered by the Group | **Partially (80.5%, 3-year average) covered by the Group** |
| Ownership | 100% | | | |
| Progress | – In 2023, 930 km of power lines were reconstructed (out of which 245 km were reconstructed during Q4 2023). More than 95% of which were replaced with underground ones. | – In 2023, 50,891 new electricity customers were connected, and 25,119 capacity upgrades were carried out. It resulted in around 975 km of new power lines (out of which 254 km in Q4 2023). | – By the end of 2023, a total of around 730 thousand smart meters were installed (of which around 519 thousand were installed in 2023). | |
| **Status** | **On track** | **On track** | **On track** | |

[3] *Sagemcom Energy & Telecom" SAS (France) is responsible for supply of smart meters (approximately 1.2 million units.) and installation of related IT systems (data transmission technologies – Narrowband Internet of Things (NB-IoT).*

# RESULTS

# 3.1 Annual results

## REVENUE

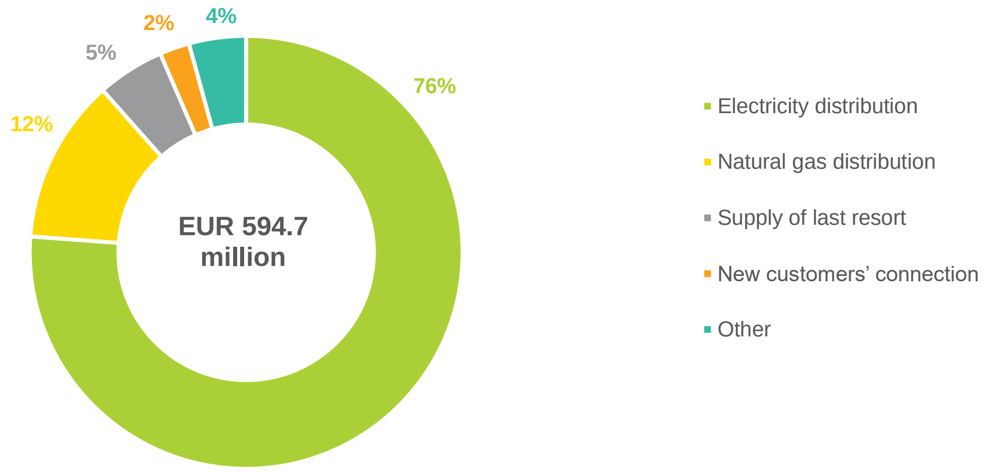
In 2023, the Company's revenues amounted to EUR 594.7 million and were 13% or EUR -89.0 million lower than in 2022. The decrease was mainly driven by lower revenue from electricity distribution (EUR -79.9 million) due to lower transmission tariff component determined by the regulator, and to lower revenue from supply of last resort (EUR -45.8 million) as a result of the declining electricity market price. This was partly offset by revenues from natural gas distribution (EUR +31.2 million), due to a higher natural gas distribution tariff component determined by the regulator. Revenue from new connection points increased by EUR 1.5 million or 12.3% as the number of electricity distribution customers increased by 1.4% compared to 2022.

### **Revenue by type of activity**, EURm

| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| Revenue from electricity distribution | 453.0 | *532.9* | *(79.9)* | *(15.0%)* |
| Revenue from natural gas distribution | 73.1 | *41.9* | *31.2* | *74.4%* |
| Revenue from the supply of last resort | 30.0 | *75.7* | *(45.8)* | *(60.5%)* |
| Revenue from new customer's connection | 13.3 | *11.8* | *1.5* | *12.3%* |
| Other | 25.3 | *21.2* | *4.1* | *19.3%* |
| **Revenue** | **594.7** | ***683.7*** | ***(89.0)*** | ***(13.0%)*** |

The main source of the Company's revenue is electricity distribution which in 2023 amounted to 76% of the Company's total revenue. Revenue from natural gas distribution – to 12%, revenue from the supply of last resort accounted to 5%, other revenue – to 4%, revenue from new customer's connection accounted to 2% of the Company's total revenue.

### **Revenue by type of activity,** %




In 2023, revenue from electricity related activities which are comprised of sales from electricity distribution, supply of last resort and other sales of electricity and related services accounted to 83% of total Company's revenue. Natural gas related revenues amounted to 12% of total revenue. Other revenue, including the revenue received from new connection points and upgrades, dismantling of electricity equipment and other revenue under contracts with customers, rent and other operating revenue – to 5%.

### **Revenue by type**, EURm and %

| | 2023 | 2022 | Δ | Δ,% | 2023, % |
|---|---|---|---|---|---|
| Electricity related | 494.0 | *619.0* | *(125.1)* | *(20.2%)* | *83%* |
| Natural gas related | 73.2 | *42.1* | *31.1* | *73.8%* | *12%* |
| Other | 27.5 | *22.5* | *5.0* | *22.3%* | *5%* |
| **Revenue** | **594.7** | ***683.7*** | ***(89.0)*** | ***(13.0%)*** | ***100%*** |

## EXPENSES

### Purchases of electricity, natural gas, and other services

In 2023, the Company's purchases of electricity, natural gas and related services amounted to EUR 135.5 million and dropped by 66.0%, or EUR 263.2 million compared to 2022. The decrease was mainly driven by falling electricity and natural gas prices and lower volumes of electricity and natural gas distributed.

### OPEX

In 2023, the Company's OPEX reached EUR 162.6 million and was higher by 22.0%, or EUR 29.3 million. The increase was mainly influenced by higher repair and technical maintenance expenses (EUR +15.5 million, or 50.4%) due to higher contractor fees and more complex troubleshooting works, moreover during the first half 2023 LiDAR project (identification and removal of hazardous trees next to medium-voltage overhead power lines) was carried out. Average wage growth has led to increase in salaries and related expenses by 11.5% or EUR 7.4 million. The growth of other expenses was conditioned mainly by higher telecommunications and IT services, property management and administration, and other services expenses.

### Other

In 2023, depreciation and amortisation expenses increased by EUR 11.1 million mainly due to higher investments carried out.

**Expenses**, EURm

| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| **Purchases of electricity, natural gas, and other services** | **135.5** | **398.7** | ***(263.2)*** | ***(66.0%)*** |
| Purchases of electricity and related services | 127.1 | 382.7 | *(255.6)* | *(66.8%)* |
| Purchases of gas and related services | 7.9 | 15.5 | *(7.6)* | *(49.2%)* |
| Other | 0.5 | 0.4 | *0.1* | *17.9%* |
| **OPEX** APM | **162.6** | **133.3** | ***29.3*** | ***22.0%*** |
| Salaries and related expenses | 71.9 | 64.5 | *7.4* | *11.5%* |
| Repair and technical maintenance expenses | 46.2 | 30.7 | *15.5* | *50.4%* |
| Other | 44.5 | 38.1 | 6.4 | *16.9%* |
| **Other** | **107.6** | **105.8** | ***1.8*** | ***1.7%*** |
| Depreciation and amortisation | 104.0 | 92.9 | *11.1* | *12.0%* |
| Write-offs, revaluation and impairment losses of property, plant, and equipment | 1.7 | 11.8 | *(10.1)* | *(85.5%)* |
| Write-offs and impairment of non-current and current amounts receivable, inventories and other amounts | 1.8 | 1.1 | *0.8* | *69.7%* |
| **Total expenses** | **405.7** | **637.7** | ***(232.1)*** | ***(36.4%)*** |

## EBITDA

To disclose the Company's ordinary operating results, excluding the impact of atypical, non-recurring factors or factors not directly related to the current operating period, EBITDA result is presented after adjustments made by management to eliminate the variance between the actual and regulated earnings and the impact of non-recurring factors (Adjusted EBITDA). The management considers the Adjusted EBITDA to be a more accurate reflection of the results for a given period allowing for a better comparison of actual results with previous periods.

Adjusted EBITDA amounted to EUR 182.7 million in 2023 and was 9.3%, or EUR 15.6 million, higher compared to 2022, mainly due to higher RAB (EUR +10.7 million).

### **EBITDA adjustments**, EURm

| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| **EBITDA** APM | **294.8** | **150.6** | ***144.2*** | ***95.7%*** |
| *Adjustments*[4] | | | | |
| Temporary regulatory differences | (112.1) | 16.5 | *(128.6)* | *(780.5%)* |
| *Recalculation of ESO regulated income (current year)* | (153.8) | (15.2) | | |
| *Recalculation of ESO regulated income (previous periods)* | 41.7 | 31.7 | | |
| **Total EBITDA adjustments** | **(112.1)** | **16.5** | ***(128.6)*** | ***(780.5%)*** |
| **Adjusted EBITDA** APM | **182.7** | **167.1** | ***15.6*** | ***9.3%*** |
| *Margin of the adjusted EBITDA* APM | 37.9% | 23.9% | *14 pp* | *n/a* |

Recalculation of regulated income of the current period for the adjustment of excess profit that may form according to estimates of the management. Calculation of the amount involves assessment of the difference between forecasted values of key income level components (OPEX, expenses of purchase of electricity for own needs and consumption thereof in technological equipment, depreciation, and amortisation expenses, return on investment, and other income) and values of price components approved by the regulator.

Recalculation of regulated income from previous periods, which is implemented in the current year's prices, is set by the regulator when approving regulated prices.

The difference between the actual profit earned during the reporting period and the profit allowed by the regulator is eliminated. EBITDA adjustments include:

- elimination of the higher profit for 2023 (EUR -153.8 million) which will be added back in the future, and which accumulated due to discrepancies between the planned and actual expenses and revenue, while EUR +41.7 million is related to previous periods and is realised through the tariffs for the current period;
- recalculation of the Company's regulated income from 2022 related to the current period amounted to EUR -15.2 million, and recalculation from previous periods amounted to EUR +31.7 million.

Annual values of the price components approved by the regulator are published on the regulator's website, in the price approval certificates.

Resolutions of the regulatory body based on which regulated revenues for 2023 and 2022 are recalculated:

- Resolution No O3E-1309 of 15 October 2021 "Regarding the adjustment of the price caps for distribution services of medium and low voltage networks of Energijos Skirstymo Operatorius AB for 2022–2026" (link);
- Resolution No O3E-1424 of 17 October 2022 "Regarding the adjustment of the price caps for distribution services of medium and low voltage networks of Energijos Skirstymo Operatorius AB for 2023 (link);
- Resolution No O5E-1390 of 29 October 2021 "Regarding the adjustment of the upper limit of the revenue level of natural gas distribution activities of Energijos Skirstymo Operatorius AB for 2022" (link);
- Resolution No O5E-1473 of 31 October 2022 "Regarding the adjustment of the upper limit of the revenue level of natural gas distribution activities of Energijos Skirstymo Operatorius AB for 2023" (link).

[4] *Adjustments include recalculation of regulated income from the current and previous periods.*

## NET PROFIT

In 2023, the adjusted net profit amounted to EUR 59.2 million and was higher by 31.1% or EUR 14.0 million compared to 2022. The main effect of the positive change was higher Adjusted EBITDA (EUR +15.6 million).

Reported net profit in 2023 has increased and reached EUR 154.5 million compared to EUR 31.1 million in 2022. The increase in reported net profit was higher compared to increase in Adjusted net profit, mainly due to the impact of temporary regulatory differences (EUR +128.6 million).

### Net profit adjustments, EURm

| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| **Net profit** | **154.5** | **31.1** | ***123.3*** | ***396.3%*** |
| *Adjustments* | | | | |
| Total EBIT adjustments | (112.1) | 16.5 | *(128.6)* | *(780.5%)* |
| Impact of the adjustments on income tax[5] | 16.8 | (2.5) | *19.3* | *(780.5%)* |
| **Total net profit adjustments** | **(95.3)** | **14.0** | ***(109.3)*** | ***(780.5%)*** |
| **Adjusted net profit** APM | **59.2** | **45.1** | ***14.0*** | ***31.1%*** |
| *Adjusted ROE LTM* APM | 8.8% | 7.3% | *1.5 pp* | *n/a* |
| *ROE LTM* APM | 23.1% | 5.0% | *18.1 pp* | *n/a* |

## INVESTMENTS

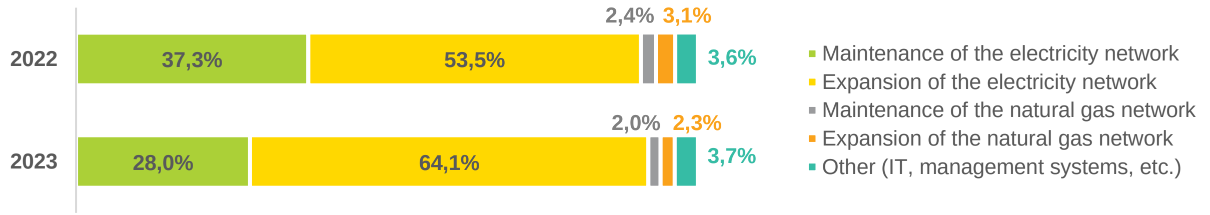
In 2023, the Company's investments reached EUR 345.1 million and were by EUR 80.1 million, or 30.2%, higher compared to 2022. The majority of investments (EUR 221.1 million) was attributed to expansion of the electricity distribution network due to a higher number of new connection points and upgrades as well as increased need for reconstructions due to new customers, and was higher by EUR 79.3 million, or 56.0%, compared to the same period in 2022. In addition, the increase was driven by smart meters roll-out (EUR 43.1 million). The growth in investments was also affected by higher contractor fees. Contractor fees for new connections and upgrades increased on average by 47% per customer. Investments into expansion of the electricity distribution network accounted for 64% of the Company's total investments.

In 2023, the Company invested EUR 14.6 million in expansion and maintenance of the natural gas distribution network, and thus maintained the level of 2022. In January-December 2023, 2.5 thousand new customers were connected to the natural gas distribution network, 47.9% less than in 2022. The number of newly connected customers decreased due to the lower volume of requests received for connection to the ESO network due to the growing electrification.

### Investments by type of activity, EURm

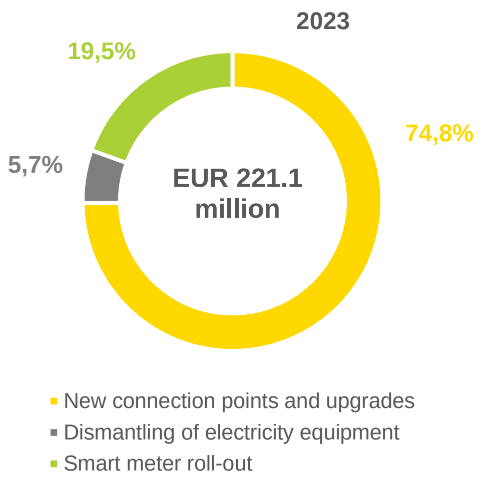
| | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|
| Maintenance of the electricity network | 96.6 | 99.0 | *(2.4)* | *(2.4%)* |
| Expansion of the electricity network | 221.1 | 141.7 | *79.3* | *56.0%* |
| Maintenance of the natural gas network | 6.8 | 6.4 | *0.5* | *7.1%* |
| Expansion of the natural gas network | 7.8 | 8.3 | *(0.6)* | *(6.8%)* |
| Other (IT, management systems, etc.) | 12.9 | 9.6 | *3.3* | *34.3%* |
| **Investments** | **345.1** | **265.0** | ***80.1*** | ***30.2%*** |

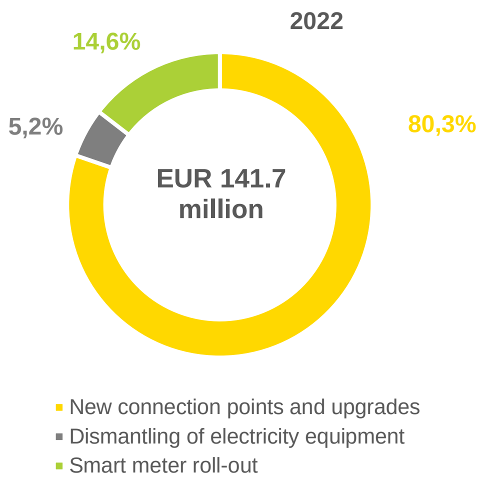
### Investments by type of activity, %




[5] *An additional income tax adjustment of 15% (statutory income tax rate in Lithuania) is applied to all EBIT adjustments.*

## Investments into the expansion of the electricity network, %




In 2023, investment growth was mainly driven by increased investment in the expansion of the electricity distribution network, of which investment in new connection points and upgrades was the main driver. New connections points and upgrades accounted for 74.8% of the investments into the expansion of the electricity network.

In 2023, investments in smart meters increased by EUR 22.5 million compared to 2022 to EUR 43.1 million, representing 12% of the Company's total investments. Smart meters accounted for 19.5% of the investments into the expansion of the electricity network (2022: 14.6%).

## BALANCE SHEET

### Assets

As at 31 December 2023, total assets reached EUR 2,196.8 million (+7.3% from 31 December 2022).

Non-current assets have increased by EUR 229.9 million, or 12.3%, compared to 31 December 2022 and amounted to EUR 2,093.5 million. The growth was mainly influenced by an increase in property, plant, and equipment (EUR +227.9 million) due to the investments carried out in January-December 2023. Non-current assets comprised 95% of the Company's total assets.

The Company's current assets decreased by EUR 80.0 million, or 43.7%, compared to 31 December 2022, mainly due to a decrease in cash and cash equivalents (EUR -72.7 million).

### Equity

As at 31 December 2023, equity amounted to EUR 731.2 million and increased by EUR 123.8 million, or 20.4%, compared to 31 December 2022, mostly influenced by a positive change in retained earnings (EUR +130.6 million) due to higher net profit earned in 2023.

### Liabilities

In 2023, liabilities increased by EUR 26.1 million (+1.8%). Non-current liabilities increased by EUR 44.5 million (+3.8%). The increase was mainly due to higher deferred income and higher grants and subsidies, as well as higher deferred income tax liabilities. Current liabilities decreased by 6.6%, or EUR -18.4 million, mainly due to lower trade payables (EUR -25.8 million), lower accrued expenses for electricity and related services (EUR -38.2 million) because of lower energy prices and distributed volumes. As at 31 December 2023, the Company had no VAT payable (change from 2022: EUR -20.0 million). The decrease was offset by an increase in current loans and interest payable by the end of 2023 by EUR +67.4 million.

### **Balance sheet**, EURm

| | 31 December 2023 | 31 December 2022 | Δ | Δ,% |
|---|---|---|---|---|
| Non-current assets | 2,093.5 | 1,863.5 | *229.9* | *12.3%* |
| Current assets | 103.3 | 183.3 | *(80.0)* | *(43.7%)* |
| **TOTAL ASSETS** | **2,196.8** | **2,046.9** | ***149.9*** | ***7.3%*** |
| Equity | 731.2 | 607.5 | *123.8* | *20.4%* |
| Total liabilities | 1,465.5 | 1,439.4 | *26.1* | *1.8%* |
| Non-current liabilities | 1,204.8 | 1,160.3 | *44.5* | *3.8%* |
| Current liabilities | 260.7 | 279.1 | *(18.4)* | *(6.6%)* |
| **TOTAL EQUITY AND LIABILITIES** | **2,196.8** | **2,046.9** | ***149.9*** | ***7.3%*** |
| *Asset turnover LTM* APM | 0.28 | 0.35 | *(0.07)* | *(20.7%)* |
| *ROA LTM* APM | 7.3% | 1.6% | *5.7 p. p.* | *n/a* |
| *Current ratio* APM | 0.40 | 0.66 | *(0.26)* | *(39.7%)* |
| *Net working capital* | (60.3) | (138.8) | 78.5 | *(56.6%)* |
| *Net working capital / Revenue LTM* APM | (10.1%) | (20.3%) | *10.2 pp* | *n/a* |
| *Fixed capital LTM* APM | 1,641.6 | 1,383.5 | *258.1* | *18.7%* |

## FINANCING

### Net debt

As at 31 December 2023, net debt amounted to EUR 910.4 million, an increase of 17.3%, or EUR 134.3 million, compared to 31 December 2022, mainly due to higher need for working capital and Investments carried out in 2023.

### **Net debt**, EURm

| | 31 December 2023 | 31 December 2022 | Δ | Δ,% |
|---|---|---|---|---|
| **Total non-current financial liabilities** | **833.4** | **841.3** | ***(7.8)*** | ***(0.9%)*** |
| Non-current loans | 827.03 | 834.93 | *(7.90)* | *(0.9%)* |
| Lease liabilities (IFRS 16) | 6.4 | 6.3 | *0.1* | *0.8%* |
| **Total current financial liabilities** | **88.92** | **19.43** | ***69.5*** | ***357.6%*** |
| Current portion of non-current loans | 7.90 | 7.90 | *0.0* | *0.0%* |
| Current loans | 65.56 | 0.00 | *65.6* | - |
| Interest payable (including accrued) | 12.28 | 10.43 | *1.8* | *17.7%* |
| Lease liabilities (IFRS 16) | 3.18 | 1.10 | *2.1* | *189.3%* |
| **Financial debts** APM | **922.3** | **860.7** | ***61.6*** | ***7.2%*** |
| **Cash and cash equivalents** | **11.9** | **84.6** | ***(72.7)*** | ***(85.9%)*** |
| **Net debt** APM | **910.4** | **776.1** | ***134.3*** | ***17.3%*** |
| *Net debt / Adjusted EBITDA LTM* APM | 4.98 | 4.64 | *0.3* | *7.3%* |
| *Net debt / EBITDA LTM* APM | 3.09 | 5.15 | *(2.1)* | *(40.1%)* |
| *Gross debt / Equity* APM | 1.26 | 1.42 | *(0.2)* | *(11.0%)* |
| *Equity ratio* APM | 0.33 | 0.30 | *0.0* | *12.2%* |

## DIVIDENDS

On 15 December 2020 the Board of Ignitis Group approved the updated dividend policy of the companies owned by Ignitis Group (link), according to which:

1. The management bodies of the subsidiary may propose to allocate share of the profit to dividends for the financial year or for a period shorter than the financial year of at least 80 percent of the subsidiary's net profit received during the reporting period for which the dividends are proposed.
2. The management bodies of the subsidiary may propose to allocate a share of the profit to dividends for the financial year, or for a period shorter than the financial year, if the subsidiary has incurred a loss during the reporting period but has accumulated retained earnings from previous reporting periods. This provision shall apply only when there is a necessary need for the company to receive dividends in the implementation of the company's dividend policy.
3. The management bodies of the subsidiaries may propose to set a lower share of the profit for the dividends set for the subsidiaries specified in the sub-clause of the policy, or to propose not to pay dividends for the reporting period, if at least one of the following conditions is met:
   - 3.1. The subsidiary is implementing Green Generation investment projects in accordance with the Ignitis Group's strategy;
   - 3.2. The subsidiary's ability to pay dividends is limited by the covenants set out in the financing agreements;
   - 3.3. The subsidiary is implementing or participating in the implementation of an economic project of state importance, as recognised by a decision of the Government of the Republic of Lithuania;
   - 3.4. The subsidiary's equity, after the payment of the dividends, would become less than the amount of the subsidiary's authorised capital, mandatory reserve, revaluation reserve and reserve for the acquisition of its own shares;
   - 3.5. The subsidiary is insolvent, or would become insolvent upon the payment of the dividends;
   - 3.6. The subsidiary's net financial debt at the end of the reporting period for which the dividends are proposed is equal to or greater than the subsidiary's EBITDA for the last twelve months (from the end of the reporting period) multiplied by six (i.e. a net financial debt ≥ 6 EBITDA for the last 12 months);
   - 3.7. The subsidiary has received the written consent of the Head of the Treasury Function and the Director of Finance and Treasury of the company to apply Sub-Clause 4.3, in a case not provided for in Sub-Clauses 3.1-3.6.

The Ordinary General Meeting of Shareholders of AB Energijos skirstymo operatorius which took place on 28 March 2023 approved distribution of profit for 2022 and decided to allocate EUR 0.032 dividends per share, a total of EUR 29.0 million. For 2021 the amount of EUR 50.0 million was allocated for dividends, EUR 0.056 per share.

### **Dividends allocated for the year indicated**, EURm

| | **2022** | **2021** | **Δ** | **Δ,%** |
|---|---|---|---|---|
| Dividends paid for the period indicated | 29.0 | 50.0 | *(21.0)* | *(42.0%)* |

For more information on Ignitis Group's Dividend Policy approved on 15 December 2020, refer to updated dividend policy of the companies owned by Ignitis Group (link).

## KEY PERFORMANCE INDICATORS

| | | 2023 | 2022 | Δ | Δ,% |
|---|---|---|---|---|---|
| **Electricity** | | | | | |
| Electricity distributed | TWh | 9.73 | 10.01 | *(0.28)* | *(2.8%)* |
| of which B2C | TWh | 3.25 | 3.20 | *0.05* | *1.6%* |
| of which B2B | TWh | 6.47 | 6.81 | *(0.34)* | *(4.9%)* |
| Distribution network | thousand km | 128 | 128 | *1* | *0.7%* |
| Share of customers connected to automated control lines | % | 57% | 48% | *(9 pp)* | *n/a* |
| Technological losses | % | 4.1% | 5.0% | *(1.0 pp)* | *n/a* |
| Number of customers | thousand | 1,851 | 1,825 | *25.6* | *1.4%* |
| number of B2C customers | thousand | 1,724 | 1,703 | *20.8* | *1.2%* |
| number of B2B customers | thousand | 127 | 122 | *4.7* | *3.9%* |
| of which prosumers and producers | thousand | 65 | 35 | *29.67* | *84.1%* |
| admissible power of prosumers and producers | MW | 1,117 | 588 | *529* | *89.9%* |
| New connections points and upgrades | thousand | 76.01 | 64.00 | *12.01* | *18.8%* |
| new connections points | thousand | 50.89 | 37.82 | *13.07* | *34.5%* |
| connection point upgrades | thousand | 25.12 | 26.18 | *(1.06)* | *(4.0%)* |
| Admissible power of new connection points and upgrades | MW | 556 | 525 | *31* | *6.0%* |
| Time to connect (average) | c.d. | 42 | 64 | *(22)* | *(33.7%)* |
| SAIFI | times | 1.35 | 1.52 | *(0.17)* | *(11.0%)* |
| SAIDI | minutes | 120.77 | 178.73 | *(58.0)* | *(32.4%)* |
| Number of smart meters installed | thousand | 729.39 | 210.44 | *519.0* | *246.6%* |
| Supply of last resort | TWh | 0.23 | 0.26 | *(0.03)* | *(13.2%)* |
| **Natural gas** | | | | | |
| Natural gas distributed | TWh | 6.32 | 6.68 | *(0.36)* | *(5.4%)* |
| of which B2C | TWh | 2.29 | 2.50 | *(0.21)* | *(8.5%)* |
| of which B2B | TWh | 4.03 | 4.19 | *(0.15)* | *(3.6%)* |
| Distribution network | thousand km | 9.69 | 9.64 | *0.04* | *0.5%* |
| Technological losses | % | 1.81% | 1.82% | *(0.0 pp)* | *n/a* |
| Number of customers | thousand | 625.63 | 623.51 | *2.13* | *0.3%* |
| New connection points and upgrades | thousand | 2.50 | 4.81 | *(2.30)* | *(47.9%)* |
| Time to connect (average) | c.d. | 55.45 | 58.33 | *(2.88)* | *(4.9%)* |
| SAIFI | times | 0.003 | 0.003 | *0.0001* | *2.9%* |
| SAIDI | minutes | 0.30 | 0.27 | *0.02* | *8.3%* |
| Customer experience (NPS) | % | 52.10 | 52.90 | *(0.80)* | *(1.5%)* |

### Electricity distribution

In 2023, total distributed electricity decreased by 0.28 TWh, or 2.8%. The decrease was driven by the B2B segment, due to a noticeable decline in industrial production, as well as a decrease in electricity consumption by retail and service industries.

The technological losses ratio in electricity distribution network decreased by 1 pp 2023. The decrease was mainly influenced by reversal of the estimated amount of the over-declared consumption (-0.1 TWh).

The number of electricity distribution customers increased by 25.55 thousand, or 1.4%, compared to 2022 as new objects were connected to the network. In 2023, the number of prosumers and producers increased significantly, by nearly 2 times (+84.1%). The pace of connection of prosumers and producers picked up due to cheaper technologies, better awareness, annually increasing state support for installation of power plants, more attractive connection pricing and electricity prices which increased over the previous year.

In 2023, ESO connected to the electricity distribution network or made power upgrades to 76.01 thousand new customers (out of which 50.89 thousand new connection points and 25.12 thousand upgrades), which is 18.8% more compared to 2022. The increase in the number of new connection points and upgrades resulted from the growth of prosumers and producers, which required ever-increasing investments in the expansion of the electricity network.

From the beginning of smart meters mass roll-out in July 2022, around 729 thousand smart meters were successfully installed in total, out of which around 519 thousand meters were installed in 2023.

The electricity volume distributed in the supply of last resort in 2023 was lower by 13.2% compared to 2022.

The electricity distribution quality indicator SAIFI improved significantly in 2023 reaching 1.35 times (1.52 times in 2022). The electricity distribution quality indicator SAIDI improved to 120.77 minutes compared to 178.73 minutes in 2022.

In 2023, annual SAIFI increased by 11% compared to 2022. The most significant impact on the change in the indicator was due to fewer natural phenomena leading to massive line outages. The decrease compared to 2022 is due to the implementation of automated solutions (FLIR), investments and the ongoing project to remove dangerous trees on 35–10 kV overhead lines (LIDAR).

In 2023, annual SAIDI increased by 32% compared to 2022. The largest impact on the indicator was caused by natural phenomena in the second half of the year, which caused complex faults in medium and low voltage lines, requiring more time, special equipment, and additional tools for their elimination. The decrease compared to 2022 is due to the introduction of automated solutions, remote network management, and the involvement of internal repair teams in troubleshooting during mass outages.

### Natural gas distribution

Natural gas distribution volume has dropped by 0.36 TWh, or 5.4%, due to unfavourable market conditions over the last year, pushing B2B customers to reduce natural gas consumption, halt production or switch to alternative fuels. This had an impact on the number of new connections and upgrades, which dropped by 2,303, or 47.9%, in 2023.

In 2023, the indicator of natural gas quality – the average number of unplanned long interruptions per customer – was 0.0034 times and decreased by 0.0001 times compared to 2022 (0.0013 times in 2022). The main reason for this difference in SAIFI was a slight increase in the number of natural gas customers' disconnections. The duration of interruptions in natural gas distribution (SAIDI) under the influence of force majeure per customer was 0.30 minutes and increased by 0.03 minutes compared to 2022 (in 2022, SAIDI was 0.27 minutes). The main reason for this difference in SAIDI was a slight increase in the number of natural gas customers' disconnections and shorter disconnection duration.

# 3.2 Three-year annual summary

## Key financial indicators

| | | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| Revenue | EURm | 594.7 | 683.7 | 535.3 |
| EBITDA APM | EURm | 294.8 | 150.6 | 171.2 |
| Adjusted EBITDA APM | EURm | 182.7 | 167.1 | 148.1 |
| Margin of the adjusted EBITDA APM | % | 37.9% | 23.9% | 28.9% |
| EBIT APM | EURm | 189.0 | 45.9 | 69.9 |
| Adjusted EBIT APM | EURm | 76.9 | 62.4 | 46.7 |
| Net profit | EURm | 154.5 | 31.1 | 50.0 |
| Adjusted net profit APM | EURm | 59.2 | 45.1 | 41.1 |
| Investments APM | EURm | 345.1 | 265.0 | 188.0 |
| ROE APM | % | 23.1% | 5.0% | 7.7% |
| Adjusted ROE APM | % | 8.8% | 7.3% | 6.3% |
| ROCE APM | % | 12.5% | 3.4% | 5.2% |
| Adjusted ROCE APM | % | 5.1% | 4.6% | 3.5% |
| ROA APM | % | 7.3% | 1.6% | 2.8% |
| Adjusted ROA APM | % | 2.8% | 2.3% | 2.3% |
| | | **31 December 2023** | **31 December 2022** | **31 December 2021** |
| Total assets | EURm | 2,196.8 | 2,046.9 | 1,819.5 |
| Equity | EURm | 731.2 | 607.5 | 627.7 |
| Net debt APM | EURm | 910.4 | 875.2 | 710.0 |
| Net working capital APM | EURm | (60.3) | (138.8) | (54.4) |
| Net debt / EBITDA APM | times | 3.1 | 5.2 | 4.1 |
| Net debt / Adjusted EBITDA APM | times | 5.0 | 4.6 | 4.8 |
| Current ratio APM | % | 39.6% | 65.7% | 45.5% |
| Turnover of assets APM | times | 0.28 | 0.35 | 0.30 |

## Key performance indicators

| | | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **Electricity** | | | | |
| Electricity distributed | TWh | 9.73 | 10.01 | 10.37 |
| 5Supply of last resort | TWh | 0.23 | 0.26 | 0.34 |
| New connection points and upgrades | thousand | 76.01 | 64.00 | 50.29 |
| Time to connect (average) | c.d. | 42.36 | 63.91 | 36.67 |
| SAIFI | times | 1.35 | 1.52 | 1.45 |
| SAIDI | minutes | 120.77 | 178.73 | 201.95 |
| Smart meters installed | thousand | 729.39 | 210.44 | - |
| **Natural gas** | | | | |
| Natural gas distributed | TWh | 6.32 | 6.68 | 8.49 |
| New connection points and upgrades | thousand | 2.50 | 4.81 | 8.12 |
| Time to connect (average) | c.d. | 55.5 | 58.3 | 71.9 |
| SAIFI | times | 0.003 | 0.003 | 0.006 |
| SAIDI | minutes | 0.30 | 0.27 | 0.47 |
| Customer experience (NPS) | % | 52.10 | 52.90 | - |

# GOVERNANCE

# 4.1 Governance framework

## THE COMPANY'S GOVERNANCE FRAMEWORK

**Key governance changes during the reporting period**

The Supervisory Board and the Management Board of AB Ignitis grupė adopted a decision to change the two-tier governance model applied in the Company to a one-tier governance model, i.e. to discontinue the executive board formed by employees and to replace it with board with a supervisory function. On 7 February 2023, the Company's sole shareholder AB Ignitis grupė approved the following composition of the Company's Management Board according to specific areas of competence, for a four-year term of office. The new Management Board has the duty to exercise the supervisory functions set out in Article 34(11) of the Law on Joint Stock Companies.

The Management Board with the supervisory function has started its work from 14 February 2023 upon the entry of the updated Articles of Association of the Company.

The Company's Management Board with the supervisory function is composed of 6 members: 2 independent members, 2 shareholder representatives, 1 civil servant and 1 employee representative.

Composition of the Management Board of the Company for the new term of office:

- for the area of financial management – Nerijus Datkūnas, an independent member;
- for the area of organisation development – Eligijus Kajieta, an independent member;
- for the area of energy distribution and regulation – Darius Maikštėnas, the shareholder's representative;
- for the area of strategic planning and management – Živilė Skibarkienė, the shareholder's representative;
- for the area of business continuity and security – Jonas Skardinskas, civil servant;
- for representation of employees – Dalia Jakutavičė.

Until 14 February 2023[6], the governing bodies of the Company were as follows:

- General Meeting of Shareholders;
- A collegiate governing body – the Supervisory Board;
- A collegiate governing body – the Management Board;
- A single-person governing body – the Company's CEO.

As of 14 February 2023, in accordance with the latest version of the Company's Articles of Association, the Company's governing bodies are:

- General Meeting of Shareholders;
- A collegiate governing body – the Management Board;
- A single-person governing body – the Company's CEO.

**The benefits of a change in governance model**

A single-tier governance model in the Company ensures simpler yet effective governance that continues to meet the highest standards of governance, rapid decision-making, responsive communication, and active involvement of independent members, transparency and openness of the Company, accountability of management and supervisory bodies.

[6] *On 14 February 2023, the Company's new Articles of Association came into force, providing for the change in the governance of the Company.*



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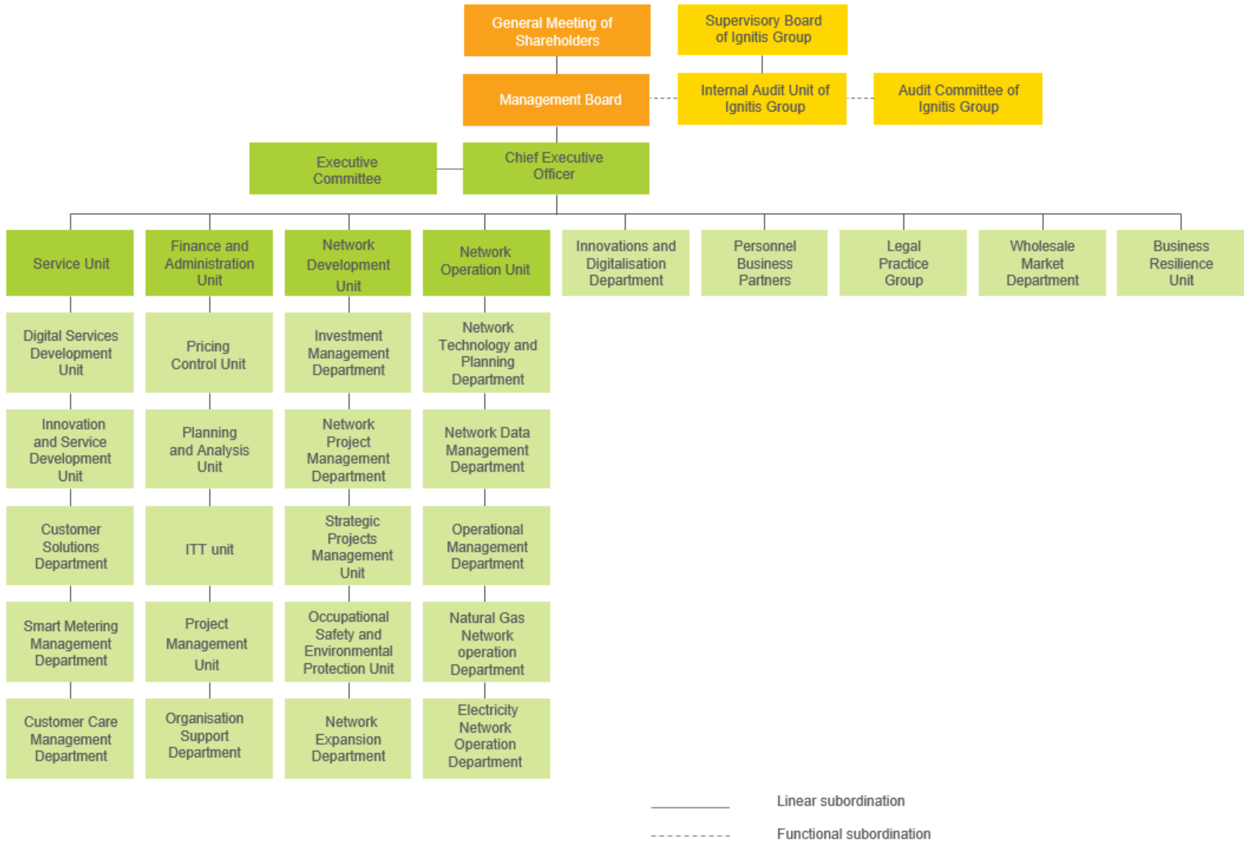
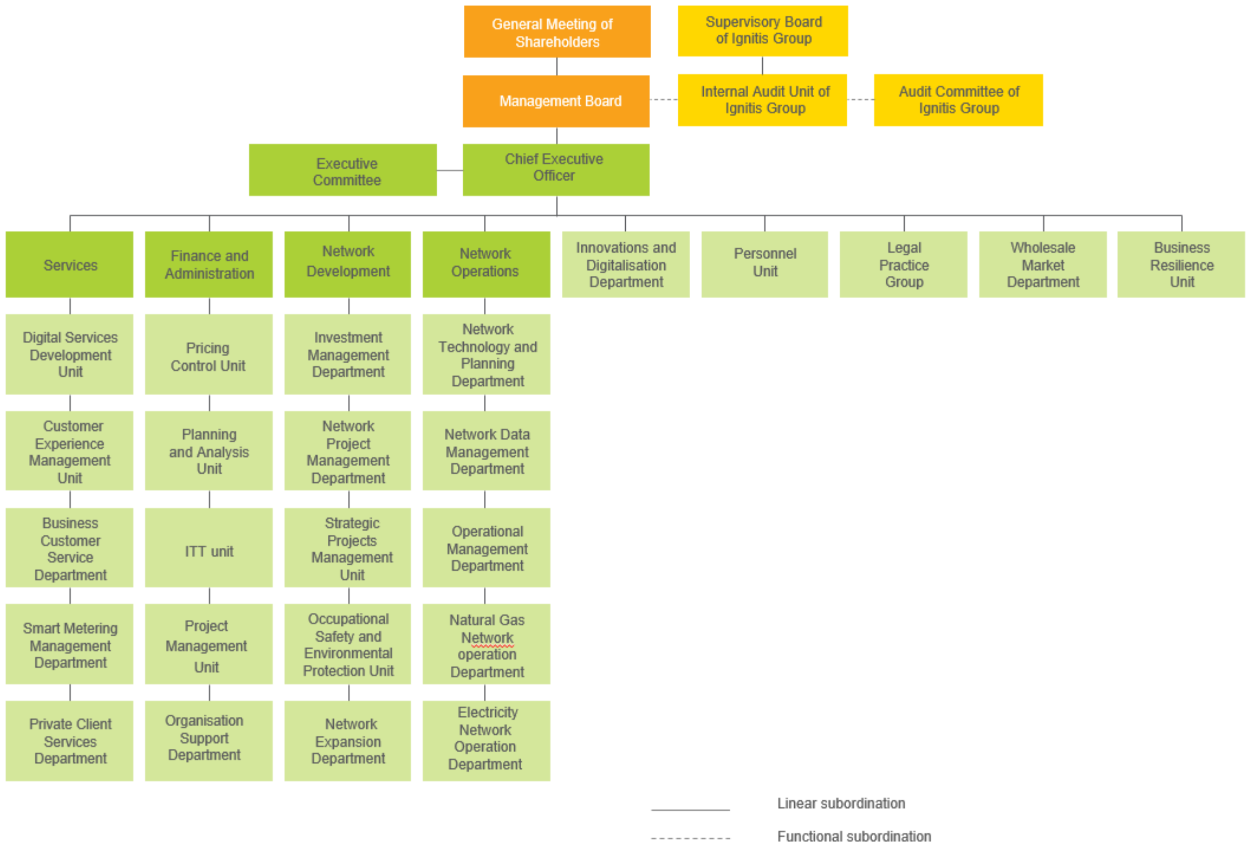
## Organisational structure of the Company until 31 December 2023




## Organisational structure of the Company after the reporting period (valid as of 1 January 2024)



## SHAREHOLDERS, THEIR RIGHTS AND FUNCTIONS

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. Additional competence of the General Meeting of Shareholders of the Company:

- to decide on the conclusion and terms of contracts (concerning activities in the Supervisory Board and protection of confidential information) with the members of the Company's Supervisory Board and the Chairman of the Supervisory Board, and the appointment of a person authorised to sign such contracts on behalf of the Company;
- to approve or disapprove the company's annual report and the interim report drawn up for the purpose of deciding on the granting of dividends for a period of less than a financial year;
- to approve transactions in accordance with the parent company's transaction procedures;
- to approve or disapprove the decisions of the Management Board provided for in points 22.1, 23.1, 23.2 and 23.3 of the Articles of Association of the Company.

As of 15 April 2021, 100% of the Company's shares are held by a single shareholder – AB Ignitis grupė; therefore, in accordance with Article 29(7) of the Law on Joint-Stock Companies of the Republic of Lithuania, where the owner of all the shares of the Company is a single shareholder, the written decisions of the shareholder shall be treated as the decisions of the general meeting of shareholders.

During the reporting period, the Company's sole shareholder passed the following resolutions:

- On 7 February 2023 adopted a decision to approve the Company's new Articles of Association and election of the new Management Board with the supervisory function;
- On 28 March 2023 adopted a decision to approve the 2022 Annual Report; the set of annual financial statements and the allocation of profit (losses);
- On 25 April 2023 adopted a decision on the selection of the audit firm to audit the financial statements of the Company and established the terms of payment for audit services;
- On 1 August 2023 adopted a decision approving the award of a contract with the supplier UAB Tokvila for the purchase of K2 vehicles with additional equipment.

# 4.2 Supervisory Board

## OVERVIEW

Until 14 February 2023, the Supervisory Board operated in the Company— collegial supervisory body whose competence, the procedures of decision-making, election and revocation of members are determined by the laws, other legal acts, and the Company's Articles of Association.

The Supervisory Board and the Management Board of AB Ignitis grupė adopted decisions to replace a two-tier management model with a one-tier management model, i.e. to remove the Executive Boards made up of employees and instead to form Boards with a supervisory function made up of at least 1/3 of independent members, a civil servant and shareholder representatives. The main feature of the single-tier governance structure is that the legal entity does not have an independent collegiate supervisory body. The change came into effect as of 14 February 2023 after the registration of the new version of the Company's Articles of Association. With effect from 14 February 2023, the Company no longer has a Supervisory Board, but a Management Board with the supervisory function.

More details on the functions of the Company's Supervisory Board that operated until 14 February 2023, education and experience of its members and the selection criteria are presented in the Company's 2022 Annual Report.

## ACTIVITIES DURING THE REPORTING PERIOD

Between 1 January 2023 and 28 February 2023, the Supervisory Board of the Company held 2 meetings, where a decision was taken to approve the Company's Strategic Plan 2023-2026, as well as to take note of the results of the Company's Operational Plan (Portfolio of Strategic Measures), Strategic Objectives and Risks for Q4 2022.

### Overview of attendance of the members of the Supervisory Board at meetings (from 1 January until 13 February)[7]

| Name, surname | |
|---|---|
| Nerijus Datkūnas | 2 / 2 |
| Eligijus Kajieta | 2 / 2 |
| Dalia Jakutavičė | 2 / 2 |
| Jonas Skardinskas | 2 / 2 |

[7] *N. Datkūnas, E. Kajieta, D. Jakutavičė, J. Skardinskas were members of the Supervisory Board until 13 February 2023.*

# 4.3 Management Board

## OVERVIEW

The Management Board of the Company is a collegiate governing body. The competence of the Management Board, the procedures of decision-making, election and revocation of members are determined by the laws, other legal acts, the Company‘s Articles of Association and the work regulations of the Management Board.

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

- the management and organisational structure of the company, the list of and the maximum number of staff positions;
- a list of confidential information and commercial secrets;
- the appointment and removal of the Company’s CEO, setting their remuneration and other terms of their employment contract;
- the Company as a founder or participant in legal entities;
- any transfer or restriction of the Company's shareholdings or the rights attaching thereto to other persons;
- establishing and closing branches or representative offices of the company;
- approval of the Company’s annual report and of the interim report drawn up for the purpose of deciding on the declaration of dividends for a period of less than one financial year;
- conclusion of certain contracts in accordance with the parent company’s transaction procedures;
- the Company’s business strategy;
- the Company’s operational planning documents;
- on other matters falling within the competence of the Management Board under the law, the Articles of Association or the General Meeting of Shareholders, as well as on significant matters addressed to the Management Board by the CEO.

In certain cases, before taking the decisions the Management Board must obtain the approval of the General Meeting of Shareholders. Cases requiring the approval of the General Meeting of Shareholders are specified in the Company’s Articles of Association.

Until 14 February 2023, the Company had an executive board formed from the Company’s employees. The Management Board with the supervisory function has started its work from 14 February 2023 upon the entry of the updated Articles of Association of the Company. More details on the functions of the Company’s Management Board that operated until 14 February 2023, education and experience of its members and the selection criteria are presented in the Company’s 2022 Annual Report.

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

The Management Board shall be elected and dismissed by the General Meeting of Shareholders in accordance with the Company’s Articles of Association and the legal acts. The Management Board is accountable to the General Meeting of Shareholders.

Each member of the Management Board is elected for a term of four years. The composition of the Company's Management Board shall be composed taking into consideration the fact that members of the Board shall have diverse competences. A member of the Supervisory Board of the Company or a parent company cannot be appointed as a member of the Management Board. In addition, neither a member of a legal entity, which is engaged in transmission or production of electricity and natural gas, or a member of a supervisory body, managerial body or administrative body of another legal entity, which is engaged in transmission or production of electricity and natural gas, nor an auditor or an employee of an audit firm, participating and (or) having participated in audit of the financial statements within a period of two years can be appointed as a member of the Management Board. The members of the Company’ Management Board shall comply with general and specific criteria set out by legislation.

### Priorities for the reporting period and their implementation

A total of 23 meetings of the Company's Management Board were held in 2023. The table below gives an overview of attendance at meetings.

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

From 1 January until 13 February

| Name, surname | |
|---|---|
| Renaldas Radvila | 4 / 4 |
| Virgilijus Žukauskas | 4 / 4 |
| Ovidijus Martinonis | 4 / 4 |
| Audrius Ruseckas | 4 / 4 |

From 14 February until 31 December

| Name, surname | |
|---|---|
| Nerijus Datkūnas | 19 / 19 |
| Eligijus Kajieta | 16 / 19 |
| Dalia Jakutavičė | 19 / 19 |
| Jonas Skardinskas | 19 / 19 |
| Živilė Skibarkienė | 19 / 19 |
| Darius Maikštėnas | 18 / 19 |

***Note 1:*** *The figures show the number of meetings attended by members out of the total number of meetings organised in 2023.*

Activities of the Company's Management Board in 2023 covered the following key areas:

- evaluation of the most significant transactions planned by the Company and approval of essential terms of transactions;
- evaluation of the arrangement of the Company's activities and taking decisions related thereto;
- evaluation and approval of the Company's operational planning documents;
- adoption of decisions on participation and voting in general meetings of shareholders in companies whose shareholder the Company is;
- approval of the Company's annual report and submission to the General Meeting of Shareholders;
- evaluation of the Company's annual financial statements and profit (loss) distribution project and provision to the General Meeting of Shareholders;
- approval of the Company's business strategy;
- approval of the support allocation procedure.

## MEMBERS OF THE MANAGEMENT BOARD

| | Description | Experience | Education | Other currently held positions |
|---|---|---|---|---|
|  | **Nerijus Datkūnas** Chairman / independent member Start and end of term of office: From 14/02/2023 until 13/02/2026 | N. Datkūnas has 17 years of experience as a Finance Manager at Utenos trikotažas, Omnitel (now Telia Lietuva) and other companies. He also has 11 years of experience as a Management Board member, including 7 years as an independent Management Board member. Nerijus Datkūnas is also the founder of MB Leading LT, which provides business management consulting and training services. | N. Datkūnas holds a Master's degree in Economics from Vilnius University and a Master's degree in Business Administration from the Baltic Management Institute (BMI). Baltic institute of corporate governance - professional member of the Management Board | Training for managers: from 2015 in Management Clubs, from 2018 in Verslo Žinios Academy, from 2018 in ISM, from 2020 in BMI, in-company trainings Managing through Objectives and Results (OKRs): from 2022 04/2015 - present. |

| | | | | |
|---|---|---|---|---|
|  | **Dalia Jakutavičė** Member of the Management Board (representative of employees) Start and end of term of office: From 14/02/2023 until 13/02/2026 | Lithuanian Federation of Trade Unions of Energy Workers, Deputy Chairman Lawyer | Kaunas School of Radio and TV Mechanics Kolping College, Lav (Specialisation - Public Administratior Professional competence of socia dialogue mediator | Lithuanian Federation of Industrial Trade Unions Since 2012 Labour Disputes Commission at the State Labour Inspectorate of the Republic of Lithuania (member of the Commission) Since 2013 Tripartite Council of the Republic of Lithuania (member) Since 2018 Kaunas City Tripartite Council (Member) |
|  | **Eligijus Kajieta** Independent member Start and end of term of office: From 14/02/2023 until 13/02/2026 | Managing Director at Korn Ferry for Baltic Countries / Head of Services and Products in the Nordic region (Denmark, Norway, Sweden, Finland, Lithuania, Latvia, Estonia) 2009/10 - 2018/12 Head of Reward Information Services in the Baltic Countries Up to 2012/02 Head of HR at INVL FINASTA 2007/01 - 2008/10 Head of HR at BITĖS GRUPĖ Senior Manager for Internal Communications and Training 2004/09 - 2007/01 | Vilnius University, Master's degree in Public Relations 2001–2003, Vilnius University Bachelor's degree in Communication and Information 1997–2001; Borussia University College Studies in Information Management 2000/08 – 2001/01 | Independent member of the Supervisory Board of Klaipėda State Seaport Authority, member of the Management Board of FMĮ Myriad Capital, founder and principal consultant of Atlygio konsultacijos. |
|  | **Jonas Skardinskas** Management Board member (civil servant) Start and end of term of office: From 14/02/2023 until 13/02/2026 | Representative of Lithuania to the Executive Council of UNESCO (Vice-Chairperson) 10/2016 – 07/2017. J. Skardinskas is also currently Head of the Cyber Security and IT Policy Group at the Ministry of National Defence. J. Skardinskas gained leadership experience at the Lithuanian Embassy in Canada, the Ministry of Foreign Affairs of the Republic of Lithuania and elsewhere. | Harvard University, Cybersecurity course, 2020 Mykolas Romeris University Business Management (Cybersecurity) / Master's degree, 2020 Vytautas Magnus University Humanities / Bachelor's degree 1997. | Ministry of National Defence of the Republic of Lithuania, Cybersecurity and IT Policy Group |
|  | **Živilė Skibarkienė** Member of the Management Board (representative of shareholder) Start and end of term of office: From 14/02/2023 until 13/02/2026 | Legal and organisational development professional with extensive experience as a top manager. She joined AB Ignitis grupė in 2018, having previously served as the Head of the Legal and Administration Department at AB Šiaulių bankas. She was the Deputy General Director and a Board Member at UAB Finasta and served as the Head of Compliance at AB DNB (now Luminor). | Harvard Business School, Business Leadership Programme; Saïd Business School (University of Oxford), Leadership Programme; Mykolas Romeris University, Faculty of Law, Doctorate of Social Sciences in Law; Vilnius University, Faculty of Law, Master's degree. | Chairman and Member of the Management Board of AB Ignitis grupės paslaugų centras; Member of the Management Board of AB Ignitis grupė. |
|  | **Darius Maikštėnas** Member of the Management Board (representative of shareholder) Start and end of term of office: From 14/02/2023 until 13/02/2026 | An experienced senior executive with an international background in the energy, telecommunications, information technology sectors and venture capital funds. He joined AB Ignitis grupė in 2018 and has since served as CEO and Chairman of the Management Board. Prior to joining AB Ignitis grupė, D. Maikštėnas was the CEO of | Harvard Business School, General Management Programme; Baltic Management Institute, Master of Leadership; Kaunas University of Technology, Bachelor of Business Management | Member of the Management Board at Eurelectric and AB Ignitis grupė. |

Wider Communications Limited and Wider Communications Incorporated, an advisor to the Nextury Ventures Fund, Chairman of the Supervisory Board of ESO, Chairman of the Management Board of LESTO, and Vice President of AB Telia (former Omnitel).

## CEO

### Overview

The CEO of the Company acts as a single-person management 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 CEO organises and controls the operations of the Company, acts on behalf of the Company and enters into agreements at his/her own discretion, except for the cases stipulated in the Articles of Association of the Company and legal acts.

The CEO is elected, recalled and dismissed by the Management Board of the Company. The competence of the CEO, the procedure of appointment and removal, the number of terms of office shall be established in accordance with the provisions of the Law on Joint Stock Companies, the relevant legislation, and the Articles of Association of the Company. It should be noted that the CEO of the Company, as a subsidiary of a state-controlled company, is also subject to the special recruitment requirements set out in the Law on Companies, according to which the CEO‘s term of office is limited to five years. The Law stipulates that the same person can only be appointed for two consecutive five-year terms.

Remuneration to CEO is established in accordance with the Remuneration Policy and its implemented legislation of AB Ignitis Group. More information is disclosed in the Remuneration Policy (link).

On 23 November 2022, taking into account the opinion of the Company’s Supervisory Board, the Management Board elected for a 5-year term of office the Company's Chief Executive Officer, Renaldas Radvila, who acted as the interim Chief Executive Officer of the Company since 22 August 2022.

In order to ensure the effective management of the Company, the CEO, with the approval of the Board of of the Parent Company, has established an Executive Committee, which is tasked with examining and providing the CEO with an opinion on the areas and matters provided for in the Articles of Association and other legislation governing the Executive Committee. The Executive Committee of the Company commenced its activities on 15 February 2023.

| | Description | Experience | Education |
|---|---|---|---|
|  | **Renaldas Radvila**<br>CEO<br>Start and end of term of office: acting CEO from 22/08/2022 to 24/11/2022, the CEO on a continuous basis: from 24/11/2022 to 23/11/2027. | R. Radvila has over 20 years of leadership experience in various business sectors, telecommunications and energy sector companies, including four years of high-level leadership experience in ESO. R. Radvila has extensive experience in managing large-scale energy projects, liaising with stakeholders and representing the Company. | He holds a Bachelor’s degree from Vilnius University and Executive MBA degree from ISM University of Management and Economics. |

# 4.4 People and remuneration

## PEOPLE AND CULTURE

**Overview**

Ignitis Group, 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 Group 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 strategy of Ignitis Group identifies the following strategic priorities for People and Culture: attracting and retaining talent, developing critical skills and competences, and a people-centred approach. This is aimed at contributing to Ignitis Group's ambitions and strategic focus by building a diverse team of energy-savvy people.

The People and Culture Policy sets out the principles and defines the basic provisions that guide the Company's activities in the management of its human potential, culture and implementation of strategic objectives.

Based on the People and Culture Policy, the Company aims to retain and attract the best people to professionally develop the organisation's existing activities and to create new business opportunities and innovations, thus sustainably building a traditional yet innovative organisation. Employees are expected to uphold the values of the organisation: be open-minded, developmental, responsible and partnership-oriented.

**Employees, diversity, and representation**

As at 31 December 2023, there were 2,595 employees in the Company (as at 31 December 2022: 2,563 employees).

In the Company, as in the Ignitis Group as a whole, the job opportunities are independent of the gender of an 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, men accounted for 80% of the total employees of the Company, women – 20%. 71% of specialists were male and 29% female. The distribution of middle managers: 81% male,19% female.

The Company grants job opportunities for people of all ages. As at 31 December 2023, the Company had the highest percentage of employees in the 37–56 age group (51%) and the lowest percentage of employees in the 17–24 age group (2%). More than 72% of the Company's employees have higher education.

The Company promotes and maintains social dialogue with employee representatives. The Company has trade unions and a collective agreement in force with all 7 trade unions active in ESO as of 22 December 2020.

## REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD

**Overview**

As of 14 February 2023, the Company's two-tier governance model has been replaced by a single-tier governance model, meaning that the Supervisory Board is no longer formed and the Management Board with supervisory function has commenced its activities (see Section 4.2 for details).

The remuneration of the members of the Company's collegiate bodies is determined in accordance with the Description of the Procedure for Payment of Remuneration to Members of Collegiate Bodies of State-Owned Companies and Municipal-Owned Enterprises approved by Resolution No. 794 of 3 August 2022 of the Government of the Republic of Lithuania (hereinafter referred to as the "Resolution"), which establishes the procedure for the payment of remuneration to the members of the collegiate bodies of the state-owned companies and of their subsidiaries, which are of significance to the national security, as elected by the Meeting of General Shareholders Meeting.

More information on remuneration of collegiate bodies is provided in the Remuneration Policy (link).

### Remuneration paid to members of the Supervisory Board

**Annual remuneration of the members of the Supervisory Board,** EUR (before taxes)

| Name, surname (position) | 2023[8] | 2022 |
|---|---|---|
| Dalia Jakutavičė (member) | 30,511 | 20,290 |
| Nerijus Datkūnas (Chairman, independent member) | 39,254 | 13,877 |
| Eligijus Kajieta (independent member) | 30,511 | 13,877 |
| Jonas Skardinskas (member) | 15,195 | 3,630 |

## REMUNERATION IN THE COMPANY

### Overview

To ensure external competitiveness, the Company participates annually in remuneration market surveys. FRC (fixed remuneration component) 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. For more information on human resources management and remuneration issues, see the website of the parent company Ignitis Group (link).

### Remuneration Policy

The objective of the Remuneration Policy, which applies to all Ignitis Group companies, is to promote the achievement of strategic objectives. Ignitis Group has defined 5 key principles of the Remuneration Policy – Fairness, Competitiveness, Clarity, Transparency and Flexibility.

**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. |
| **Flexibility** | Decisions on remuneration must be made in accordance with the provisions of the Remuneration Policy and Equal Opportunity and Diversity Policy. |

The remuneration structure at Ignitis Group is applied uniformly and consists of two parts: a fixed remuneration component (FRC) and a variable remuneration component (percentage of FRC). Variable remuneration component (VRC) can be paid for achieving short-term (VRC) and long-term (LVRC) goals.

The full Remuneration Policy is available on the Ignitis Group website (link).

### Remuneration of the Company's employees

The Company's payroll was EUR 71.9 million in 2023 and EUR 64.5 million in 2022. The table below shows the average monthly salary of the employees for the period 2023–2022 (VRC and FRC).

[8] *As of 14 February 2023, the Company's two-tier governance model has been replaced by a single-tier governance model, meaning that the Supervisory Board is no longer formed and the Management Board with supervisory function has commenced its activities (see Section 4.2 for details). Accordingly, the data for 2023 are reported for service on the Supervisory Board until 14 February 2023 and on the Management Board from 15 February 2023.*

## Average monthly salary and number of the Company's employees, EUR (before taxes)

| Position category | 2023 | | 2022 | |
|---|---|---|---|---|
| | Number of employees | Average salary | Number of employees | Average salary |
| CEO | 1 | 12,070 | 1 | 11,949 |
| Top-level executives[9] | 4 | 10,154 | 3 | 8,799 |
| Mid-level managers | 218 | 4,072 | 211 | 3,800 |
| Experts, specialists | 1,708 | 2,480 | 1,687 | 2,273 |
| Employees | 664 | 2,190 | 661 | 2,007 |
| **Total** | **2,595** | **2,553** | **2,563** | **2,347** |

### Remuneration of the Company's Management Board and the Company's 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 of the Company's CEO is in line with the remuneration structure of the rest of the Group's employees (with the exception of the provision of the company car). The remuneration includes FRC, VRC and is detailed in the table below.

## Remuneration structure for the Company's CEO

| Component | Purpose | Description and evaluation of performance |
|---|---|---|
| Fixed remuneration component (FRC) | Remuneration for the functions performed, based on skills, knowledge and experience. | The FRC is set out in the employment contract, taking into account the level of the position and the level of competences required for the position. Fixed remuneration component is paid on a monthly basis. The fixed remuneration component is determined at the annual remuneration review or when needed (changes in job functions, career progression, etc.). |
| Compensation for acting as a management board member (CBM) | Remunerate for activities carried out by a board member. | The CBM is a fixed monthly allowance, which is usually reviewed before the signing of a 4-year contract as a management board member. From 15 February 2023 CBM is included in the FRC and is no longer paid separately. |
| Variable remuneration component (VRC) | Promote the achievement of the Group's or the Company's annual or strategic objectives. | Variable remuneration component can be paid for achieving short-term (VRC) and long-term (LVRC) goals. Executives are subject to a VRC not exceeding 20% of the annual FRC. The maximum LVRC for key executives is 40% and for executives with strategic responsibilities 30% of the annual FRC paid during the strategic period. |
| Additional benefits | Apply best market practices and retain existing managers. | It is a non-monetary form of remuneration that includes accident insurance and a range of other options with a pre-determined amount of benefits, such as health insurance packages, private pension contributions to selected funds, recreational and wellness services, and other additional benefits provided in accordance with internal regulations and the employee's decision. The benefits package for the CEO includes a Company car. |

Until 14 February 2023, the Company had an executive board formed from the Company's employees. As of 14 February 2023, the Company's two-tier governance model has been replaced by a single-tier governance model (see Section 4.3 for details).

## Remuneration of the Management Board members of the Company in 2023, EUR (before taxes)[10]

| Name, surname (position) | FRC | VRC[11] | CBM | Total |
|---|---|---|---|---|
| Renaldas Radvila (member of the Management Board, Chairman) | 14,567 | | 2,700 | 17,267 |
| Virgilijus Žukauskas (member of the Management Board) | 12,481 | | 1,950 | 14,431 |
| Ovidijus Martinonis (member of the Management Board) | 11,947 | | 1,950 | 13,897 |
| Audrius Ruseckas (member of the Management Board) | 10,427 | | 1,950 | 12,377 |

[9] *Agnė Domarkienė was elected as Head of Services on 19 April 2023.*
[10] *Until 14 February 2023, the Company had an executive board formed from the Company's employees. As of 14 February 2023, the Company's two-tier governance model has been replaced by a single-tier governance model (see Section 4.3 for details). Accordingly, the data for 2023 are reported for the period until 14 February 2023.*
[11] *VRC for the results of the previous calendar year is paid in Q2. Accordingly, until 14 February 2023, VRC was not paid.*

## **Remuneration of the Management Board members of the Company in 2022**, EUR (before taxes)

| Name, surname (position) | FRC | VRC[12] | CBM | Total |
|---|---|---|---|---|
| Mindaugas Keizeris (Chairman of the Management Board)[13] | 66,721 | 38,373 | 13,935 | 119,029 |
| Augustas Dragūnas (member of the Management Board)[14] | 38,516 | 14,397 | 6,847 | 59,760 |
| Renaldas Radvila (member of the Management Board, Chairman)[15] | 95,477 | 14,397 | 17,808 | 127,682 |
| Virgilijus Žukauskas (member of the Management Board) | 90,497 | 14,397 | 15,600 | 120,494 |
| Ovidijus Martinonis (member of the Management Board) | 90,480 | 14,397 | 15,600 | 120,477 |
| Audrius Ruseckas (member of the Management Board)[16] | 29,353 | | 5,829 | 35,182 |

## **Remuneration of the CEO in 2023**, EUR (before taxes)

| Name, surname | FRC | VRC[17] | CBM[18] | Total |
|---|---|---|---|---|
| Renaldas Radvila | 128,331 | 16,513 | 2,700 | 147,544 |

## **Remuneration of the CEO in 2022**, EUR (before taxes)

| Name, surname | FRC | VRC[19] | CBM | Total |
|---|---|---|---|---|
| Renaldas Radvila[20] | 11,176 | | 2,160 | 13,336 |
| Mindaugas Keizeris[21] | 66,721 | 38,373 | 13,935 | 119,029 |

For more information on Ignitis Group's Remuneration Principles, please refer to Ignitis Group's Annual Report for 2023 (link).

[12] *VRC for the results of the previous calendar year is paid in Q2. VRC paid in 2022 reflects the achievement of 2021 targets.*

[13] *Mindaugas Keizeris resigned from the Management Board of ESO and the position of CEO on 21 August 2022. Accordingly, the VRC for 2022 includes a severance payment of EUR10,162 (before tax) and a VRC payment of EUR 11,188 (before tax) for achievement of the 2022 targets.*

[14] *Augustas Dragūnas resigned from the Management Board of ESO and the position of Director of Finance and Administration of ESO on 10 June 2022.*

[15] *Renaldas Radvila was elected the Company's CEO and the Chairman of the ESO Management Board on 24 November 2022.*

[16] *Audrius Ruseckas was elected to the Management Board of ESO on 17 August 2022.*

[17] *VRC for the previous calendar year are paid in Q2, so the VRC paid in 2023 reflects the achievement of 2022 targets.*

[18] *Until 14 February 2023, the Company had an executive board formed from the Company's employees. As of 14 February 2023, the Company's two-tier governance model has been replaced by a single-tier governance model. Accordingly, from 15 February 2023 CBM is included in the FRC and is no longer paid separately.*

[19] *VRC for the previous calendar year are paid in Q2, so the VRC paid in 2022 reflects the achievement of 2021 targets.*

[20] *Renaldas Radvila was elected for the position of the CEO and the of the Chairman of the Management Board of the Company on24 November 2022.*

[21] *Mindaugas Keizeris resigned from the Management Board of ESO and the position of CEO on 21 August 2022. Accordingly, VRC for 2022 includes a severance payment of EUR 10,162 (before tax) and a KAD payment of EUR 11,188 (before tax) for achievement of the 2022 targets.*

### Targets

Annual performance targets for the Company's executives and the members of the Executive Committee are set and evaluated by the Company's Management Board on the basis of the Ignitis Group's and the Company's strategic plans, action plans and annual budgets.

## Meeting the 2023 targets

| Performance evaluation criteria | Weight, % | Items | Realisation |
|---|---|---|---|
| Service quality | 30% | Network resilience: Electricity and natural gas distribution SAIDI/SAIFI[22] (minutes/times) (20%)<br>Customer satisfaction (NPS[23],%) (10%) | 27.2% |
| Strategic projects | 25% | Smart metering programme: annual installed smart meters (10%)<br>Network regulation: to ensure a sustainable and long-term regulatory model for the new regulatory period (10%)<br>Development of common Data Hub (5%) | 25% |
| Financial targets | 30% | OPEX (15%)<br>CAPEX (15%) | 30% |
| Sustainability targets | 15% | Increase of occupational safety[24] (10%)<br>Ensuring inclusive selection[25] (5%) | 15% |
| | | **Total VRC, %** | **97.2%** |

Variable remuneration targets for 2024 and their weights have been developed taking into account the Company's strategic focus and directions, the portfolio of priority strategic initiatives for 2024–2026 and the 2024 budget and/or KPI plan. Variable remuneration targets for 2024 are presented in the table below.

## Targeted for 2024

| Criteria | Weight, % | Items |
|---|---|---|
| Service quality | 35% | **Ensuring network resilience and efficiency**<br><br>Electricity SAIDI/SAIFI (min/times) and natural gas distribution SAIFI (min/times) (15%)<br>Reduction of electricity network losses |
| | | **Improvement of end-to-end customer experience:**<br><br>Customer satisfaction (NPS), % (10%) |
| Strategic projects | 30% | Smart metering programme: annual installed smart meters (10%)<br>Network regulation: to ensure a sustainable and long-term regulatory model for the new regulatory period (20%) |
| Financial targets | 20% | **Achievement of financial targets, with priority given to:**<br><br>OPEX (10%)<br>CAPEX (10%) |
| Sustainability targets | 15% | **Achievement of ESG targets, with priority given to:**<br><br>Increase of occupational safety (10%)<br>Ensuring inclusive selection (5%) |

For more information on Ignitis Group's Remuneration Principles, please refer to Ignitis Group's Annual Report for 2023 (link).

[22] *The SAIFI/SAIDI targets have been developed taking into account the minimum electricity transmission reliability level set by the National Energy Regulatory Council (NERC) for the 2022–2026 regulatory period (established based on the resolution No. O3E-79 of the National Energy Regulatory Council dated January 26, 2022: an average level for the 2022–2026 period). The achievement of the target shall be assessed in accordance with the principles used and the methodology in force at the time of level setting (as adopted in the provisions of the Description of the Electricity Transfer Reliability and Quality of Service Indicators, hereinafter referred to as "the Methodology"), according to which the following cases are excluded: (1) interruptions due to natural phenomena corresponding to the values of natural, catastrophic meteorological and hydrological phenomena indicators; (2) interruptions due to failures in the network of the transmission system operator. In the event of a change in the provisions of the Methodology, the achievement of the target would be assessed in accordance with the Methodology in force at the time the target was set.*

[23] *NPS – Net Promoter Score.*

[24] *TRIR (Total Recordable Injury Rate)*

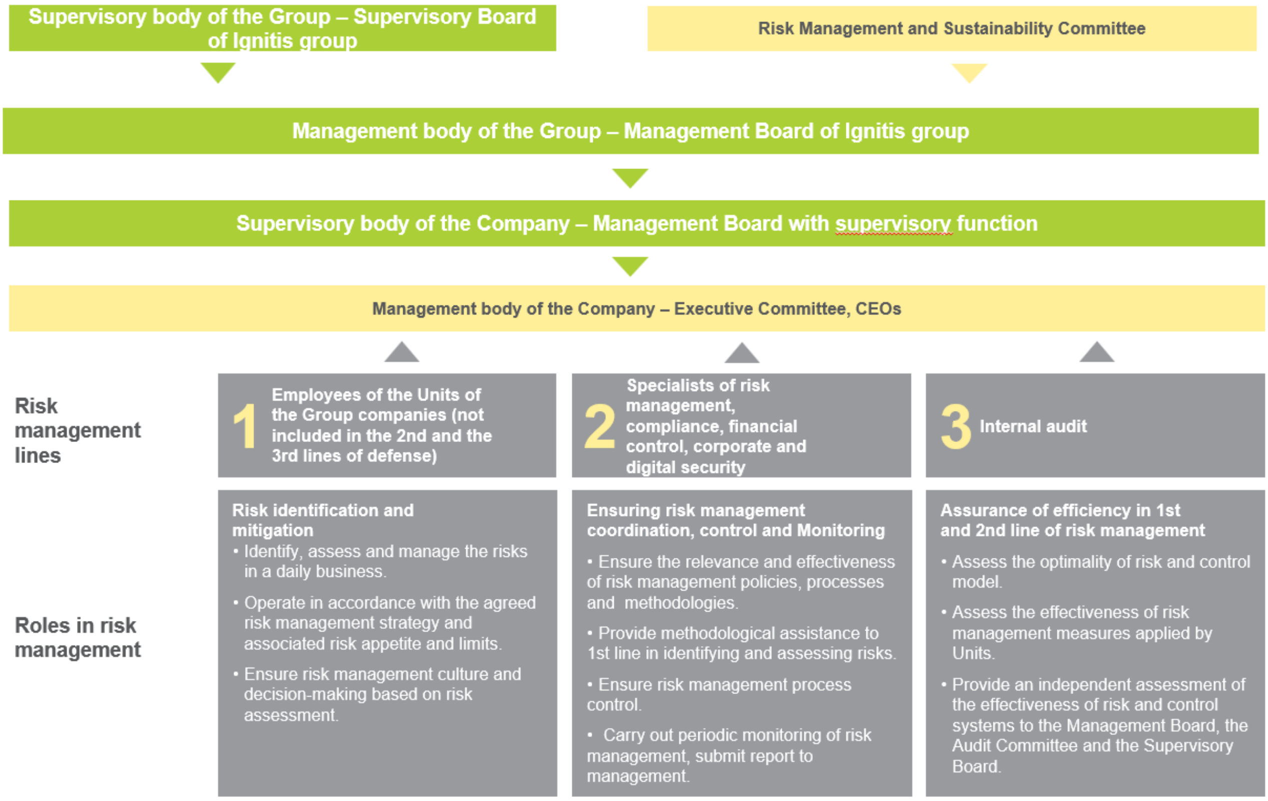
[25] *Aiming for gender balance in the selection process for top management positions: ensuring a minimum of 33% under-represented sex in the short-list of candidates for new/open positions.*

# 4.5 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.




A single risk management process covering all areas of the Company's business is in place across the Group to ensure that decisions taken by the Company's management reflect all operational developments in the Company and across the Group. To ensure effective risk management control risks, risk management measures, and key risk indicators are being monitored quarterly and reported to the Company's Executive Committee and Management Board.

**Risk management goals:**

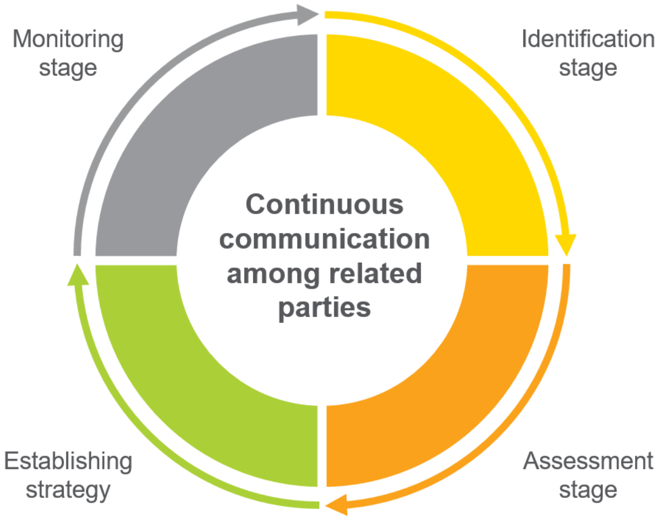
- to ensure that all decisions taken to achieve the Company's objectives are consistent with the Company's values;
- to eliminate or minimise the impact of risks on the Company's objectives over time;
- to ensure the stability (including financial stability) and sustainability of the Company's operations;
- to ensure that accurate information reaches the parties concerned on time;
- to protect the Company's reputation and ensure its credibility;
- to protect the interests of stakeholders.

## RISK MANAGEMENT PROCESS AND KEY PRINCIPLES

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

The Company's risk management process comprises four parts: risk identification, assessment, establishing management strategy and monitoring.

### Risk management process




**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 categorise the risks the Group faces while running its businesses into 4 different categories described below.

| Strategic risks | Financial risks | Operational risks | External risks |
|---|---|---|---|
| Risks that may impact the strategic objectives of the Company. 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 all the risks if they meet ESG risks' criteria. Based on these criteria, ESG type is assigned to the risk. E type is assigned to risks including climate-related physical, transitional, and other environmental risks, S to social and G to governance related risks. The Company pays special attention in order to reveal a potential impact of climate change and its related economic, transitional changes on the Company's activities. 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 only accepts risks that are consistent with the Company's core purpose, 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. During this stage, the level of risks is also re-assessed, new risks can be registered, and the risks that are no longer relevant are eliminated.

## KEY RISKS AND THEIR CONTROL

**Risk management in 2023**

**Overview**

The main financial impact risk to the Company remains the risk of external regulation; changing regulatory mechanisms, pricing, infrastructure investments may have a negative impact on the Company's financial sustainability.

The risk of failure to manage the smart metering programme arises from supply chain instability the lack of IT competence resources. Although the Company's strategic goals in the smart metering programme are implemented, significant attention is still given to monitoring and managing the risk.

Accident risk is one of the priority areas and the Company continues to promote the implementation of a safety culture programme, to improve preventive measures, to increase the focus on employee health and to take other risk management measures. During the reporting period, the Company's employees did not experience fatal accidents; however, the incidence of both minor and major accidents in the Company persists. During the reporting period, the Company had two major accidents at work, one involving a Company's employee, the other involving an employee of a Company's partner.

The risk of failure to ensure network reliability is the main operational risk in the Company's activities. Existing sources due to external environmental impact and the network's overhead lines remain the main sources of risk. The Company consistently makes efforts to ensure the reliability of the network. During the reporting period, scheduled maintenance and repair work was carried out according to the plan: hazardous tree removal along the routes of overhead lines (all work is coordinated with responsible authorities, and additional information is provided to public organisations), network automation.

The risk of high-impact cyber-attacks on business is centrally managed by the digital security function throughout the Group.

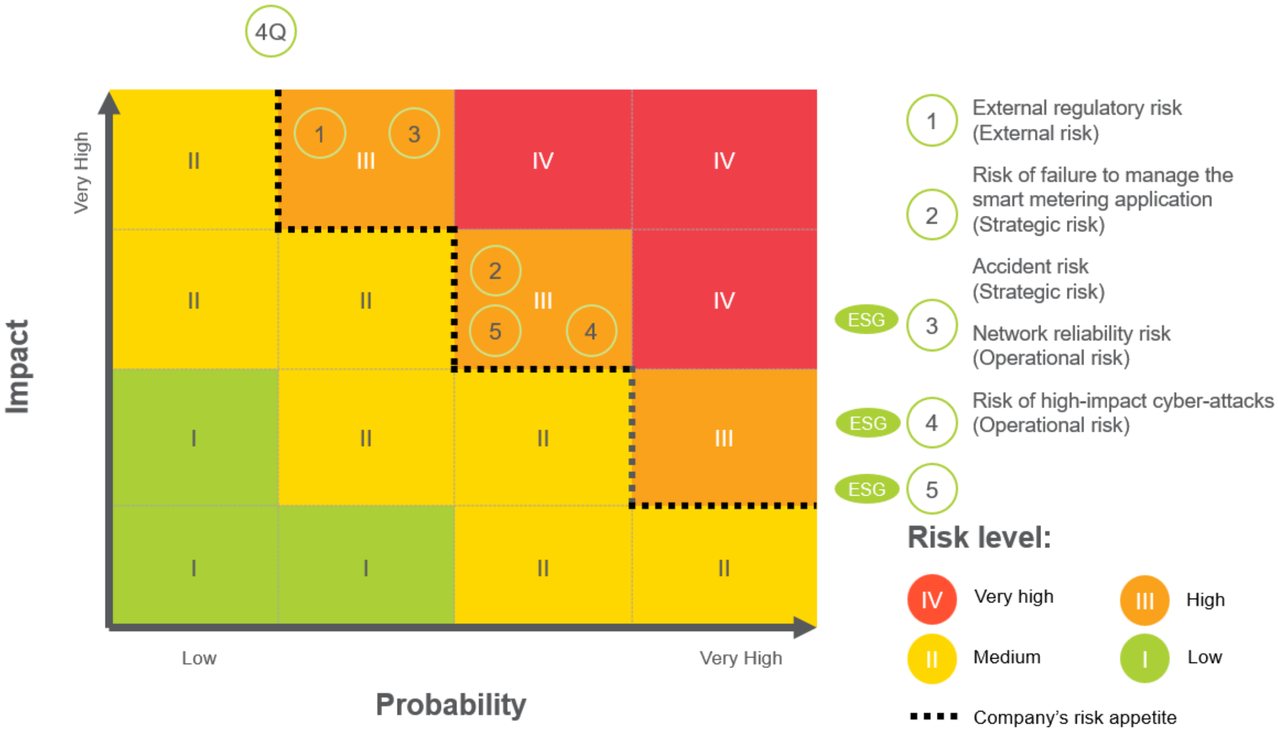
For more information on Ignitis Group's Risk Management Framework, risk factors and their management, please refer to Ignitis Group's Annual Report for 2023 (link).

## Risk management in 2024

### Overview

There have been no commonly significant changes in the levels of the Company's key risks. Key risks of the Company are presented in the risk map below. The Company's key risks include risks that could have a material impact on the Company's strategic and/or financial objectives.

## Map of the key risks of the Company




## Key risks in 2024 and their management directions

| External regulatory risk (External risk) | | |
|---|---|---|
| **Key sources of risk:**<br>– the volatility of the regulatory environment (frequent changes in legislation, which allow for mistakes, misinterpretations, as well as the risk of significant changes in the regulatory model as regulatory periods change).<br><br>**Monitoring:**<br>– information received on significant changes in potential risk exposures;<br>– periodic reporting of risk signals to management. | **Impact on the Group's strategic direction**<br>Finance<br><br>**The main possible effects**<br>Financial<br><br>**Risk level**<br>High<br><br>**Type of ESG risk**<br>Not related | **Key areas of risk management:**<br>– Group projects are organised to ensure compliance with the new requirements, involving the best experts in the group on a given issue;<br>– active involvement in the public consultation process on legislation;<br>– initiating draft legislation relevant to the Company's activities and raising concerns about the application of the legislation. |

| Risk of failure to manage the smart metering application (Strategic risk) | | |
|---|---|---|
| **Key sources of risk:**<br>– external environmental problems, resulting in disrupted supply chains worldwide;<br>– lack of IT expertise resources;<br><br>**Monitoring:**<br>– meeting critical benchmarks;<br>– implementing the smart metering roll-out plan. | **Impact on the Group's strategic direction**<br>Networks<br><br>**The main possible effects**<br>Reputation<br><br>**Risk level**<br>High<br><br>**Type of ESG risk**<br>Not related | **Key areas of risk management:**<br>– internal control of costs (resources), investments;<br>– market and external regulatory analysis;<br>– controlling and monitoring the implementation of contract procedures;<br>– monitoring the portfolio of strategic initiatives at the level of the Company's Executive Committee and Management Board;<br>– cash flow forecasting, monitoring and analysis. |

| Accident risk (Strategic risk) | | |
|---|---|---|
| **Key sources of risk:**<br>– non-compliance with safety requirements;<br>– lack of practical knowledge and skills;<br>– lack of staff awareness.<br><br>**Monitoring:**<br>– accidents;<br>– TRIR (Total recordable injury rate) in the activities of the Company and its partners;<br>– workplaces with infringements. | **Impact on the Group's strategic direction**<br>Sustainable development<br><br>**The main possible effects**<br>Safety and health<br><br>**Risk level**<br>High<br><br>**Type of ESG risk**<br>Social | **Key areas of risk management:**<br>– maintaining an occupational safety and health management system (ISO 45001:2018);<br>– introducing an enhancement programme of safety culture;<br>– continuous safety monitoring and supervision of employees and contractors;<br>– a mobile app used to conveniently record workplace safety violations for all employees;<br>– ongoing practical and virtual trainings;<br>– systematic ongoing monitoring of the staff training process;<br>– preventive measures management database implemented to record actions after accidents, incidents, etc., to ensure timely implementation of planned measures;<br>– ongoing successful development of the information system to improve the supply of protective measures and the health screening process;<br>– digitisation of employees health and safety instructions. |

| Network reliability risk (Operational risk) | | |
|---|---|---|
| **Key sources of risk:**<br>– power cuts due to natural conditions, third-party impacts. Network equipment that is worn out, frequently breaks down, or has the highest probability of failure (e.g. complete transformer stations);<br>– 68% of the power lines in ESO's network are overhead lines, which are much more vulnerable than underground cable lines;<br>– shortages and increase in the costs of contractors' labour, raw materials, technical and human resources.<br><br>**Monitoring:**<br>– SAIDI/SAIFI reliability indicators for electricity;<br>– CAPEX budget implementation. | **Impact on the Group's strategic direction**<br>Networks<br><br>**The main possible effects**<br>Financial/Compliance<br><br>**Risk level**<br>High<br><br>**Type of ESG risk**<br>Environmental - climate | **Key areas of risk management:**<br>– cooperation with the Meteorological Service to obtain advance information on predictable meteorological events, which determines when resource mobilisation is activated;<br>– cooperation with the State Forestry Agency on felling trees that pose a risk to electricity grids;<br>– investments to replace overhead lines with cable lines in forested areas;<br>– improving the efficiency of the management of technological assets by inspecting overhead power lines using LiDAR technology;<br>– a new management and maintenance system for technological assets that meets today's expectations has been put in place to make maintenance and repair processes more efficient and of higher quality;<br>– investment property rating models are continuously reviewed and updated;<br>– centralised monitoring of power quality parameters in accordance with LST EN 50160;<br>– a long-term investment programme for network automation;<br>– streamlining the management of mass disconnections;<br>– setting up internal teams of operational staff. |

| The risk of high-impact cyber-attacks on business (Operational risk) | | |
|---|---|---|
| **Key sources of risk:**<br>– cyber-attacks against the Group (including the Company) organised by third parties;<br>– social engineering attacks, data theft;<br>– delayed or inadequate elimination of publicly known system vulnerabilities;<br>– the changing geopolitical situation increases the risk of cyber incidents, which can affect the reliability of the electricity distribution network.<br><br>**Monitoring:**<br>– number of internal and external critical vulnerabilities;<br>– average time to eliminate critical vulnerabilities. | **Impact on the strategic direction**<br>Organisation<br><br>**The main possible effects**<br>Compliance/Reputation<br><br>**Risk level**<br>High<br><br>**Type of ESG risk**<br>Governance | **Key areas of risk management:**<br>– digital security in AB Ignitis grupė is centrally managed, thus consolidating key competences, tools and best management practices;<br>– the staff of the Digital Security Operations Centre of AB Ignitis grupė improve their skills by participating in national and international cyber security exercises;<br>– improving the cyber-attack detection/prevention systems;<br>– enhancing the resilience of electricity distribution network management systems to cyber threats by expanding the cyber-security network;<br>– cooperation with external organisations in the field of cyber security;<br>– continuous education and training of the Company's employees; |

- measures in the business security functional area to prevent corruption and possible espi-onage;
- internal audit;
- a 24-hour cyber security supervision provided by the Digital Security Operations Centre of AB Ignitis Group.

The Company’s key risks, detailed in the table above, are long-term. The Company's other inherent financial risks (currency, interest rate, credit, liquidity), which do not exceed the Company's risk appetite in accordance with the requirements defined by IFRS, are described in the Financial Statements section of this report.

Other risks of the Company in the areas of ESG (environmental protection, social responsibility and governance), health and safety of employees (and contractors), corruption, compliance, business continuity, etc. have been assessed as medium/low risk and fall within the risk appetite and KPIs (tolerance), and therefore are not mentioned in the table above, but are monitored in order to stay within these limits. More information on some of them can be found in the section “Sustainability” in the Annual Report as well as in the section “Risks and their management” under “Other risks” in the Annual Report of AB Ignitis grupė for 2023.

# SUSTAINABILITY

# 5.1 Overview of sustainability

The sustainability performance and results of the Ignitis Group companies, including its subsidiary ESO, 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, ESO does not prepare a separate corporate social responsibility report. The following provides a summarised overview of the relevant sustainability information for ESO 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.

The disclosures are made on a materiality basis and reflect 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 follows the Global Reporting Initiative 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.

## SUSTAINABILITY MANAGEMENT IN THE GROUP AND THE COMPANY

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 are focusing 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. 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 (link).

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 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**

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

## ESG key indicators monitored by ESO

| Indicator | Unit of measure | 2022 | 2023 |
|---|---|---|---|
| GHG emissions | thousand t CO2 equiv. | 469 | 268 |
| Scope 1 | thousand t CO2 equiv. | 140 | 76 |
| Scope 2 | thousand t CO2 equiv. | 186 | 84 |
| Scope 3 | thousand t CO2 equiv. | 143 | 108 |
| Smart meters, number of meters installed | Thousand units | 210.44 | 518.93 |
| Energy savings delivered to customers; proportion of total energy delivered (education) | % | 1 | 1 |
| Energy savings under the Energy Savings Agreement (No. 50200/901794) | GWh | 11.63[26] | 133.3[27] |
| Fatal accidents (employees) | number | 1 | 0 |
| Fatal accidents (contractors) | number | 2 | 0 |
| TRIR (employees) | times | 2.28 | 1.10 |
| TRIR (contractors) | | | 0.92 |
| eNPS (indicator of employee satisfaction) | % | 64 | 61 |
| Proportion of women in management positions | % | 18.18 | 21.43 |
| Proportion of employees having participated in voluntary initiatives at least once | % | 2.2 | 5.6 |
| Intolerance of corruption among employees | % | 93.78 | 95.2 |

## STAKEHOLDER RELATIONS AND ASSESSMENT OF ESG PRIORITIES

Stakeholder engagement is crucial to ensure that ESO responds proactively to trends, emerging issues and opportunities. Geographic and operational coverage of ESO extends throughout Lithuania, and by applying the ESG principles in our relationships with stakeholders, as set out in the Sustainability Policy (link), we aim not only to effectively manage their expectations and interests but also to look for opportunities where our collaboration may 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.

In surveys conducted in spring 2021, stakeholders of ESO were asked which ESG aspects the Company should focus on and how they perceive current performance of ESO in respect to each ESG aspect.

In the course of stakeholder engagement, 9 main stakeholder groups were identified and interviewed (responses from 1.7 thousand respondents were received which equivalents to a response rate of 6%). This grouping was chosen to more accurately reflect the specificity of the expectations of each group, while at the same time assessing the similarity of respondents' expectations within each group. As recommended by the above sustainability standards, a materiality assessment was carried out on the basis of the survey results.

[26] *Energy savings with a multiplier effect by the end of 2030 – – 16.975 GWh (savings deemed eligible). The figures include not only the impact of the measures implemented in that year, but also the continuing impact of those measures up to 2030.*

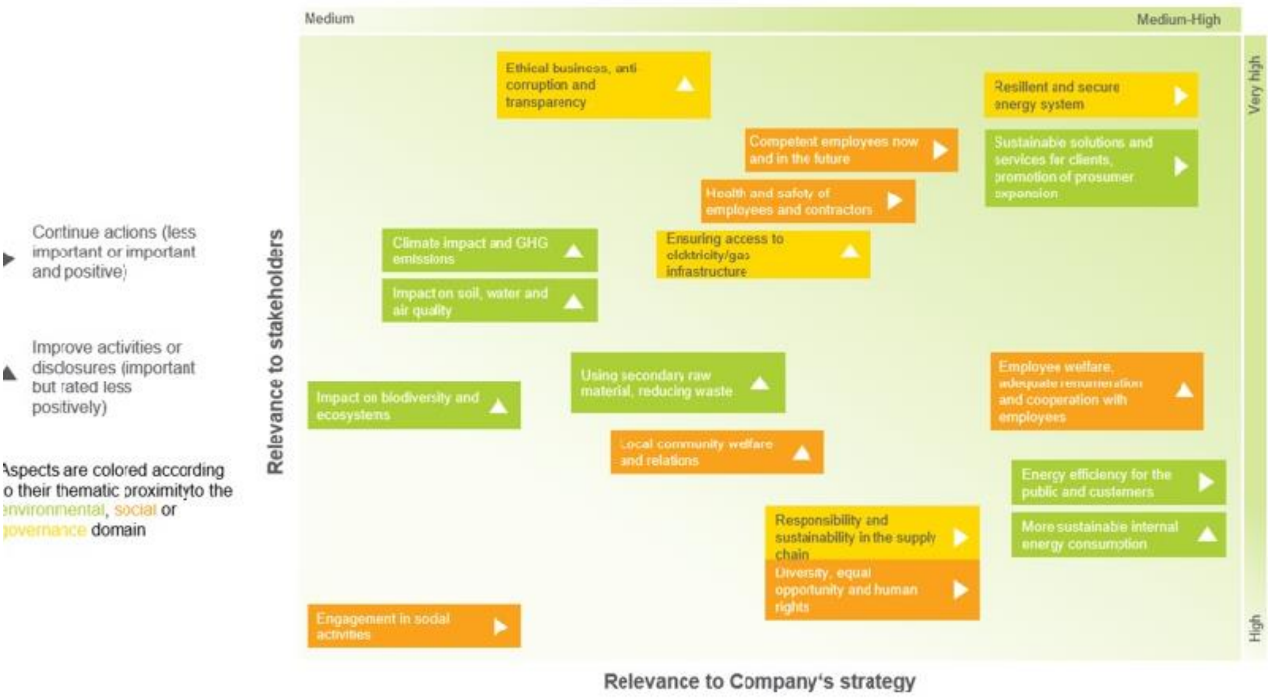
[27] *Annual energy savings target for 2023 – 107.5 GWh, energy savings with a multiplier effect by the end of 2030 – 133.3 GWh. The figures include not only the impact of the measures implemented in that year, but also the continuing impact of those measures up to 2030.*

## Primary stakeholders of ESO

| | | |
|---|---|---|
| B2C customers | Suppliers, contractors | State and municipal authorities |
| B2B customers | Energy sector partners | The media |
| Employees | Associations and educational institutions | Shareholders / investors |

The expectations of stakeholders expressed during this process were aligned with existing goals and objectives of ESO, which led to the identification of priority themes that are in line both with stakeholders' expectations and the established operational objectives of ESO. The outcome of the materiality assessment provides for the basis for further embedding sustainable development in the activities of ESO in a way that makes it possible to take into account the overall impact of ESO on its stakeholders and align the expectations expressed by the stakeholders with the strategic objectives. The main expectations of ESO stakeholders are described in the Investment Plan of ESO.

## ESO materiality assessment matrix




Key facts on ESO materiality assessment:

- We interviewed nearly 1.7 thousand representatives of ESO stakeholders (across the Group – 3 thousand in total);
- We identified 17 thematic aspects of the ESG that are most relevant to ESO and its stakeholders;
- Stakeholders shared their views on which ESG aspects should be relevant to ESO;
- During the internal strategy sessions, the management of ESO clarified the links between stakeholders' expectations and the operational strategy.

It should be noted that the most significant areas of impact of ESO have remained largely unchanged compared to what was described in the Company's Annual Report 2021. The materiality assessment has clarified their importance for each ESO stakeholder and for the strategy of the Company and the Group. A full report on the materiality assessment for the Group as a whole is available in the 'Sustainability' section on the Group's website (link).

**ESG risks and their management**

The key ESG risks and their management solutions are disclosed in more detail in the section 4.5. "Risks and their management" of this report.

## OVERVIEW OF THE KEY IMPACTS OF ESO AND REFERENCES TO INFORMATION ON THEIR MANAGEMENT

The Group's Sustainability Report is available in the Investors or Sustainability sections on the Group's website.

### Environmental area

| The main environmental impacts of ESO: | Impact management is described in the following section of the Group's Sustainability Report: |
|---|---|
| – climate change impact and GHG emissions – reduction of greenhouse gases ($CO_2$, etc.) generated by activities; | 6.2 Environment – Climate change |
| – energy efficiency for society and customers – promoting consumer energy efficiency and network digitalisation; | 6.2 Environment – Climate change |
| – sustainable solutions and services for customers – promoting the development of prosumers and other environmentally friendly and smart solutions for customers; | 6.2 Environment – Climate change<br>6.3 Social aspects – Consumers and end users |
| – impacts on biodiversity and ecosystems – protection of biodiversity; | 6.2 Environment – Biodiversity and ecosystems |
| – impact on soil, water and air quality – maintaining soil, water and air quality, preventing environmental pollution; | 6.2 Environment – Pollution |
| – more sustainable self-consumption of energy – using green energy for self-consumption; reducing self-consumption of energy; | 6.2 Environment – Climate change |
| – promoting the implementation of circular economy principles, resource efficiency and waste management – using secondary raw materials in the activities, sale of network elements still suitable for use, recycling raw materials and reducing operational waste. | 6.2 Environment – Use of resources and circular economy |

### Staff and society/communities area

| The main impacts of ESO on staff and society (communities): | Impact management is described in the following section of the Group's Sustainability Report: |
|---|---|
| – occupational health and safety – ensuring workplace safety and promoting the health of employees and contractors; | 6.3 Social aspects – Our employees – Occupational health and safety<br>6.3 Social aspects – Value chain employees |
| – employee welfare and cooperation with employees – fair remuneration, employee job satisfaction, ensuring freedom of association; | 6.3 Social aspects – Our employees – Employee welfare, fair remuneration and cooperation with employees |
| – 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 |
| – influencing and engaging with local communities – protecting the health of community members and the natural environment, listening to community needs; | 6.3 Social aspects – Affected communities |
| – involvement in community activities – participating in civic initiatives and NGOs; volunteering. | 6.3 Social aspects – Our employees – Diversity, inclusion and well-being |

### Human rights

| The main human rights impacts of ESO: | Impact management is described in the following section of the Group's Sustainability Report: |
|---|---|
| – 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 well-being |

### Governance and anti-corruption

| Major impacts of ESO on governance and anti-corruption: | Impact management is described in the following section of the Group's Sustainability Report: |
|---|---|
| – ensuring access to energy – orderly and fast connection of customers to the network, financial and physical availability of electricity; | 6.3 Social aspects – Consumers and end users |
| – stability and security of the energy system – ensuring security and uninterrupted operation of the energy system, network reliability and its resilience to weather and other external factors; | 6.4 Governance – Business continuity |
| – ethical business, anti-corruption and transparency – transparent corporate governance, anti-corruption, fair and ethical market conduct; | 6.4 Governance – Corruption prevention and detection |
| – responsibility and sustainability in the company's supply chain – buying more environmentally friendly goods and services for your 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 |

# FINANCIAL STATEMENTS

# 6.1 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



The financial statements of the Company were prepared and signed by the management of AB Energijos skirstymo operatorius on 28 February 2024:

| **Renaldas Radvila** | **Audrius Ruseckas** | **Pranas Miltenis** |
|---|---|---|
| CEO | Head of Finance and Administration | UAB Ignitis grupės paslaugų centras, Head of Corporate Accounting, acting in accordance with Decision 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[1] |
|---|---|---|---|
| Revenue from contracts with customers | 7 | 593,041 | 681,860 |
| Other income | 8 | 1,643 | 1,792 |
| **Total revenue and other income** | | **594,684** | **683,652** |
| Purchase of electricity, natural gas and other services | 9 | (135,487) | (398,651) |
| Depreciation and amortisation | 15,16,17, 27 | (104,049) | (92,913) |
| Salaries and related expenses | 10 | (71,895) | (64,498) |
| Repair and maintenance expenses | | (46,183) | (30,713) |
| Write-offs, revaluation and impairment losses of property, plant and equipment and intangible assets | 11 | (1,713) | (11,805) |
| Other expenses[1] | 12 | (46,324) | (39,153) |
| **Total expenses** | | **(405,651)** | **(637,733)** |
| **Operating profit (loss)** | | **189,033** | **45,919** |
| Finance income | 13 | 260 | 76 |
| Finance expenses | 13 | (19,013) | (15,375) |
| **Finance activity, net** | | **(18,753)** | **(15,299)** |
| Share (of result) of associates | 18 | - | 205 |
| **Profit (loss) before tax** | | **170,280** | **30,825** |
| Income tax (expenses)/benefit | 14 | (15,812) | 299 |
| **Net profit for the year** | | **154,468** | **31,124** |
| **Other comprehensive income (loss)** | | | |
| **Items that will not be reclassified to profit or loss in subsequent periods (net of tax)** | | | |
| Revaluation of property, plant and equipment | 23.2 | 824 | (1,484) |
| Change in actuarial assumptions | 28 | 938 | 182 |
| **Items that will not be reclassified to profit or loss in subsequent periods, total** | | **1,762** | **(1,302)** |
| **Total other comprehensive income (loss) for the year** | | **1,762** | **(1,302)** |
| **Total comprehensive income (loss) for the year** | | **156,230** | **29,822** |

*[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2022 due to reclassifications of separate line items of the statement of profit or loss - Telecommunications and IT services amount of EUR 12,651 thousand was reclassified to Other expenses.*

# Statement of financial position

**As at 31 December 2023**

| EUR thousand | Notes | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 15 | 51,886 | 43,528 |
| Property, plant and equipment | 16 | 2,031,876 | 1,804,050 |
| Right-of-use assets | 17 | 9,267 | 7,227 |
| Prepayments for non-current assets | | 214 | 1,088 |
| Investments in associates | 18 | - | 3,904 |
| Non-current receivables | | 207 | 3,719 |
| Other non-current assets | | 2 | 2 |
| **Non-current assets** | | **2,093,452** | **1,863,518** |
| Inventories | | 4,538 | 3,797 |
| Prepayments and deferred expenses | | 2,464 | 1,861 |
| Trade receivables | 19 | 64,588 | 77,585 |
| Other receivables | 20 | 8,500 | 6,622 |
| Other current assets | | 11,279 | 8,857 |
| Cash and cash equivalents | 21 | 11,930 | 84,625 |
| **Current assets** | | **103,299** | **183,347** |
| **TOTAL ASSETS** | | **2,196,751** | **2,046,865** |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 22.1 | 259,443 | 259,443 |
| Revaluation reserve | 23.2 | 64,996 | 71,769 |
| Legal reserve | 23.1 | 25,944 | 25,944 |
| Retained earnings | | 380,858 | 250,313 |
| **Equity** | | **731,241** | **607,469** |
| Non-current loans | 24 | 827,027 | 834,929 |
| Non-current lease liabilities | 25 | 6,380 | 6,328 |
| Grants and subsidies | 27 | 43,951 | 39,890 |
| Deferred tax liabilities | 14.3 | 33,424 | 17,467 |
| Provisions | 28 | 8,163 | 10,689 |
| Deferred income | 30 | 285,862 | 251,014 |
| **Non-current liabilities** | | **1,204,807** | **1,160,317** |
| Loans | 24 | 85,741 | 18,333 |
| Lease liabilities | 25 | 3,176 | 1,098 |
| Trade payables | | 34,233 | 59,996 |
| Advances received | 30.2 | 49,193 | 46,854 |
| Provisions | 28 | 3,722 | 3,183 |
| Deferred income | 30.1 | 14,082 | 19,017 |
| Other current liabilities | 29 | 70,556 | 130,598 |
| **Current liabilities** | | **260,703** | **279,079** |
| **Total liabilities** | | **1,465,510** | **1,439,396** |
| **TOTAL EQUITY AND LIABILITIES** | | **2,196,751** | **2,046,865** |

# Statement of changes in equity

**For the year ended 31 December 2023**

| EUR thousand | Notes | Share capital | Revaluation reserve | Legal reserve | Retained earnings | In total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2022** | | **259,443** | **83,101** | **25,944** | **259,169** | **627,657** |
| Net profit for the year | | - | - | - | 31,124 | 31,124 |
| **Other comprehensive income (loss)** | | | | | | |
| Result of changes of other actuarial assumptions | 28 | - | - | - | 182 | 182 |
| Revaluation of property, plant and equipment, net of tax | 23.2 | - | (1,484) | - | - | (1,484) |
| **Total other comprehensive income (loss) for the year** | | - | **(1,484)** | **-** | **182** | **(1,302)** |
| **Total comprehensive income (loss) for the year** | | **-** | **(1,484)** | **-** | **31,306** | **29,822** |
| Transfer of revaluation reserve to retained earnings (net of tax) | 23.2 | - | (9,848) | - | 9,848 | - |
| Dividends | 22.2 | - | - | - | (50 010) | (50 010) |
| **Balance as at 31 December 2022** | | **259,443** | **71,769** | **25,944** | **250,313** | **607,469** |
| | | | | | | |
| **Balance as at 1 January 2023** | | **259,443** | **71,769** | **25,944** | **250,313** | **607,469** |
| Net profit for the year | | - | - | - | 154,468 | 154,468 |
| **Other comprehensive income (loss)** | | | | | | |
| Result of changes of other actuarial assumptions | 28 | - | - | - | 938 | 938 |
| Revaluation of property, plant and equipment, net of tax | 23.2 | - | 824 | - | - | 824 |
| **Total other comprehensive income (loss) for the year** | | **-** | **824** | **-** | **938** | **1,762** |
| **Total comprehensive income (loss) for the year** | | **-** | **824** | **-** | **155,406** | **156,230** |
| Transfer of revaluation reserve to retained earnings (net of tax) | 23.2 | - | (7,597) | - | 7,597 | - |
| Dividends | 22.2 | - | - | - | (28,986) | (28,986) |
| Other movements | | - | - | - | (3,472) | (3,472) |
| **Balance as at 31 December 2023** | | **259,443** | **64,996** | **25,944** | **380,858** | **731,241** |

# Statement of cash flows

**For the year ended 31 December 2023**

| EUR thousand | Notes | 2023 | 2022 |
|---|---|---|---|
| Net profit (loss) for the year | | 154,468 | 31,124 |
| **Adjustments to reconcile net profit to cash flows:** | | | |
| Share (of profit) of associates | 18 | - | (205) |
| Depreciation and amortisation expenses | 15,16,17 | 106,439 | 94,097 |
| Depreciation and amortisation of grants | | (2,390) | (1,184) |
| (Gain)/loss on disposal of investments in subsidiaries | | (41) | |
| Revaluation of property, plant and equipment | 11 | (1,071) | 7,702 |
| Impairment/(reversal of impairment) of financial assets | 19,20 | 1,519 | 581 |
| Income tax expenses/(benefit) | 14 | 15,812 | (299) |
| Increase/(decrease) in provisions | 28 | 2,386 | 698 |
| Inventory write-down to net realizable value/(reversal) | | (2) | 62 |
| Loss/(gain) on disposal/write-off of assets held for sale and property, plant and equipment | | 3,994 | 4,150 |
| Interest income | 13 | (219) | (76) |
| Interest expenses | 13 | 18,848 | 15,351 |
| Other expenses/(income) of financing activities | | 124 | 24 |
| **Changes in working capital:** | | | |
| (Increase)/decrease in trade receivables and other amounts receivable | | 7,174 | 4,573 |
| (Increase)/decrease in inventories, prepayments, other current and non-current assets | | (3,764) | (7,876) |
| Increase/(decrease) in trade payables, deferred income, advances received, other non-current and current liabilities | | (50,014) | 96,771 |
| **Net cash flows from operating activities** | | **253,263** | **245,493** |
| Acquisition of property, plant and equipment, and intangible assets | | (345,898) | (249,917) |
| Proceeds from sale of property, plant and equipment, assets held for sale and intangible assets | | 1,580 | 5 |
| Cash-pool (net) | | 5,978 | (5,951) |
| Grants received | 27 | 6,451 | 13,906 |
| Dividends received | | 244 | 192 |
| Interest received | 13 | 219 | 70 |
| Proceeds from sale of investments in associates | 18 | 3,701 | - |
| **Net cash flows from investing activities** | | **(327,725)** | **(241,695)** |
| Loans received | 24 | - | 193,000 |
| Repayments of loans | 24 | (7,902) | (55,023) |
| Proceeds from cash-pool (net) | 25 | 65,562 | - |
| Dividends paid | 22.2 | (29,016) | (50,041) |
| Lease payments | 25 | (4,265) | (4,085) |
| Interest paid | 25 | (22,612) | (17,548) |
| **Net cash flows from financing activities** | | **1,767** | **66,303** |
| **Increase/(decrease) in cash and cash equivalents** | | **(72,695)** | **70,101** |
| Cash and cash equivalents at the beginning of the year | 21 | 84,625 | 14,524 |
| **Cash and cash equivalents at the end of the year** | | **11,930** | **84,625** |

# Explanatory Notes

## 1. General information

AB „Energijos skirstymo operatorius" (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities, the registrar whereof is State Enterprise Centre of Registers, on 11 December 2015. The Company started its activities with effect from 1 January 2016. The Company is headquartered at Laisvės pr. 10, LT-04215, Vilnius, Lithuania. Company code 304151376, VAT identification code LT100009860612. The Company has been founded for an indefinite period. Reporting period is one year ended 31 December 2023.

The Company's core lines of business include electricity and gas distribution, and last resort supply of electricity.

Shareholders of the Company:

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | **Share capital, in EURm** | **Ownership interest (%)** | **Share capital, in EURm** | **Ownership interest (%)** |
| AB „Ignitis grupė" | 259,443 | 100 | 259,443 | 100 |
| **Total** | **259,443** | **100** | **259,443** | **100** |

The parent company of the Company is AB „Ignitis grupė" (company code 301844044, registered address Laisvės pr. 10, LT-04215 Vilnius, Lithuania), which owns 100% of shares of the Company as at 31 December 2023 and 2022, the shareholders were the Ministry of Finance of the Republic of Lithuania (74.99%) and retail and institutional investors (25.01%). As at 31 December 2022, the shareholders were the Ministry of Finance of the Republic of Lithuania (74.99%) and retail and institutional investors (25.01%).

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

The Company's does not have investments in associates as at 31 December 2023. During 2023 the Company sold investment in associates - see note 18.

The Company's activities are regulated by the Lithuanian Law on Energy, the Lithuanian Law on Electricity, the Lithuanian Law on Natural Gas and other regulatory legislation. The licenses are issued and licensed activities are controlled by the National Energy Regulatory Council (hereinafter – the Council, NERC). The Council sets the price caps for the services of electricity distribution and natural gas distribution (Note 3.13).

These financial statements were signed by the management of the Company on 28 February 2024. The Company's shareholders have a statutory right to approve or not to approve these financial statements and to require the preparation of a new set of the financial statements.

# 2. Basis of preparation

### 2.1. Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as ‘IFRS’), approved by the International Accounting Standards Board (hereinafter referred to as ‘IASB’) and adopted by the European Union.

The Company’s financial statements as at and for the year ended 31 December 2023 have been prepared on a going concern basis applying measurement based on historical acquisition cost, except for certain items of property, plant and equipment (Note 3.13).

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.

# 3. Summary of material accounting policies

### 3.1. Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these financial statements are consistent with the accounting policies applied in the preparation of the Company's annual financial statements for the year ended 31 December 2022, with the exception of the new standards which entered into force during the year of 2023.

3.1.1. New standards, amendments and interpretations

3.1.1.1. Deferred tax related to assets and liabilities arising from a single transaction

The Company has adopted the *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS12)* from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities.

The Company previously accounted for deferred tax on leases by applying the ‘integrally linked’ approach, resulting in similar outcome as under the amendments, except that the deferred tax asset or liability was recognised on a net basis. Following the amendments, the Company has recognised a separate deferred tax asset in relation to its lease liabilities and deferred tax liability in relation to its right-of-use assets. However, there was no impact on the Statement of financial position because the balances were qualified for offset under paragraph 74 of IAS 12. There was no impact on the opening retained earnings as at 1 January 2022 as a result of the change. The key impact for the Company relates to the disclosure of the deferred tax assets and the liabilities recognised (Note 14).

3.1.1.2. Material accounting policy information

The Company has adopted *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

The management reviewed the accounting policies and made updates to the information disclosed in section ‘Summary of material accounting policies’ of these financial statements.

3.1.1.3. Standards and their interpretations, announced and adopted by the European Union, effective for the current reporting period

The following are new standards and/or amendments to the standards that have been approved by IASB and endorsed in European Union during the year ended as at 31 December 2023:

| Standards or amendments that came into force during the year of 2023 |
|---|
| Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS12) |
| Amendments to IAS 1 and IFRS 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 |
| Definition of Accounting Estimates (Amendments to IAS 8) |
| Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17) |

The adoption of these standards, revisions and interpretations had no material impact on the financial statements except Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS12) and Amendments to IAS 1.

3.1.1.4. Standards issued, but not yet effective and not early adopted

Preparing these financial statements, the Company did not adopt new IFRS, 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 significant impact on the Company's financial statements.

| Other new standards and amendments | IASB effective date | EU status of approval for application |
|---|---|---|
| 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 Financial Instruments: Disclosures: Supplier Finance Arrangements | 1 January 2025 | Not yet endorsed |
| Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: 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 major legal performance obligations identified in the contracts with customers are as follows: electricity distribution and transfer, last resort electricity supply, connection of new customers.

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 electricity transmission and distribution

Revenue from electricity transfer (includes both transmission and distribution) of electricity to household customers is recognised over the time in accordance with invoices issued, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters. If declared or actual meter readings are not available, revenue from electricity distribution and transmission is recognised based on the average usage estimation method.

Revenue from electricity transfer (includes both transmission and distribution) to business customers is recognised over time based on the actual electricity supplied which is determined in accordance with readings of electricity meters. Invoices are issued for customers after the end of the month during which the performance obligation is fulfilled, i.e. in the beginning of the next month, thus assets of contracts are not recognised. Also, these contracts with customers do not provide for any advance payments before or during fulfilment of the obligation, however, in case of over-declaration by customers, overpayments occur which are recognised as obligations of contracts. The contracts do not establish any significant payment terms.

Electricity transmission services are provided by and purchased from the electricity transmission system operator. The Company collects fees for electricity transmission services from household and business customers through the electricity tariff paid by the consumer and transfers them to the electricity transmission system operator. The Company's management has identified that the Company acts as a principal in relation to electricity transmission services acquired from the electricity transmission system operator, and recognises revenue from electricity transmission (Note 5.5).

Revenue from electricity distribution and transmission is subject to regulation.

#### 3.2.2. Revenue from last resort electricity supply

The Company provides a last resort electricity supply service to household and non-household customers. Supply of last resort electricity means ensuring electricity supply to consumers on a temporary basis for 6 months:

- who have not chosen the independent supplier within the set time;
- whose chosen independent supplier has failed to fulfil its obligations to supply electricity on agreed terms and conditions;
- whose chosen independent supplier has discontinued its operations;
- whose chosen independent supplier has terminated the electricity purchase and sale agreement concluded with the consumer.

The supply of last resort electricity tariff for the consumers who are ensured guaranteed electricity supply includes the distribution and transmission service price, PSO (Public service obligation) price and guaranteed supply price. Invoices are issued for customers after the end of the month during which the performance obligation is fulfilled, i.e. in the beginning of the next month; also, these contracts with customers do not provide for any advance payments before or during fulfillment of the obligation, therefore assets and obligations of contracts are not recognised. The contracts do not establish any significant payment terms.

Supply of last resort price includes electricity price which is calculated by applying the coefficient of 1.15 for household customers and 1.25 for non-household customers to the average power exchange price for the previous month. Revenue from supply of last resort is recognised over the time based on invoices issued, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters.

The Company collects PSO fees through the electricity tariff paid by the customers and transfers them to the PSO fund administrator Baltpool UAB. The Company's management identified that in respect of collecting and transferring PSO fees the Company acts as agent, therefore, PSO fees are accounted for by netting revenue against expenses in the line item "Purchase of electricity and related services" in statements of profit or loss (Note 5.7).

Revenue from supply of last resort is subject to regulation.

The price caps of electricity distribution services are established in accordance with the Methodology for the Determination of the Price Caps of Electricity Transmission, Distribution and Public Supply Services (hereinafter - "the Methodology") approved by Resolution No O3-3 of 15 January 2015 of the Council.

The price caps of electricity distribution services are established for the regulatory period of 5 years (the 2022-2026 regulatory period is currently applicable to the electricity sector) and they can be adjusted not more than twice per year if substantial changes in one or several factors, based on which the price caps were determined, occur, including a substantial change in the scope of services, inflation, taxes and other objective factors (outside the control of the market participant).

3.2.3. Revenue from natural gas distribution

Revenue from non-household customers for the distribution of natural gas is recognised over time based on to the readings of measuring devices provided by users or, if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, as agreed with NERC (an accrual basis).

Revenue from household customers is recognised over time based on the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas distributed to them (an accrual basis). Revenue from household consumers does not form a significant part of revenue from natural gas distribution activities. Invoices are issued for customers after the end of the month during which the activity obligation is fulfilled, i.e. in the beginning of the next month; also, these contracts with customers do not provide for any advance payments before or during fulfilment of the obligation, therefore assets and obligations of contracts are not recognised. The contracts do not establish any significant payment terms.

The pricing of the natural gas distribution service is regulated by the Council in accordance with the Procedure for Determining Regulated Prices in Natural Gas Sector approved by Resolution No O3-367 of 13 September 2013 of the Council.

The price cap and/or revenue cap of natural gas distribution service is established for the regulatory period of 5 years (the 2019–2023 regulatory period is currently applicable to the natural gas sector) and it can be adjusted once per year if there is a change in the inflation level, prices of imported (transported into the country) natural gas, taxes, requirements of regulatory legislation, also when the investments agreed with the Council have been implemented by natural gas companies, when those companies do not reach or exceed the revenue cap or deviate from the indicators established by the description approved by Resolution No O3-90 of 11 April 2012 of the Council.

Revenue from natural gas distribution is subject to regulation.

3.2.4. Revenue from connection of new customers

Proceeds from new customers' connection fees obtained by the Company are recognised as income for the period in which the Company ensured the connection to electricity and gas distribution network. The Company signs separate agreements with customers for connection services. Company also signs a distribution agreement with business customers for electricity distribution or has an implied contract for electricity distribution service with private customers and gas distribution service with business and private customers. Connection fees do not represent a separate performance obligation from the sale of ongoing distribution of electricity or gas services as are highly interrelated. Having entered into a contract with a customer, the customer shall make an 100% advance payment which is accounted for by the Company as a contract liability as an advance received (Note 30.2). Subsequently, after connection works have been completed, the certificate of transfer and acceptance of works is signed and the invoice is issued, and then these payments received from customers are accounted for as deferred income (contract liabilities, see Note 30.1), which are proportionally recognised as revenue over the estimated period of relationship with customers limited by the useful life of property, plant and equipment, being 27 years for electricity grid and 46–55 years on for gas grid. Connection fees received from customers are accounted for as "Liabilities under connection contracts with customers" in the statement of financial position.

### 3.3. Intangible assets

3.3.1. Computer software

Computer software is accounted for at acquisition cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is calculated using the straight-line method over the estimated useful lives of 3 years.

3.3.2. Servitudes

The category of the Company's intangible assets "Servitudes and protection zones" includes the Company's rights to use the land plots owned by third persons on the basis of servitudes. Servitudes comprise statutory and contractual servitudes:

- Statutory servitudes comprise the Company's rights to use the land plots owned by third persons in which electric networks were established up to 10 July 2004 based on statutory servitudes. During the period from 10 July 2004 until 2018, according to the provisions of the Law on Electricity (hereinafter – the LE) in force at the time, it was provided that the establishment of new networks can only be agreed with the owners, thus during this period the owners were negotiated individually (notary

contracts were concluded, agreements made with the consent of the owner etc.), therefore the LE does not provide for the obligation to reimburse the Company for servitude established during this period.
- Contractual servitudes comprise the Company's rights to use the land plots owned by third persons in which electric networks were established since 2018 based on servitudes.

The useful life of an intangible asset is indefinite, therefore, these assets are not subject to amortisation. Useful life of intangible assets are indefinite since the right to use the land is granted for an indefinite period of time according to the conditions of agreements for compensation for servitudes as well as Clause 4.130 of Civil code of the Republic of Lithuania. It implies that, irrespective of the condition of the Company's property, plant and equipment, the right to use designated land plot is retained and (after the physical condition of the property is restored or a new property is developed), the land plot will continue to be used for indefinite time. Provision for non-current obligations is accounted for under IAS 37 to compensate for statutory provisions (see Note 3.10 'Provisions'). The estimation of the amount of the provision takes into account the expected time of settlement and the number of applicants. The provision is calculated at the discounted value (see Note 5.4).

The Company tests the intangible assets of servitudes for potential impairment, by comparing their recoverable value with the carrying value at least once per year or when there are signs of impairment. If the value of the asset changes, such change is accounted for by decreasing/increasing the value of the assets of servitudes.

3.3.3. Special conditions on land use (protection zones)

A group of the Company's intangible assets "Servitudes and protection zones" includes the Company's obligations to register and the right to use a third-party land on the basis of special conditions on land use. The accounting policies applied are analogous to those applied for 3.3.2 'Servitudes'.

3.3.4. Other intangible assets

Intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment loss, if it is probable that future economic benefits that are attributable to the asset will flow to the Company. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3–4 years. Amortisation of an asset begins when it is available 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**

The assets, which are allocated to electricity business segment cash generating unit (hereinafter as 'Electricity Business segment CGU or Electricity CGU'), are accounted for at revalued amount and assets, which are allocated to gas business segment cash generating unit (hereinafter as 'Gas Business Segment CGU or Gas CGU'), are accounted for at cost.

| At cost method – Gas CGU | At revalued amount – Electricity CGU |
|---|---|
| Land | Electricity networks and their structures |
| Buildings | Construction-in-progress |
| Gas distribution pipelines, gas technological equipment and installations | |
| Construction-in-progress | |
| Other property, plant and equipment | |

In Construction-in-progress are assigned to various asset groups, therefore part of the assets of this group are accounted for at cost method, the other part – at revalued amount.

Cost includes replacement costs of components of property, plant and equipment when incurred and when these costs meet the recognition criteria of property, plant and equipment. 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 statement of profit or loss 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. For accounting of borrowing costs (Note 3.6.2.4).

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 statement of profit or loss. 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 revalued assets are disposed, the corresponding portion of 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.

Increases in the carrying amount arising on revaluation of property, plant and equipment are recognised in other comprehensive income of statement of comprehensive income and accumulated to the revaluation reserve in equity. However, the increase is recognised in statement of profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss section. Decreases in the carrying amount of an asset arising on revaluation are generally recognised in profit or loss section; decreases that offset previous increases of the same asset are recognised in other comprehensive income section and charged against the revaluation reserve. Each year the difference between depreciation based on the revalued amount of the asset (when the carrying amount increases after revaluation) is charged to profit or loss section and depreciation based on the asset's original acquisition cost is transferred from revaluation reserve to retained earnings, net of deferred tax.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the acquisition cost/revalued amounts to their residual values over their estimated useful lives (number of years), as follows:

| Groups of property, plant and equipment | Useful life (number of years) |
|---|---|
| **Buildings** | 15-60 |
| **Electricity networks and their structures** | |
| Engineering constructions | 50 |
| 35-110 kV transformer substation constructions | 35 |
| 6-10 kV electricity distribution constructions | 35 |
| 10/0.4 kV transformer constructions | 35 |
| Communication and operation system constructions | 15-25 |
| Electricity networks and their structures | 5-50 |
| 35-110 kV transformer substation equipment (excl. constructions) | 30 |
| 6-10 kV distribution equipment (excl. constructions) | 30 |
| 10/0.4 kV capacity transformers | 30 |
| 35 kV cables and lines | 40-45 |
| 0.4-10 kV cables and lines | 15-40 |
| 35-110 kV capacity transformers | 40 |
| Communication and operation system equipment (excl. constructions) | 5-45 |
| Hydrotechnical structures and equipment | 50-75 |
| **Gas distribution pipelines, gas technological equipment and installations** | **13-55** |
| **Vehicles** | 5-10 |
| **Computer hardware and other communication equipment** | 3-10 |
| **Other property, plant and equipment** | 3-50 |

### 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

At the commencement date, the Company measures right-of-use assets at cost. The cost of right-of-use assets comprises: the amount of the initial measurement of the lease liability, any lease payments at or before the commencement 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 which is required under the lease terms, unless those costs are incurred in producing the inventories. The Company assumes a liability for these costs at the commencement date or by using the leased asset for a specified period. The Company recognises these costs as part of the cost of right-of-use assets when an obligation for those costs is assumed.

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.

The right-of-use assets are depreciated by the Company under the depreciation requirements of IAS 16, Property, Plant and Equipment.

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

| Group of right-of-use assets | Depreciation period (in years) |
|---|---|
| Land | 3-136 |
| Vehicles | 2-5 |
| Premises | 3-31 |
| Other right-of-use assets | 3-6 |

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 right-of-use assets in the statement of financial position separately from property, plant and equipment.

### 3.6. Financial instruments

A financial instrument is any contract resulting in the creation of a financial asset in one entity and a financial obligation or ownership instrument in another.

3.6.1. Financial assets

The Company classifies its financial assets into the following 3 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 measurement is referred to as the SPPI test and is performed at a financial instrument level. Financial assets related to cash flows, which 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 statements of profit or loss. Impairment loss is accounted for as the cost of receivables and impairment of loans in statements of 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. Intentions of the Company's management in respect of individual instruments do not have an effect on the applied business model. The Company may apply more than one business model to manage its financial assets. Taking into consideration the business model applied in management of the group of financial assets, the accounting of the financial assets, except for those which are subsequently measured at FVOCI and FVPL, and which the Company does not have, is as follows:

3.6.1.1. Financial assets measured at amortised cost

Financials assets measured at amortised cost are subsequently accounted for using the effective interest rate (hereinafter – "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 preparation of the statement of financial position, in which case they are classified as non-current assets.

3.6.1.2. Effective interest rate method

The EIR method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in statements of profit or loss over the relevant period.

The 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 the EIR, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, 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 the 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).

3.6.1.3. Impairment of financial assets – expected credit losses (ECL)

The Company assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators.

Credit losses incurred by the Company are calculated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. The Company estimates cash flows by considering all contractual terms of the financial instrument through the expected life of that financial instrument, including cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms

ECL are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

Lifetime ECL are expected credit losses that result from all possible default events over the period from the date of initial recognition of a financial asset to the subsequent date of settlement of the financial asset or ultimate write-off of the financial asset.

The Company seeks for lifetime expected credit losses to be recognised before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk. Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable information, including future-oriented information.

The Company applies individual and collective approach for assessment of impairment of receivables.

In application of the collective approach for determination of expected credit losses of receivables, the Company applies a provision matrix to calculate the provision for losses in respect of trade receivables with different maturities and overdue payment periods. To measure

ECL, trade receivables are grouped based on shared credit risk characteristics. The non-recoverability analysis is conducted for the past 3 years in order to determine the general default ratio.

The Company's management decides on an individual assessment taking into consideration the possibility to obtain information about the credit history of a particular borrower, 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 ECL in respect of that particular borrower. In absence of reliable information sources regarding the borrower's credit history, its financial position as at the date of assessment, including forward-looking information, the Company assesses the debt applying the collective approach.

Recognition stages of expected credit losses on loans and cash and cash equivalents:

1. Upon granting of a loan or receiving cash or cash equivalents, the Company recognises the ECL for the twelve-month period. Interest income from the loan (finance lease) or cash equivalents is calculated on the carrying amount of financial assets without adjusting it by the amount of ECL.
2. Upon establishing that the credit risk related to the borrower or bank, where cash and cash equivalents are held, has significantly increased (reflected by accounts receivable overdue for more than 30 days and significant negative information about changes affecting the borrower, etc.), the Company accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Interest income from the loan (finance lease) or cash equivalents is calculated on the carrying amount of financial assets without adjusting it by the amount of ECL.
3. Where the Company determines that a recovery of the debt becomes doubtful, when contractual payments are 90 days past due, and that the debt of this customer shall be classified as doubtful debts, the Company then classifies this loan as a financial asset that is impaired due to credit risk (doubtful loans and receivables). The loan interest income is calculated on the carrying value of the financial assets, reduced by the amount of ECL.

The lifetime expected credit losses of loans receivable and trade receivables are recognised in statements of profit or loss.

ECL for cash and cash equivalents is estimated evaluating credit ratings and other significant criteria (such as liquidity, capital adequacy supervision) of the financial institutions in which cash deposits are held. The management's estimation is that ECL for cash and cash equivalents usually is not significant.

#### 3.6.1.4. Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of a borrower;
(b) a breach of contract, such as a default or a past due event for more than 90 days;
(c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or another financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties;
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

#### 3.6.1.5. Derecognition of financial assets

The Company derecognises financial assets in case of the following:

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

Whether the Company has retained control of the transferred asset 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, the Company has not retained control. In all other cases, the Company has retained control.

### 3.6.2. Financial liabilities and equity instruments issued

Debt or equity instruments are classified initially as financial liabilities or equity based on the substance of the arrangement. The Company has not issued any equity instruments except 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 and borrowings, 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 the purposes of subsequent measurement, financial liabilities fall into two categories:

- Financial liabilities at FVPL. As at 31 December 2023 and 2022, the Company has not designated any financial liability at FVPL.
- Financial liabilities accounted for at amortised cost.

3.6.2.3. Financial liabilities measured at amortised cost

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gain and loss is recognised statements of profit or loss 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 statements of profit or loss.

3.6.2.4. Presentation and borrowing costs

Financial liabilities are classified as current unless the Company 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 date of the statement of financial position proves that the liability was non-current by its nature as of the date of the statement of financial position, that financial liability is classified as non-current.

Borrowing costs directly attributable to the acquisition, construction or production of assets the value of which exceeds EUR 100 thousand and that necessarily take a substantial time (more than one year) to get ready for intended use or sale are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

3.6.2.5. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. 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 statements of profit or loss.

**3.7. Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost is established using the FIFO method, except for natural gas the cost whereof is established using the weighted average (see further). 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 borrowings costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling expenses.

The weighted average cost is calculated as the weighted average price of inventories at the beginning of the month and purchases per month.

**3.8. Lease liabilities**

At the commencement date, the Company measures lease liability at the present value of the lease payments that are not paid at that date. At the commencement date, the lease payments included in the measurement of the lease liability comprise: 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 initial recognition, the Company shall measure the lease liability by: increasing the carrying amount to reflect interest on the lease liability; reducing the carrying amount to reflect 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.

3.8.1. Short-term and low-value lease

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). They also apply low-value asset lease recognition exemption to office equipment that are considered to be low value. Lease related discounts are charged to the lease income proportionally over the term of the lease.

3.8.2. The Company as an operating lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Lease payments are accounted for on a straight-line basis over the lease term and recognised as other revenue in statements of profit or loss based on its lease nature. Initial direct costs incurred in negotiating and arranging a lease are added to the carrying amount of the leased asset and recognised as rental costs over the lease term on the same basis as income received under the lease agreement. Contingent payments are recognised as revenue in the period in which they are earned.

**3.9. Grants and subsidies**

3.9.1. Grants related to assets

For presentation of grants related to assets the Company uses the method which recognises the grant as deferred income that is recognised in statements of profit or loss on a systematic basis over the useful life of the asset. Government and the EU asset-related grants comprise grants received in the form of non-current assets or in the form of cash intended for the acquisition of non-current assets. Grants are initially recorded at the fair value of the asset received and subsequently recognised statements of profit or loss by reducing the depreciation charge of the related asset over the expected useful life of the asset. Liability related to received asset-related grants is presented in the statement of financial position under the item of non-current liabilities “Grants and subsidies”.

Upon the revaluation of non-current assets and in case impairment was recognised on revaluation, grants related to this non-current assets are written off in a respective proportion.

3.9.2. Grants related to income

Government and the EU grants received as a compensation for the expenses or unearned income for current or previous reporting period, and all grants other than those related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. These grants are presented statements of profit or loss, less related expenses.

**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. When the Company expects that provision amount in part or in full will be compensated, e.g. under an insurance contract, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded statements of profit or loss, 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 applied, increase in the provisions reflecting the period of past time is accounted for as finance expense.

3.10.1. Provisions for servitudes

Expenses related to provisions for servitudes are recognised as non-current intangible assets taking into consideration the amounts of compensation.

Compensation payments to land owners are accounted for as a decrease in provisions, while remeasurement of provisions due to changes in underlying assumptions is recorded as a change in respective intangible asset (Note 5.4).

3.10.2. Provisions for registration of protection zones

Expenses related to provisions for registration of protection zones are recognised as non-current intangible assets taking into consideration the amounts of compensation.

Compensation payments to land owners are accounted for as a decreases in provisions, while remeasurement of provision due to changes in underlying assumptions is recorded as a change in respective intangible asset (Note 5.4.3).

**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 are defined benefit plan under which the Company pay fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. These contributions are recognised as an expense on an accrual basis and are included within remuneration expenses.

3.11.2. Termination benefits

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 and agreements signed with employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy that cannot be withdrawn.

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 as stipulated in the Lithuanian laws. If an employee belongs to trade union of the Company, he/she is also entitled to additional retirement benefit according in accordance with the agreement of the Company. A liability for such pension benefits is recognised in the statement of financial position and 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 date of the statement of financial position is estimated with reference to actuary valuations, applying the projected unit credit 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 long-term government debentures, i.e. the term of which is no less than 5 years. According to the Company's management, such discount ratio best reflects the value of future benefits. Actuarial gains or losses are recognised immediately in other comprehensive income.

**3.12. Fair value**

The Company does not have financial instruments and non-financial assets measured at fair value. The fair value of financial instruments measured at amortized cost is disclosed by the Company in Note 33.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is determined using the assumptions used by market participants to determine the price of the asset or liability, assuming that market participants have the best economic interests.

The Company uses measurement methodologies that are appropriate in the circumstances and for which sufficient data is available to determine the fair value, using as much relevant observable data as possible and as little unobservable data as possible.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, provided below. The hierarchy is 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 where the lowest level inputs that are significant to the fair value measurement are directly or indirectly observable.
- Level 3: fair value of assets where the lowest level inputs that are significant to the fair value measurement are unobservable

For assets and liabilities re-recognised in the financial statements, the Company shall, by re-evaluating the allocation, determine whether the transferred amounts occurred between levels of the hierarchy (based on input of the lowest level that is significant to the determination of fair value in general) at the end of each reporting period.

**3.13. Regulated activities**

NERC regulates the Company's level of profitability by approving the prices of services for the next year. The level of tariffs depends on the projected costs, volume of services for the next period (volumes of distributed electricity), the extent to which the previous period earnings are at variance with the regulated level etc.

Actual costs incurred by the Company during the year may differ from the projected costs that are considered during the approval of the tariffs, and the actual volume of services may differ from the projected one. Accordingly, the actual earnings of the Company may differ from the regulated level, and the resulting difference will affect the future tariffs of services.

The Company does not recognise regulatory assets or liabilities that would be used to adjust the current year profit in order to arrive at the regulated level of profit, if this difference is recovered / returned in the course of provision of services in future.

Tariffs for electricity distribution are regulated by NERC by establishing the price caps. NERC regulates the tariff for supply of last resort electricity, which is calculated by applying the coefficient of 1.15 for household customers, and 1.25 for non-household customers to the average power exchange price for the previous month In the Lithuanian price zone. Just as in the electricity segment, NERC regulates prices of natural gas transmission and distribution services by setting price caps.

# 4. Risk management

**4.1. Overview**

Risks are a natural and integral part of business activities, and risk profile changes continuously. The Company aims to mitigate its risks and reduce them to an acceptable level through risk management. This part describes only the management of the main financial risks. Other risks management are presented in the Governance section.

**4.2. Financing risk factors**

The Company is exposed to a variety of financial risks in its operations: market risk (including foreign currency exchange risk, interest rate risk in relation to cash flows), credit risk and liquidity risk. By managing these risks, the Company seeks to mitigate the effects of factors that might have an adverse effect on the Company's financial performance.

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 three types of risk: foreign currency exchange risk and interest rate risk.

4.2.1.1. Foreign currency exchange 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 is denominated in the euro, therefore, the Company's overall risk remains low.

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.

The Company's revenue and cash flows are affected by fluctuations in market interest rates, since as at 31 December 2023 the Company had loans granted and received with variable interest rates. The Company has financial assets subject to variable interest rates that are measured at amortized cost and it is therefore exposed to the interest rate risk.

Debt commitments aim to have long-term liabilities with a fixed interest rate. If, for objective reasons, it is not possible to fix the interest rate and the assumed liability amounts to a significant amount, interest rate derivatives would be used for interest management. At least 50% the Company's long-term loan portfolio would consist of long-term fixed-rate loans. The use of any of the interest rate derivatives requires that the maturity date coincides with the maturity date of the debt obligation.

The risk of a negative change in the interest rate of investments is not actively hedged. Risk control measures are used only if there is a clear indication in the market that the interest rate may fall significantly to such an extent that the return on investment becomes negative.

A portion of the Company's loans is subject to a variable interest rate, which is linked to EURIBOR and creates interest rate risk, and another portion is subject to a fixed interest rate. As at 31 December 2023, loans with fixed interest amounted to EUR 874,850 thousand (as at 31 December 2022: EUR 809,288 thousand) and loans with variable interest amounted to EUR 25,640 thousand (as at 31 December 2022: EUR 33,542 thousand) (Note 24).

The Company has not entered into any derivative financial instruments to manage the interest rate risk.

The interest rate risk is assessed taking into consideration the Company's sensitivity to changes in interest rates. This assessment is presented in the table below.

| | Increase/(Decrease), pp | (Decrease)/Increase in profit |
|---|---|---|
| 2023 | 1.0/(1.0) | (299)/299 |
| 2022 | 1.0/(1.0) | (380)/380 |

As at 31 December 2023 and as at 31 December 2022, the Company had no significant valid interest rate swaps.

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

The Company does not guarantee obligations of other parties. Due to specific nature of the Company's operations, no collateral is required from customers, except for agreements on electricity distribution services provided by independent suppliers.

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) not lower than 'A-' according to the rating agency Fitch Ratings (or an equivalent rating of other rating agencies).

Maximum credit risk is equal to the carrying amount of the financial assets:

| EUR thousand | Notes | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Financial assets measured at amortised cost** | | | |
| Non-current receivables | | 207 | 3,700 |
| Loans granted | | - | 6,017 |
| Trade receivables | 19 | 64,588 | 77,585 |
| Other receivables | 20 | 294 | 624 |
| Cash and cash equivalents | 21 | 11,930 | 84,625 |
| **Total** | | **77,019** | **172,551** |

### 4.2.3. Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as at 31 December 2023 were 0.40 and 0.38, respectively (0.66 and 0.64 as at 31 December 2022).

The current level of a debt enables the Company to optimise the capital structure by financing its operations through long-term borrowing solutions, such as long-term loans or bonds transfer agreements. As disclosed in Note 24, for the purpose of the management of the short-term cash flow needs, the Company had EUR 84,438 thousand unused financing facilities under the agreement regarding the short-term lending to related parties platform (as at 31 December 2022: EUR 110,000 thousand).

The financial statements of the Company are prepared on a going concern basis. Despite the fact that the Company's current liabilities as at 31 December 2023 exceeded current assets by EUR 157,404 thousand (31 December 2022: EUR 95,732 thousand), the Company's management is confident that this circumstance will not have a material impact on the Company's ability to continue as a going concern (see in Note 4.3).

The following table presents information about the Company's financial liabilities by groups:

| EUR thousand | Notes | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Amounts payable measured at amortised cost** | | | |
| Loans | 24 | 912,768 | 853,262 |
| Lease liabilities | 26 | 9,556 | 7,426 |
| Trade payables | | 34,233 | 59,996 |
| Other current liabilities | 29 | 52,917 | 54,953 |
| **Total** | | **1,009,474** | **975,637** |

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 | 31 December 2023 | | | | Total |
|---|---|---|---|---|---|
| | Less than 3 months | 3 months to 1 year | 1 to 5 years | After 5 years | |
| Lease liabilities | 868 | 2,605 | 5,004 | 3,268 | 11,745 |
| Loans | 19,940 | 88,594 | 543,768 | 389,128 | 1,041,430 |
| Trade payables | 34,233 | - | - | - | 34,233 |
| Other current liabilities | 35,588 | 17,329 | - | - | 52,917 |
| **As at 31 December 2023** | **90,629** | **108,528** | **548,772** | **392,396** | **1,140,325** |

| EUR thousand | 31 December 2022 | | | | Total |
|---|---|---|---|---|---|
| | Less than 3 months | 3 months to 1 year | 1 to 5 years | After 5 years | |
| Lease liabilities | 203 | 1,001 | 5,227 | 2,972 | 9,403 |
| Loans | 7,543 | 22,838 | 288,143 | 674,291 | 992,815 |
| Trade payables | 59,849 | 147 | - | - | 59,996 |
| Other current liabilities | 54,911 | 42 | - | - | 54,953 |
| **As at 31 December 2022** | **122,506** | **24,028** | **293,370** | **677,263** | **1,117,167** |

### 4.3. Going concern

The Company's financial statements have been prepared on a going concern basis. Irrespective of the fact that as at 31 December 2023 the Company's current liabilities exceeded its current assets by EUR 157,404 thousand (as at 31 December 2022, EUR 95,732 thousand), the Company's management believes that this circumstance will not have a material impact on the Company's ability to continue as a going concern. Negative difference between current assets and current liabilities is common for infrastructure managers, developing and renewing its assets, as a significant portion of short-term payables is related to investments in non-current assets. Since the deferment term is generally provided for payments for completed works, until the invoice is paid a situation occurs where the completed works, related to managed non-current assets, are accounted for as non-current assets, and payables – as current liabilities.

A difference between current assets and liabilities as at 31 December 2023, as compared with 31 December 2022, increased due to the lower amount of cash and cash equivalents. As at 31 December 2022, the Company had received state budget funds intended for compensation due to regulatory differences for the purchase of electricity for technological needs.

It must be noted that the Company's stable cash flows from the main operating activities, which amounted to EUR 253,263 thousand in 2023 (in 2022: EUR 245,493 thousand) will allow to ensure liquidity in the future, and the current level of debt has not reached the maximum level. Sustainable and enabling regulatory environment and the current level of indebtedness will ensure the necessary funding for the business continuity of the Company and the implementation of investment projects in the future. As disclosed in Note 4.2.3 as at 31 December 2023 for the short-term management of cash flow needs the Company had EUR 84,438 thousand of unused financing facility under the cash-pool agreement.

On 21 February 2024, the parent company of the Company AB "Ignitis grupė" has provided comfort letter, where it is stated that the parent company will undertake to continue to provide such financial and other support as necessary to Company at least for the next twelve months from the date of this letter, to enable the Company to continue to trade and to meet its obligations.

# 5. Significant accounting estimates and judgments used in the preparation of the financial statements

While preparing these financial statements, the management has made judgements and estimates about the future, including climate-related risks and opportunities, that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income, costs and contingencies. Changes in the underlying assumptions of such estimates and judgements may have a material effect on financial statements in the future.

Estimates and judgements with underlying assumptions are reviewed on an ongoing basis and are consistent with the Company's risk management and climate related commitments, where appropriate. Revisions to the estimates and judgements are recognised prospectively.

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

### 5.1. Impact of climate change

The Company pays special attention in order to reveal a potential impact of climate change and its related economic, transitional changes on the Company's activities. 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 and the transition to net zero have been considered in the preparation of these financial statements. In preparing these financial statements, the following has been considered:

#### 5.1.1. Valuation of property, plant and equipment, and impairment assessment of goodwill

The Company assesses the useful economic life of its Property, Plant and Equipment assets annually. The useful economic life of assets has not been shortened. There are no indicators suggesting that assets have reduced in value, significant impacts of climate change on the Company's assumptions used in estimating their recoverable value and there is no need to perform sensitivity analyses of the effects of climate risk within the assumptions made. Review of the methodology for technical losses has been carried out. dependence of calculation ratios of equipment loss on the operation of the natural gas network, gas leakage measurements and reconstruction works performed contained in the methodology has been evaluated (more in section '5.1 Overview of sustainability' of the Annual Management Report). The Company management does not reasonably expect climate change to have a significant impact.

#### 5.1.2. Impact of climate change on provision for risk and on ECL

The Company management does not believe that there are any provisions for risks or potential liabilities requiring consideration in the financial statements in connection with possible disputes, specific regulatory requirements aimed at mitigating environmental damages, sanctions connected with failure to comply with environmental requirements, contracts that may become onerous, possible restructuring works aimed at achieving the climate objectives required. No significant climate and environmental risks are had significant impact when calculating the ECL.

The impact of future climate change regulation is not material on the currently reported amounts of the Company's assets and liabilities.

### 5.2. Revaluation and impairment of property, plant and equipment, used in electricity distribution

The carrying amount of PPE allocated to this CGU (incl. construction in progress and assets in other groups) is EUR 1,692,1 million as at 31 December 2023 (EUR 1,465.9 million as at 31 December 2022).

Taking into account the fact that there were no significant changes in the legal regulatory environment related to electricity, after evaluating all related assumptions, the Company determined that the carrying amount of property, plant and equipment used in electricity distribution as at 31 December 2023 would change insignificantly (up to 0.2%), taking this into account, the Company's management decided not to carry out a full revaluation of such assets in order to represent them at their new fair value. For more detailed information – see Note 16.1.

### 5.3. Impairment of property, plant and equipment, used in natural gas distribution

The carrying amount of PPE allocated to this CGU (incl. construction in progress and assets in other groups) is EUR 323.1 million as at 31 December 2023 (EUR 323.3 million as at 31 December 2022).

As at 31 December 2023 there has been assessed whether there are any indications that the carrying amount of this CGU could be impaired. In assessment the Company's management determined that during the year 2023 there were no significant changes in the legal regulatory environment related to natural gas distribution activity, as well the remeasured assumptions used in assessment of recoverable amount had an insignificant impact on change of carrying amount of property, plant and equipment used in this CGU. Accordingly, no impairment test was performed for 2023 and no additional impairment loss or reversal was recognized as at 31 December 2023.

### 5.4. Provisions for statutory servitudes and special conditions on land use (protection zones)

5.4.1. Provision for statutory land servitudes

On 1 November 2017 Amendments to the Law on Electricity of the Republic of Lithuania entered into force, which provide basis for the reimbursement of easements established during the installation of electricity networks on land plots not belonging to the operator. This law stipulates that when constructing transmission, distribution networks or installing other electrical equipment, one-time compensation for losses will be paid for the establishment of statutory servitudes (which entered into force before 10 July 2004). The servitudes payment methodology came into force in 31 July 2018. Based on this methodology, in 2018, the expected total amount of easement benefits was estimated and accounted for. In making this assessment, a significant assumption was made regarding the number of landowners who will apply for compensation, as the law provides reimbursement payments to those owners who will apply for it.

On 8 July 2020 the Constitutional Court issued a ruling stating that servitudes payment methodology, which was based on the principles of determining the coefficient and the value of a land plot, are against the Constitution and laws of the Republic of Lithuania (due to the applied 0.1 coefficient and the principle of determining a value of the land plot, where as in the meantime different principles and different coefficient was applied to the servitude by contract). This means that the Company will not be able to examine requests and apply the methodology where the methodology applied was deemed to be in conflict with Constitution, until the new methodology is set and approved. The ruling is only valid for the future and there is no need to recalculate previously paid compensation. The Company has assessed the following changes as adjusting events and, as appropriate, the Company has recalculated the provision for servitude benefits using new coefficient assumptions:

a) the area of land on which electrical installations were installed before 10 March 1990, a coefficient of 0.1 as specified in the methodology shall apply. Such installations account for 88.93% of all installations installed before 10 July 2004. Therefore, a coefficient of 0.1 is applied to 89%of the area when calculating the total value of the payment. Assumption was made, that land with electricity distribution equipment installed before 10 March 1990, the land was acquired with an already installed network, so the ownership of the land was acquired with already established restrictions to the usage of the land, therefore the value and availability of this land has not changed and the servitudes payment coefficient of 0.1 should be used;
b) the area of land on which electrical installations have been installed after 11 March 1990 and until 10 July 2004 , a coefficient of 0.5 shall apply (the amount shall apply to the servitudes determined by contract). Such installations account for 11.07% of all installations installed before 10 July 2004. Therefore, a coefficient of 0.5 is applied to calculate the total value of the payment for 11% of the area.

The Company reviewed other assumptions used in the calculation of the provision, specifically the expected number of applicants, the period over which all benefits will be paid, and the discount rate:

- the discount rate for calculating the provision was selected based on a borrowing rate of 3.93% for similar liabilities (31 December 2022: 1.80%);
- the expected number of applicants was estimated on the basis of available actual historical four-year information. The calculation of the total amount of benefits was based on the percentage of customers who are unlikely to apply for benefits - 81.86% (76,91% used as at 31 December 2022), which is based on management's assessment and the number of customers actually applying during 2018-2019 and 2022-2023, where, on average, only about 1,42% apply per year (historical data of year 2021 and 2020 is not included in methodology calculations due to break of methodology, as described above, which would distort the total average);
- the period during which customers will apply for compensation has been set at 10 years starting in 2022. An additional 1-year deadline for the payment of compensation from the date of submission of the application was applied (the methodology of servitude related compensations provides two years for the payment from the date of submission of the application, but in fact the Company pays within one year).

After assessing the changed circumstances, the Company decided to adjust a provision decreasing the amount of the provision from EUR 8.154 thousand to EUR 5,430 thousand (Note 28). In the part of intangible assets, this decrease was from EUR 8,124 thousand down to EUR 5,277 thousand (Note 15.4).

It should be noted that the value of the provision may vary depending on the number of applicants. The sensitivity analysis is as follows:

| 31 December 2023 | Number of applicants, % | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 25% | 35% | 45% | 55% | 65% | 75% | 85% | 95% |
| Change in provision for compensations of servitudes, million EUR | +3,5 | +8,3 | +13,0 | +17,8 | +22,6 | +27,4 | +32,1 | +36,9 |

5.4.2. Provision for servitudes of real estate

On 8 July 2020, the Constitutional Court issued a ruling stating that servitudes compensation methodology, which was based on the principles of determining the coefficient and the value of a land plot, are in conflict with the Constitution and laws of the Republic of Lithuania not only for the land plots, but also for real estate (due to the applied 0.1 coefficient, where as in the meantime different principles and different coefficient was applied to the servitude by contract). This means that the Company will not be able to examine the requests and apply the methodology in the part in which the conflict of the methodology with the Constitution is recognised until the new provisions are approved according to the provisions of the Government of the Republic of Lithuania's Resolution No. 725 of 25 July 2018 'On the Approval of the Methodology for Determining the Maximum Amount of One-Time Compensation to be Paid for the Use of a Land Easement Established by Law or a Contract for the Benefit of Network Operators' (hereinafter 'the Methodology'). The Methodology was updated in accordance with Constitutional Court's ruling and came into force in 2 March 2022.

The application of the Methodology was renewed, and individuals already applied for servitudes payments of real estate. There were 6 applications during 2023 (11 applications during 2022) in total amount of EUR 4.9 thousand (EUR 14.0 thousand in 2022). The Company made a decision that provision for servitudes of real estate should not be recognised under the following:

a) it is not possible to determine the full area of real estate servitudes. It is required to visit each area after the application is received to determine the area of servitude;
b) the average market values of real estate may not be determined or available for all objects as the Centre of Registers carries out the valuation of real estate for state purposes (mass valuation) on behalf of the state. Therefore, if the object was not included in the mass valuation list, its value cannot be determined and individual valuation is required.

Accordingly, with the requirements of IAS 37, the said obligation does not qualify for provision recognition and is therefore not recognised in the financial statements as at 31 December 2023. Furthermore, the Company does not have sufficient information to accurately estimate financial effect or possibility of any reimbursement of this obligation, therefore, no additional quantitative information is provided.

5.4.3. Provision for special conditions on land use (protection zones)

The Law on Special Land Use Conditions of the Republic of Lithuania was approved on 6 June 2019, which obliges the Company to register special protection conditions (protection zones) for land near the Company's infrastructure objects and to pay compensations for them. This Law defines the procedure and principles for the registration of such special land territories and provides that compensation must be paid for the use of special land territories in accordance with the procedure approved by the Government of the Republic of Lithuania

The amendment to the Real Estate Cadastre Regulations necessary for the implementation of the Law on Special Land Use Conditions of the Republic of Lithuania entered into force on 12 February 2020, which details the procedure for changing tags and cadastral provisions for development and for existing networks. This amendment provides for an alternative process for registering protection zones (avoiding the change of cadastral data and the hiring of land surveyors). According to the Law on Special Land Use Conditions of the Republic of Lithuania, the Government has an order to adopt an amendment to this legal act, although after the updating of the real estate register, which entered into force in 1 January 2022. No provisions were made for how protection zones should be registered from 1 January 2023.

With the start of tag registration in 2022, the process was reviewed and the cost of communication and contact centre was reduced to take into account the reduction in the need for communication and the actual requests from landowners. Also, after estimating the projected registration volumes of markings in 2022, the need for the provision of projected markings (in territories and plots) for the following years has been updated accordingly.

During the year 2023 the Company has capitalised assets the costs incurred for completion of protection zones related works for amount of 1,194 thousand to intangible assets (EUR 4,672 thousands as at 2022).

The Company has decided not to register protection zones according to approved protection zone plans individually for each plot of land using land surveyor service. The Company has decided that part of the funds required will be allocated for the adjustment of airline supports.

On 1 January 2023 January the Public Register Center has registered the land plots related to protection zones in real estate register according to the spatial data of the protection zones provided by the Company. Therefore, the Company will not have to take additional steps regarding the registration of the areas of the protection zones and will not have to incur additional costs related to it.

As at 1 January 2024 according to changes in Law of the Republic of Lithuania on special land use conditions, the registration of protection zones has to be finalized 31 December 2026.

After assessing the changes in circumstances in 2023, the Company decided to adjust provision for asset's security registration expenses by decreasing the amount of the provision from EUR 1.575 million (after 2023 utilisation due to factual costs) to EUR 987 thousand (Note 28).

5.4.4. Provision for compensations for the Special Land Use Conditions (protection zones)

In addition to the above, the Ministry of Environment has prepared a methodology for the calculation and payment of Compensation for the application of special land use conditions in the territories specified in the Law on Special Land Use Conditions of the Republic of Lithuania, established in the public interest, which entered into force in 8 April 2020. In the light of the letter of the Ministry of Energy of the Republic of Lithuania issued on 18 June 2020 , which explains that the provisions of the Methodology apply to both the existing network and the newly built network. According to the provisions of the Methodology, compensation for protection zones would be paid upon registration of protection zones, i.e. under the simplified procedure, this would happen after 2023, and the amount of compensation is of an evaluative nature, taking into account the main purpose of the plot, the scope of restrictions, the specific losses incurred and / or incurred by the plot owners based on supporting documents. In view of these Methodological requirements and the data available to the Company, the Company cannot reliably estimate future compensation for registered Special Land Use Conditions (Protected Areas), therefore, in accordance with IAS 37 this liability does not qualify for recognition and is therefore not recognised in the financial statements. In addition, management is not able to provide a quantitative assessment of a possible contingency without having all the necessary information."

**5.5. Determining whether the Company, providing electricity transmission services, acts as a Principal or an Agent**

In providing electricity transfer services, including both transmission and distribution, to end users, the Company acquires electricity transmission services from transmission grid operator. Having analysed related contracts with the electricity transmission grid operator and contracts with customers, also evaluated applicable regulatory framework, seeking to conclude whether the Company is acting as a Principal or as an Agent in relation to electricity transmission services, has considered arguments provided further:

a. In accordance with the legislation, the electricity transfer service comprises of (i) electricity transmission over high voltage grid and (ii) distribution over low and mid-voltage grid services. Electricity distribution services are provided by the Company. Transmission services are provided by transmission system operator.

b. The Company controls transmission services before transferring it to the end customer on the following grounds:

   – The Company is primarily responsible against the end users for electricity transfer service towards end customers;
   – The Company bears a risk of loss in case of outage of electricity, regardless of whether there was transmission or distribution grid failure.
   – The Company has discretion in establishing the final distribution price and transmission component is not re-charged on a pass-through principle.

On the basis of the above considerations, the Company's management has identified that the Company acts as a Principal in relation to electricity transmission services acquired from the electricity transmission network operator.

**5.6. Determining whether servitudes established by law or transaction is a lease**

Having conducted an analysis on whether servitudes established by law or transaction are subject to IFRS 16 "Leases", the Company has concluded that they are not, as time limits do not apply to servitudes established by law or transaction and the Company can use them for an unlimited period of time.

**5.7. Determining whether the Company collecting PSO fees and the security component of LNGT, acts as the Principal or an Agent**

The Company collects PSO fees through the guarantee electricity tariff paid by the customers and transfers them to the PSO fund administrator Baltpool UAB. PSO funds are used to support and promote local production from renewable energy sources, to secure reserves of the electricity system at designated power plants, which is necessary for ensuring the state's energy security and to ensure other services related to public interest. The list of services supported by the PSO is determined by the Government of the Republic of Lithuania

The Management took an important decision and concluded that the Company, when collecting PSO fees and the security components of LNGT from customers, acts as an agent for the reasons stated below:
– the Company is not responsible for PSO and LNGT projects/initiatives, accordingly it is not responsible that collected PSO fees and security components of LNGT were used for their intended purpose;
– the Company is not exposed to any inventory risk;
– the Company has no legal power to establish pricing of these components.

**5.8. Expected credit losses of trade receivables and other receivables**

The Company's uses a provision matrix to calculate expected credit losses for trade receivables. The Company accounts for expected credit losses (hereinafter referred to as ECL) assessing amounts receivable on an individual basis or on a collective basis applying provision matrixes adopted by the Company companies in respect of their clients.

ECL for other receivables, and contract assets are calculated using individual assessment.

For short-term 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.

5.8.1. Collective assessment of ECL applying provision matrix

For short-term 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. The Company applies a provision matrix to calculate the provision for losses in respect of trade receivables with different maturities and overdue payment periods. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics, i.e. receivables from Ignitis grupė AB group companies, other business clients and natural persons. The non-recoverability analysis is conducted for the past 3 years in order to determine the general default ratio.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Company's trade receivables is disclosed in Note 19.

In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company assesses the debt on a collective basis.

### 5.9. Separation of the Company‘s household and non-household consumer funds

The Company made a significant decision regarding the funds administered by the state budget for December 2023 and December 2022 of partial compensation of domestic and non-domestic consumers, which are held in the Company's billing accounts. The funds intended for the partial compensation of consumers are transferred to separate settlement accounts specially designated for this purpose, the purpose of which is clearly defined in the agreements on the use of state budget funds concluded with the Ministry of Finance of the Republic of Lithuania. The Company cannot dispose of these funds, does not invest them and does not receive any interest or other income from them. It should be noted that the Company's credit risk is related to the execution of these contracts, and the payment of state budget funds to the compensation recipients is minimal, since the Company is not responsible for the misuse of the funds paid out to the specified entities for partial compensation and does not assume potential credit losses. For this reason, the Company does not recognize this money in the statement of financial position. The balance of the administered state budget funds in the accounts as at 31 December 2023 is amounted to EUR 11,800 thousand (31 December 2022: EUR 283,395 thousand). These funds were paid out to the recipients and/or returned to the Ministry of Finance of the Republic of Lithuania in January 2024.

# 6. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of directors that makes strategic decisions.

Based on the judgement of the management, the Company has two operating segments, i.e., electricity distribution and transmission, and gas distribution. All the Company's assets and customers are located in the Republic of Lithuania. Operating segment of electricity distribution and transmission derives its revenues from electricity distribution and transmission, supply of last resort, other electricity related activity, as well as revenue from new customers' connection and upgrades fees, other revenues from contracts with customers and other income. Operating segment of natural gas transmission derives its revenue from natural gas distribution and natural gas sales, revenue from new connection points and upgrades, other revenue from contracts with customers, and other income.

The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements. The primary performance measures are Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (adjusted EBITDA – a non-IFRS alternative performance measure. Additionally, management also analyses Investments of each individual segment. All measures are calculated starting from the data presented in the financial statements adjusted by management for selected items which are not defined by IFRS.

The Company's management calculates main performance measures as follows:

| Performance measure | Calculation |
|---|---|
| EBITDA | Total revenue and other income - Purchases of electricity, gas and other services - Salaries and related expenses - Repair and maintenance expenses - Other expenses |
| Adjusted EBITDA | EBITDA + Management adjustments |
| Investments | Additions of property, plant, and equipment + Additions of intangible assets + Assets acquired through the acquisition of subsidiaries + Additions of other financial assets + Additions of investment property + Prepayments for non-current assets - Prepayments for non-current assets reclassified to additions of property, plant and equipment or intangible assets |

### 6.1. Management's adjustments, Adjusted EBITDA

Management's adjustments include temporary regulatory differences.

Adjusted EBITDA is EBITDA further adjusted by adding management's adjustments. Management's adjustments all may have both positive and negative impact on the reporting period results.

In managements view, adjusted EBITDA more accurately present results of operations and enable to better compare results between the periods as it indicates the amount that was actually earned by the Company in the reporting year by:

- eliminating differences between the permitted return set by the NERC and the actual return for the period (temporary regulatory differences);
- adjusting for effects not related to the main activities of the Company or related to other periods.

Management's adjustments used in calculating Adjusted EBITDA:

| Segment / Management's adjustments, EUR thousand | 2023 | 2022 |
|---|---|---|
| Temporary regulatory differences for prior periods | 41,696 | 31,680 |
| Temporary regulatory differences for reporting period | (153,811) | (15,204) |
| **Total Management's adjustments for Adjusted EBITDA** | **(112,115)** | **16,476** |

Adjusted EBITDA results are reported after the adjustments made by the management that comprise the impact of temporary regulatory differences resulting from the NERC resolutions and by deducting the current year difference arising between the return on investments permitted by the NERC and estimated by management. For 2023 the adjustment amounted to EUR 112,115 million (EUR (16,5) million for 2022). This adjustment includes:

- temporary regulatory differences for prior periods realised through the tariff during the reporting period – EUR 41,7 million for 2023 (EUR 31.7 million during 2022). These amounts are based on resolutions published by the NERC;
- new amounts of temporary regulatory differences formed during the reporting period – EUR (153,8) million (EUR (15,2) million during 2022). The amounts for current year are based on management's estimate arising from comparison between the return on investments permitted by the NERC and estimated by management using actual financial and operating data for the current period.

The table below shows Company's information on segments for the year 2023 and 2022:

| | Electricity distribution and transmission | | Natural gas distribution | | In total | |
|---|---|---|---|---|---|---|
| **EUR thousand** | **2023** | **2022** | **2023** | **2022** | **2023** | **2022** |
| *IFRS*[1] | | | | | | |
| Electricity related revenue | 493,980 | 619,042 | - | - | 493,980 | 619,042 |
| Gas related revenue | - | - | 73,168 | 42,089 | 73,168 | 42,089 |
| Other revenue | 23,434 | 18,325 | 2,459 | 2,404 | 25,893 | 20,729 |
| Other income | 1,412 | 1,595 | 0,231 | 0,197 | 1,643 | 1,792 |
| **Total revenue and other income** | **518,826** | **638,961** | **75,858** | **44,691** | **594,684** | **683,652** |
| Purchases of electricity, gas and other services | (127,200) | (382,803) | (8,287) | (15,848) | (135,487) | (398,651) |
| Salaries and related expenses | (54,736) | (45,979) | (17,159) | (18,519) | (71,895) | (64,498) |
| Repair and maintenance expenses | (42,205) | (27,865) | (3,978) | (2,847) | (46,183) | (30,713) |
| Other expenses | (37,613) | (30,199) | (8,710) | (8,955) | (46,324) | (39,153) |
| **EBITDA** | **257,071** | **152,116** | **37,724** | **(1,479)** | **294,795** | **150,637** |
| Depreciation and amortization | (87,153) | (79,631) | (16,896) | (13,282) | (104,049) | (92,913) |
| Write-offs, revaluation and impairment losses of property, plant and equipment and intangible assets | (1,274) | (11,317) | (0,439) | (0,488) | (1,713) | (11,805) |
| **Operating profit (loss) (EBIT)** | **168,643** | **61,168** | **20,390** | **(15,249)** | **189,033** | **45,919** |
| *Adjusted*[2] | | | | | | |
| EBITDA | 257,071 | 152,116 | 37,724 | (1,479) | 294,795 | 150,637 |
| Management adjustments | (96,545) | (6,316) | (15,570) | 22,792 | (112,115) | 16,476 |
| **Adjusted EBITDA** | **160,526** | **145,800** | **22,155** | **21,312** | **182,680** | **167,113** |

*[1]Amounts are presented according to statement of profit or loss and other comprehensive income of these financial statements.*
*[2]The indicators of Adjusted EBITDA and Adjusted EBIT both of which are a non-IFRS alternative performance measures are presented in the manner calculated by the management. Management believes that adjusted indicators more accurately present results of operations and enable to better compare results between the periods.*

# 7. Revenue from contracts with customers

### 7.1. Disaggregated revenue information

| EUR thousand | 2023 | 2022 |
|---|---|---|
| **Electricity related revenue** | | |
| Revenue from electricity distribution and transmission | 452,996 | 532,933 |
| Revenue from supply of last resort | 29,954 | 75,741 |
| Revenue from other electricity related activity | 11,030 | 10,368 |
| **Gas related revenue** | | |
| Revenue from gas distribution | 73,118 | 41,920 |
| Revenue from gas sales | 50 | 169 |
| **Other revenue** | | |
| Revenue from new customers' connection and upgrade fees | 13,278 | 11,827 |
| Other revenue from contracts with customers | 12,615 | 8,902 |
| **Total** | **593,041** | **681,860** |

The Company's revenue based on the timing of transfer of goods or services:

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Performance obligations settled over time | 584,089 | 674,107 |
| Performance obligations settled at a specific point in time | 8,952 | 7,753 |
| **Total** | **593,041** | **681,860** |

### 7.2. Contract balances

| EUR thousand | Notes | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Trade receivables** | **19** | **64,588** | **77,585** |
| **Contract assets** | | **190** | **82** |
| Other accrued revenue | | 190 | 82 |
| **Contract liabilities** | | **348,690** | **316,088** |
| Advances received | 30.2 | 48,746 | 46,057 |
| Deferred income | 30.1 | 299,944 | 270,031 |

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under the contracts. Recognised expected credit losses (if any) are disclosed in the Notes 19-20.

### 7.3. Transaction price allocation to remaining performance obligations

All the Company's performance obligations entitle the Company to receive from the customer such amount that corresponds directly to the value of the Company's performance completed to date, therefore, the Company applies the practical expedient in paragraph 121 of IFRS 15 and chooses not to disclose the allocation of transaction price to the remaining performance obligations.

### 7.4. Rights to returned goods and refund liabilities

The Company does not have any significant contracts with the customers' right to return goods.

### 7.5. Performance obligations

The performance obligation is satisfied upon delivery of the service and payment is generally due within 30 days from delivery. For more information on fulfilment of performance obligations, issuing invoices see Note 3.2.

# 8. Other income

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Rent income | 362 | 332 |
| Interest on late payments equivalent to interest | 356 | 710 |
| Gain/(loss) on disposal of non-current assets | (37) | - |
| Other income | 962 | 750 |
| **Total:** | **1,643** | **1,792** |

## 9. Purchases of electricity, natural gas and other services

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Purchases of electricity and related services | 127,110 | 382,734 |
| Purchases of natural gas and related services | 7,871 | 15,488 |
| Other purchases | 506 | 429 |
| **Total** | **135,487** | **398,651** |

## 10. Salaries and related expenses

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Wages and salaries | 65,720 | 58,977 |
| Social security contributions | 1,303 | 1,511 |
| Result of change in assumptions of benefits to employees | 1,075 | 708 |
| Change in vacation accrual | 606 | 885 |
| Termination benefits | 592 | 471 |
| Recharged payroll (work for several employees) | 2,599 | 1,946 |
| **In total** | **71,895** | **64,498** |

## 11. Impairment, revaluation and write-off expenses

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Write-off of property, plant and equipment | 2,784 | 4,103 |
| Revaluation and impairment losses (reversal) of property, plant and equipment (Note 16.3) | (1,071) | 7,702 |
| **In total** | **1,713** | **11,805** |

## 12. Other expenses

| EUR thousand | 2023 | 2022 (restated) [1] |
|---|---|---|
| Telecommunications and IT services | 14,901 | 12,651 |
| Asset management and administration | 10,889 | 9,450 |
| Customer service | 3,878 | 4,519 |
| Taxes (other than income tax) | 3,677 | 4,052 |
| People and culture | 2,916 | 2,327 |
| Finance and accounting | 595 | 1,076 |
| Legal | 582 | 563 |
| Communication | 450 | 503 |
| Sustainability | 46 | 35 |
| Other | 8,390 | 3,977 |
| **Total** | **46,324** | **39,153** |

*[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2022 due to reclassifications of separate line items of the statement of profit or loss - Telecommunications and IT services amount of EUR 12,651 thousand was reclassified to Other expenses.*

## 13. Financing activities

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Interest income at the effective interest rate | 219 | 75 |
| Other income from financing activities | 41 | 1 |
| **Total finance income** | **260** | **76** |
| Interest expenses | 18,530 | 15,218 |
| Interest and discount expenses on lease liabilities | 318 | 133 |
| Other expenses of financing activities | 165 | 24 |
| **Total finance expenses** | **19,013** | **15,375** |
| **Finance activity, net** | **(18,753)** | **(15,299)** |

# 14. Income taxes

### 14.1. Amounts recognised in profit or loss

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Deferred income tax expenses (benefit) | 15,812 | (299) |
| **Total** | **15,812** | **(299)** |

### 14.2. Reconciliation of effective tax rate

Income 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.

| EUR thousand | 2023 | 2023 | 2022 | 2022 |
|---|---|---|---|---|
| **Profit or loss before tax** | | **170,280** | | **30,825** |
| Income tax expenses (benefit) at tax rate of 15% | 15.00% | 25,542 | 15.00% | 4,624 |
| Non-taxable income and non-deductible expenses | 1.59% | 2,705 | 3.47% | 1,071 |
| Income tax relief for the investment project | (7.23%) | (12,318) | (19.45%) | (5,994) |
| Donation | (0.07%) | (117) | - | - |
| **Income tax expenses (benefit)** | **9.29%** | **15,812** | **(0.97%)** | **(299)** |

Current income tax is calculated on profit before tax. The standard income tax rate in Lithuania was 15% in 2023 and 2022. Income tax relief for the investment project included the income tax relief for the investment projects in 2023 and the income tax relief from previous periods, for which the deferred tax assets were not recognised.

### 14.3. Deferred tax

| EUR thousand | 31 December 2021[1] | Recognised in profit or loss | Recognised in other comprehensive income | 31 December 2022[1] | Recognised in profit or loss | Recognised in other comprehensive income | 31 December 2023 |
|---|---|---|---|---|---|---|---|
| **Deferred tax asset** | | | | | | | |
| Difference on recognition of income from new customer connection services | 12,771 | (720) | - | 12,051 | (720) | - | 11,331 |
| Write-down of inventories and impairment of receivables | 349 | 98 | - | 447 | 239 | - | 687 |
| Accrued expenses | 1,768 | 98 | - | 1,866 | (1,281) | - | 585 |
| Electricity overdeclaration | 1,915 | 4,885 | - | 6,800 | (6,800) | - | - |
| Lease liability (IFRS16) | 1,681 | (597) | - | 1,084 | 296 | - | 1,380 |
| Unused income tax relief for the investment project | 3,361 | (895) | - | 2,466 | (737) | - | 1,729 |
| **Deferred tax asset** | **21,845** | **2,869** | **-** | **24,714** | **(9,003)** | **-** | **15,712** |
| **Deferred tax liability** | | | | | | | |
| Differences of financial and tax value (PPE) | (34,296) | (3,384) | 262 | (37,418) | (6,703) | (146) | (44,267) |
| Income tax relief for the investment project | (765) | 170 | - | (595) | 150 | - | (445) |
| Right-of-use asset (IFRS16) | (1,655) | 609 | | (1,046) | (291) | - | (1,337) |
| Differences in tax and financial values of grants | (3,157) | 35 | - | (3,122) | 35 | - | (3,087) |
| **Deferred tax liability** | **(39,873)** | **(2,570)** | **262** | **(42,181)** | **(6,809)** | **-** | **(49,136)** |
| **Deferred tax, net** | **(18,028)** | **299** | **262** | **(17,467)** | **(15,812)** | **(146)** | **(33,424)** |

*[1] Part of the amounts do not agree with the financial statements issued for the year 2021 and 2022 due to the adopted Amendments to IAS 12 amendment requirements (Note 3.1.1). The Company has recognised a separate deferred tax asset in relation to its lease liabilities and deferred tax liability in relation to its right-of-use assets (deferred tax assets of EUR 1,681 thousand and deferred tax liabilities of EUR 1,655 thousand as at 31 December 2021 and deferred tax assets of EUR 1,084 thousand and deferred tax liabilities of EUR 1,046 thousand as at 31 December 2022).*

Tax losses can be carried forward for an indefinite period, except for losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. The transferable tax loss cannot cover more than 70% of the taxable profit of the current year

As at 31 December 2023 and as at 31 December 2022, the Company does not have any temporary differences from which deferred tax assets were not recognized.

# 15. Intangible assets

| EUR thousand | Patents and licences | Computer software | Other intangible assets | Software development | Servitudes and protection zones | In total |
|---|---|---|---|---|---|---|
| **Acquisition cost at 1 January 2022** | **216** | **19,678** | **288** | **7,225** | **33,567** | **60,974** |
| Additions | 4 | - | - | 10,371 | - | **10,375** |
| Reclassifications between categories | 12 | 1,068 | - | (1,080) | - | **-** |
| Reclassified (to) from property, plant and equipment | - | - | - | 189 | - | **189** |
| Re-measurement related to Rights to servitudes and security zones (Note 5.6) | - | - | - | - | (10,662) | **(10,662)** |
| **Acquisition cost at 31 December 2022** | **232** | **20,746** | **288** | **16,705** | **22,905** | **60,876** |
| **Accumulated amortisation at 1 January 2022** | **(213)** | **(14,052)** | **(263)** | **-** | **-** | **(14,528)** |
| Amortisation | (3) | (2,806) | (11) | - | - | (2,820) |
| **Accumulated depreciation at 31 December 2022** | **(216)** | **(16,858)** | **(274)** | **-** | **-** | **(17,348)** |
| **Carrying amount at 31 December 2022** | **16** | **3,888** | **14** | **16,705** | **22,905** | **43,528** |
| **Acquisition cost at 1 January 2023** | **232** | **20,746** | **288** | **16,705** | **22,905** | **60,876** |
| Additions | - | - | - | 12,957 | 1,194 | **14,151** |
| Reclassifications between categories | 2 | 15,701 | - | (15,703) | - | **-** |
| Reclassified (to) from property, plant and equipment | - | - | - | 2,007 | - | **2,007** |
| Re-measurement related to Rights to servitudes and security zones (Note 5.6) | - | - | - | - | (3,435) | **(3,435)** |
| **Acquisition cost at 31 December 2023** | **234** | **36,447** | **288** | **15,966** | **20,664** | **73,599** |
| **Accumulated amortisation at 1 January 2023** | **(216)** | **(16,858)** | **(274)** | **-** | **-** | **(17,348)** |
| Amortisation | (6) | (4,348) | (11) | - | - | (4,365) |
| **Accumulated depreciation at 31 December 2023** | **(222)** | **(21,206)** | **(285)** | **-** | **-** | **(21,713)** |
| **Carrying amount at 31 December 2023** | **12** | **15,241** | **3** | **15,966** | **20,664** | **51,886** |

### 15.1. Fully amortised intangible assets

As at 31 December 2023 and 2022, the cost of acquisition of fully amortised intangible assets used by the Company were as follows:

| EUR thousand | 31 December 2022 | 31 December 2023 |
|---|---|---|
| Patents and licences | 53 | - |
| Computer software | 3,145 | - |
| Other intangible assets | 108 | - |
| **Cost of fully amortised assets, total** | **3,306** | **-** |

### 15.2. Acquisition commitments

As at 31 December 2023 and 2022, the Company has no significant acquisition commitments of intangible assets to be fulfilled during the subsequent years.

### 15.3. Pledged assets

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

### 15.4. Servitudes and protection zones

The movement of intangible assets “Servitudes and protection zones” during 2023 year is presented below:

| Servitudes and security zones, EUR thousand | 31 December 2022 | Change | 31 December 2023 |
|---|---|---|---|
| Statutory servitudes – provision (Note 5.4.1) | 8,124 | (2,847) | 5,277 |
| Protection zones – provision (Note 5.4.2) | 1,575 | (588) | 987 |
| Statutory and contractual servitudes – acquisition cost | 6,187 | 411 | 6,598 |
| Protection zones – acquisition cost | 7,019 | 783 | 7,802 |
| **Servitudes and security zones, in total** | **22,905** | **(2,241)** | **20,664** |

### 15.5. Intangible assets additions by operating segments

In 2023 intangible assets additions amounted to EUR 14,151 thousand, out of which additions related to electricity transmission and distribution operating segment comprised EUR 12,662 thousand, and additions related to natural gas transmission operating segment comprised EUR 1,489 thousand.
In 2022 intangible assets additions amounted to EUR 10,375 thousand, out of which additions related to electricity transmission and distribution operating segment comprised EUR 9,296 thousand, and additions related to natural gas transmission operating segment comprised EUR 1,079 thousand.

# 16. Property, plant and equipment

| EUR thousand | Land[1] | Buildings[1] | Electricity networks and their structures[1] | Gas distribution pipelines, gas technological equipment and installations | Vehicles | Other property, plant and equipment | Construction-in-progress | In total |
|---|---|---|---|---|---|---|---|---|
| **Acquisition cost or revalued amount at 1 January 2023** | **-** | **-** | **1,432,691** | **435,542** | **2,862** | **22,683** | **107,647** | **2,001,425** |
| Additions | - | - | 618 | - | - | 653 | 329,701 | **330,972** |
| Revaluation | - | - | 2,041 | - | - | - | - | **2,041** |
| Disposals | - | - | (3,771) | (30) | - | (60) | - | **(3,861)** |
| Write-offs | - | - | (2,243) | (119) | - | (11) | (498) | **(2,871)** |
| Reclassifications from construction in progress | - | - | 323,037 | 11,382 | - | 3,094 | (337,513) | **-** |
| Reclassification from (to) intangible assets | - | - | - | - | - | - | (2,007) | **(2,007)** |
| **Acquisition cost or revalued amount at 31 December 2023** | **-** | **-** | **1,752,373** | **446,775** | **2,862** | **26,359** | **97,330** | **2,325,699** |
| **Recalculated accumulated depreciation and impairment losses at 1 January 2023** | **-** | **-** | **(73,719)** | **(114,267)** | **(1,529)** | **(7,860)** | | **(197,375)** |
| Depreciation | - | - | (82,633) | (11,813) | (722) | (2,438) | - | **(97,606)** |
| Disposals | - | - | 862 | 17 | - | 26 | - | **905** |
| Write-offs | - | - | 190 | 53 | - | 10 | - | **253** |
| **Accumulated depreciation and impairment losses at 31 December 2023** | **-** | **-** | **(155,300)** | **(126,010)** | **(2,251)** | **(10,262)** | **-** | **(293,823)** |
| **Carrying amount at 31 December 2023** | **-** | **-** | **1,597,073** | **320,765** | **611** | **16,097** | **97,330** | **2,031,876** |

*[1]As at 31 December 2023, the Company has performed reclassifications between the property, plant and equipment classes in order to provide a more reliable information for the users of the financial statements. The Company has reclassified 'Land', 'Buildings' and 'IT and telecommunication equipment' amounts that are directly related to the electricity networks to 'Electricity networks and their structures' group. Accordingly, the Company has performed the following reclassifications as at 1 January 2022.*

| EUR thousand | Land[1] | Buildings[1] | Electricity networks and their structures[1] | Gas distribution pipelines, gas technological equipment and installations | Vehicles | IT and telecommunication equipment | Other property, plant and equipment | Construction-in-progress | In total |
|---|---|---|---|---|---|---|---|---|---|
| **Acquisition cost or revalued amount at 1 January 2022** | **79** | **40,915** | **1,166,416** | **407,239** | **2,717** | **6,936** | **19,224** | **103,937** | **1,747,463** |
| **Restatement due to reclassification[1]** | **(79)** | **(40,915)** | **47,930** | **13,564** | **-** | **(6,936)** | - | **-** | **13,564** |
| **Acquisition cost or revalued amount at 1 January 2022** | **-** | **-** | **1,214,346** | **420,803** | **2,717** | **-** | **19,224** | **103,937** | **1,761,027** |
| Additions | - | - | 761 | 14 | 144 | - | 522 | 253,201 | **254,642** |
| Revaluation | - | - | (9,448) | - | - | - | - | - | **(9,448)** |
| Disposals | - | - | (54) | - | - | - | - | - | **(54)** |
| Write-offs | - | - | (4,020) | (631) | - | - | (72) | (60) | **(4,783)** |
| Reclassification from (to) intangible assets | - | - | - | - | - | - | - | (189) | **(189)** |
| Reclassifications from construction in progress | - | - | 231,335 | 15,397 | 1 | - | 2,499 | (249,232) | **-** |
| Other reclassifications between categories | - | - | (248) | (3) | - | - | 251 | - | **-** |
| Reclassification from (to) right-of-use assets | - | - | - | - | - | - | - | (10) | **(10)** |
| Reclassification from (to) other items | - | - | 19 | (38) | - | - | 259 | - | **240** |
| **Acquisition cost or revalued amount at 31 December 2022** | **-** | **-** | **1,432,691** | **435,542** | **2,862** | **-** | **22,683** | **107,647** | **2,001,425** |
| **Accumulated depreciation and impairment losses at 1 January 2022** | **-** | **(49)** | **-** | **(97,826)** | **(800)** | **-** | **(5,354)** | **-** | **(104,029)** |
| **Restatement due to reclassification1** | **-** | **49** | **(192)** | **(7,259)** | **-** | **-** | **143** | **-** | **(7,259)** |
| **Recalculated accumulated depreciation and impairment losses at 1 January 2022** | **-** | **-** | **(192)** | **(105,085)** | **(800)** | **-** | **(5,211)** | **-** | **(111,288)** |
| Depreciation | - | - | (73,754) | (9,615) | (729) | - | (2,432) | - | **(86,530)** |
| Revaluation | - | - | 243 | 395 | - | - | 42 | - | **680** |
| Disposals | - | - | 3 | - | - | - | - | - | **3** |
| Reclassification from (to) other items | - | - | (19) | 38 | - | - | (259) | - | **(240)** |
| **Accumulated depreciation and impairment losses at 31 December 2022** | **-** | **-** | **(73,719)** | **(114,267)** | **(1,529)** | **-** | **(7,860)** | **-** | **(197,375)** |
| **Carrying amount at 31 December 2022** | **-** | **-** | **1,358,972** | **321,275** | **1,333** | **-** | **14,823** | **107,647** | **1,804,050** |

The interest capitalised by the Company during the year of 2023 as part of property, plant and equipment amounted to EUR 1,631 million, at an average interest rate of 2.88% (2022 year: interest capitalised amounted to EUR 853 thousand, at an average interest rate of 2.21%).

In 2023 part of other property, plant and equipment was accounted for at revalued amount (EUR 13,2 million), the other part - with the cost method (EUR 2,9 million). In 2023 part of the construction in-progress was accounted for at revalued amount (EUR 95,9 million), the other part - the cost method (EUR 1.4 million).

### 16.1. Electricity Business Segment CGU

The carrying amount of PPE allocated to this CGU (incl. construction in progress and assets in other groups) is EUR 1,692.1 million as at 31 December 2023 (EUR 1,465.9 million as at 31 December 2022).

As mentioned in Note 5.2, the Company performed assessment of fair value of this CGU and decided not to perform full revaluation. For this the Company analysed whether the assumptions made in full revaluation in 2021 had not changed significantly – it was noted that only several assumptions changed:

- discount rate (after-tax) was 4.33% (5.09% pre-tax);
- rate of of return set by NERC in 2024 – 5.09% (approximates the pre-tax discount rate);
- the advance schedule for returning the EUR 157.7 million regulatory difference, which has formed due to the long run average increase costs ('LRAIC') model, will reduce the Company's revenue by EUR 157.7 million in 2024–2031.
- changes in the additional component amount calculation, which will allow to keep the sustainable debt level of 5,5x, as determined in the approved methodology.

However, these changes did not significantly impact the recoverable amount. Other assumptions did not change significantly, accordingly were used in the valuation in 2023.

The following key assumptions were used in 31 December 2023 valuation:

- discount rate (after-tax) was 4.33% (5.09% pre-tax).
- WACC rate of return set by NERC) 2024 – 5.09%, (approximates the pre-tax discount rate).
- an additional tariff component is established for funding of investments, on the basis whereof the amount will be included yearly in the Company's regulated income of the period of 2023-2026 and subsequent periods which will allow the keep sustainable debt level of 5,5x, as determined in the approved methodology. According to the management's assessment, even though there is a possibility that after the forecast period (2023-2036) an additional component (EUR 28 million yearly throughout the forecast period) will remain, however, assumed at a conservative level it is not included in the measurement of a continuous value.
- long-term forecast for investments in the electricity segment was applied, including their funding according to the updated 10-year investment plan of the Company;
- according to the measurement model, the calculated return adjustment, amounting to EUR 157.7 million, formed due to the main network elements' depreciation and investment return level being optimized and not optimized by the long run average increase costs ('LRAIC') model and due to the actual depreciation and investment return level, will reduce the Company's revenue by EUR 157.7 million in 2024–2031 and, in addition, the interest will be charged on the outstanding portion on a yearly basis;
- the fair value of assets was determined using the revenue model when forecasting cash flows until 2038, taking into consideration the projected adjustments of investment returns due to the LRAIC asset depreciation and the expected repayment term of return differences in 2018–2022 (at the end of 2020, the period of 40 years was calculated according to the depreciation term of non-current assets of the principal assets – electrical power lines.

Information about gains and losses of revaluation of assets of the Electricity CGU, incurred during 2023 is presented below:

| EUR thousand | Recognized in other comprehensive income and revaluation reserve | Recognized through profit or loss | Total revaluation result |
|---|---|---|---|
| Increase (decrease) in the carrying amount | 970 | 1,071 | 2,041 |
| Total | **970** | **1,071** | **2,041** |

Information about gains and losses of revaluation of assets of the Electricity CGU, incurred during 2022 is presented below:

| EUR thousand | Recognized in other comprehensive income and revaluation reserve | Recognized through profit or loss | Total revaluation result |
|---|---|---|---|
| Increase (decrease) in the carrying amount | (1,746) | (7,702) | (9,448) |
| Total | **(1,746)** | **(7,702)** | **(9,448)** |

#### Sensitivity analysis

The Company exercised the fair value assessment analysis of unobservable inputs variation, relying on the following scenarios:

sensitivity of variation in the investment return rate (WACC) (starting from the regulation period 2027) and the discount rate. The possible fair value changes due to the variation of these inputs are disclosed in the table below (EUR million):

| | | | WACC (pre-tax), % | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | **4.22%** | **4.58%** | **4.84%** | **5.09%** | **5.34%** | **5.60%** | **5.96%** |
| | | Δ | *(17)%* | *(10)%* | *(5)%* | *0%* | *5%* | *10%* | *17%* |
| **Discount rate (pre-tax) %** | **4.22%** | (17)% | 16 | 85 | 135 | 184 | 232 | 282 | 351 |
| | **4.58%** | (10)% | (58) | 9 | 58 | 105 | 152 | 201 | 269 |
| | **5.09%** | 0% | (158) | (93) | (45) | - | 45 | 93 | 158 |
| | **5.60%** | 10% | (251) | (188) | (142) | (98) | (55) | (9) | 54 |
| | **5.96%** | 17% | (313) | (252) | (207) | (164) | (121) | (77) | (15) |

### 16.2. Impairment tests for meters allocated to electricity distribution CGU

In 2023, the Company performed an impairment test for the meters, which are allocated to Electricity distribution CGU and are accounted for at a revalued amount. The impairment test was performed due to the ongoing change of these meters to SMART meters during period of 2024–2031.

The impairment test showed that the recoverable amount exceeds the carrying amount of the assets (including the impairment recognised in 2022). Accordingly, the Company recognised the reversal of the impairment loss in the Statement of profit or loss for the amount of EUR 1.1 million and the revaluation reserve increase for the amount of EUR 0.9 million.

In 2022, the Company recognised the impairment loss in the Statement of profit or loss for the amount of EUR 7.7 million and the revaluation reserve decrease for the amount of EUR 1.6 million for the meters.

### 16.3. Revalued property, plant and equipment

If property, plant and equipment had not been revalued, the carrying amount of the Company's property, plant and equipment would have been following:

| EUR thousand | Electricity networks and their structures[1] | Vehicles | Total revaluation result |
|---|---|---|---|
| As at 31 December 2022 (restated) | 1,500,221 | 1,271 | 1,501,492 |
| As at 31 December 2023 | 1,714,173 | 602 | 1,714,775 |

*[1]As at 31 December 2023, the Company has performed reclassifications between the property, plant and equipment classes in order to provide a more reliable information for the users of the financial statements. The Company has reclassified 'Land', 'Buildings' and 'IT and telecommunication equipment' amounts that are directly related to the electricity networks to 'Electricity networks and their structures' group. Accordingly, the Company has performed the following reclassifications as at 1 January 2022.*

### 16.4. Acquisitions and disposals of property, plant and equipment

Acquisitions of property, plant and equipment during 2023 include the following major acquisitions to the construction in progress:
- acquisitions related to the development of the electricity distribution network (cable lines, modular transformers, meters etc.)
- acquisitions related to the development of the gas distribution network (plastic distribution pipelines etc.).

Liabilities of the Company's capital investments in 2023 and 2022 are described in Note 31.1.

The Company has significant acquisition commitments of property, plant and equipment which will have to be fulfilled during the later years. Company's acquisition and construction commitments amounted to EUR 323,774 thousand (31 December 2022: EUR 128,504 thousand).

### 16.5. Fair value hierarchy of property, plant and equipment

In the opinion of the Company's management, the carrying amount of substantially all assets stated at revalued amount as at 31 December 2023 and 2022 did not differ significantly from their fair value. Total fair value of the Company's revalued property, plant and equipment is attributed to Level 3 of the hierarchy (refer to Note 3.12 for the description of the fair value hierarchy levels). The last full revaluation was performed in 2021. The revaluation was performed internally.

### 16.6. Fully depreciated assets, that are used in the Company's activities

The cost or revalued amount of fully depreciated property, plant and equipment, but still in use by the Company were as follows:

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Buildings | 139 | 139 |
| Electricity networks and their structures | 17,558 | 2,224 |
| Gas distribution pipelines, gas technological equipment and installations | 14,368 | 10,845 |
| Other property, plant and equipment | 2,893 | 3,556 |
| **Total** | **34,958** | **16,764** |

### 16.7. Pledged property, plant and equipment

As at 31 December 2023 and 2022, the Company did not have pledged property, plant and equipment.

### 16.8. Property, plant and equipment additions by operating segments

In 2023 property, plant and equipment additions amounted to EUR 330,972 thousand, out of which additions related to electricity transmission and distribution operating segment comprised EUR 315,884 thousand, and additions related to natural gas transmission operating segment comprised EUR 15,088 thousand.

In 2022 property, plant and equipment additions amounted to EUR 254,642 thousand, out of which additions related to electricity transmission and distribution operating segment comprised EUR 239,337 thousand, and additions related to natural gas transmission operating segment comprised EUR 15,305 thousand.

# 17. Right-of-use assets

### 17.1. The Company's right-of-use assets

| EUR thousand | Land | Buildings | Other property, plant and equipment | In total |
|---|---|---|---|---|
| **31 December 2021** | | | | |
| Acquisition cost | 1,448 | 10,979 | 11,668 | **24,095** |
| Accumulated amortization | (115) | (5,436) | (7,511) | **(13,062)** |
| **Carrying amount** | **1,333** | **5,543** | **4,157** | **11,033** |
| **Carrying amount at 1 January 2022** | **1,333** | **5,543** | **4,157** | **11,033** |
| Additions | 47 | 853 | 61 | **961** |
| Write-offs and disposals | - | - | (20) | **(20)** |
| Depreciation | (51) | (1,952) | (2 744) | **(4 747)** |
| **Carrying amount at 31 December 2022** | **1,329** | **4,444** | **1,454** | **7,227** |
| **31 December 2022** | | | | |
| Acquisition cost | 1,495 | 11,833 | 11,708 | **25,036** |
| Accumulated amortization | (166) | (7,389) | (10,254) | **(17,809)** |
| **Carrying amount** | **1,329** | **4,444** | **1,454** | **7,227** |
| **Carrying amount at 1 January 2023** | **1,329** | **4,444** | **1,454** | **7,227** |
| Additions | 9 | 1,406 | 5,147 | **6,562** |
| Write-offs and disposals | | (2) | (3) | **(5)** |
| Depreciation | (39) | (2,121) | (2,308) | **(4,468)** |
| Remeasurement of lease agreements | (49) | - | - | **(49)** |
| **Carrying amount at 31 December 2023** | **1,250** | **3,727** | **4,290** | **9,267** |
| **31 December 2023** | | | | |
| Acquisition cost | 1,455 | 13,237 | 16,851 | **31,543** |
| Accumulated amortization | (205) | (9,510) | (12,561) | **(22,276)** |
| **Carrying amount** | **1,250** | **3,727** | **4,290** | **9,267** |

### 17.2. Expenses related to lease agreements recognised in statement of profit or loss

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Depreciation | 4,468 | 4,747 |
| Interest expenses | 318 | 133 |
| Expenses related to short-term leases (other expenses) | | 11 |
| Expenses related to low-value leases (other expenses) | | 677 |
| Other rent expenses | 867 | |
| **Lease expenses, total** | **5,653** | **5,568** |

### 17.3. Right-of-use assets additions by operating segments

In 2023 Right-of-use assets additions amounted to EUR 6,562 thousand, out of which additions related to electricity transmission and distribution operating segment comprised EUR 5,061 thousand, and additions related to natural gas transmission operating segment comprised EUR 1,501 thousand.

In 2022 Right-of-use assets additions amounted to EUR 961 thousand, out of which additions related to electricity transmission and distribution operating segment comprised EUR 722 thousand, and additions related to natural gas transmission operating segment comprised EUR 239 thousand.

# 18. Investments in associates

On 21 December 2023 the Company sold all shares for EUR 3,701 thousands held in its investment in associate UAB "Ignitis grupės paslaugų centras". The result of EUR 41 thousand profit of the transaction was recognized in Statement of profit or loss, in caption Finance income.

# 19. Trade receivables

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Receivables from electricity related sales | 53,848 | 71,884 |
| Receivables from gas | 12,399 | 7,847 |
| Other trade receivables | 2,678 | 619 |
| **In total** | **68,925** | **80,350** |
| Less: loss allowance of trade receivables | (4,337) | (2,765) |
| **Carrying amount** | **64,588** | **77,585** |

Trade receivables are not subject to interest, the general term of settlement is 25-35 days.

### 19.1. Loss allowance of trade receivable (lifetime expected credit losses)

The loss ratios are updated during the preparation of the annual financial statements with respect to the impact of forward looking information where forward looking information is indicative of any exacerbation of economic conditions during upcoming years or of customer types. A different loss ratio matrix is used with regard to household consumers and non-household consumers.

The Company's trade receivables as at 31 December 2023 and 2022 for the assessment whereof the collective estimate is applied using the loss ratio matrix are presented below:

| EUR thousand | Loss ratio | Trade receivables | Loss allowance |
|---|---|---|---|
| Not past due | 0.39% | 27,711 | 109 |
| Up to 30 days | 3.03% | 1,123 | 34 |
| 30–60 days | 7.82% | 537 | 42 |
| 60-90 days | 11.94% | 444 | 53 |
| 90-120 days | 17.03% | 229 | 39 |
| More than 120 days | 53.28% | 7,620 | 4,060 |
| **As at 31 December 2023** | **11.51%** | **37,664** | **4,337** |

| EUR thousand | Loss ratio | Trade receivables | Loss allowance |
|---|---|---|---|
| Not past due | 0.22% | 37,808 | 84 |
| Up to 30 days | 1.83% | 1,530 | 28 |
| 30–60 days | 7.81% | 1,396 | 109 |
| 60-90 days | 10.82% | 1,220 | 132 |
| 90-120 days | 15.74% | 705 | 111 |
| More than 120 days | 56.66% | 4,061 | 2,301 |
| **As at 31 December 2022** | **5.92%** | **46,720** | **2,765** |

The Company's trade receivables for the assessment whereof the individual estimate is applied:

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| **EUR thousand** | **Trade receivables** | **Loss allowance** | **Trade receivables** | **Loss allowance** |
| Not past due | 31,261 | - | 33,630 | - |
| Up to 30 days | | - | - | - |
| 30–60 days | | - | - | - |
| 60-90 days | | - | - | - |
| 90-120 days | | - | - | - |
| More than 120 days | | - | - | - |
| **Carrying amount** | **31,261** | **-** | **33,630** | **-** |

Movements in the Company's loss allowance account for trade receivables were as follows:

| EUR thousand | 2023 | 2022 |
|---|---|---|
| **Carrying amount as at 1 January** | **2,765** | **2,183** |
| Loss allowance during the year | 1,783 | 947 |
| Reversal of loss allowance | (211) | (365) |
| **Carrying amount as at 31 December** | **4,337** | **2,765** |

Impairment loss of receivables was recognised in line item "Other expenses" in the Statements of profit or loss.

Fair value of trade and other receivables approximates their carrying amounts as at 31 December 2023 and 2022.

# 20. Other receivables

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Receivable related to PSO | 6,959 | - |
| Value added tax (VAT) | 1,215 | - |
| Cash-pool | - | 5,951 |
| Other receivables | 336 | 733 |
| **In total** | **8,510** | **6,684** |
| Less: impairment of other receivables | (10) | (62) |
| **Carrying amount** | **8,500** | **6,622** |

Financial assets comprise EUR 294 thousand from total Other receivables (31 December 2022: EUR 624 thousand). The fair values of other receivables as at 31 December 2023 and 2022 approximated their carrying amounts.

# 21. Cash and cash equivalents

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Cash balances in bank accounts | 11,930 | 84,625 |
| **Carrying amount** | **11,930** | **84,625** |

Fair value of cash and cash equivalents approximates to their carrying amount as at 31 December 2023 and 2022.

As at 31 December 2023 and 2022, the Company did not have pledged or otherwise restricted owned funds in banks.

The balance of the administered state budget funds in the accounts in 31 December 2023 is amounted to EUR 11,800 thousand (31 December 2022: EUR 283,395 thousand) (see more in Note 5.9).

According to the management's assessment, ECL on cash and cash equivalents are not significant because:

- The Company's cash and cash equivalents are kept in international group banks with good credit ratings. The banks are charged with the highest liquidity, capital adequacy, own funds, additional capital reserves and other risk-limiting requirements and regulations that banks must comply with and regularly report to supervisory authorities.
- The Company mostly uses banks that are supervised by the European Central Bank.
- In 2023 most of the money was allocated to one of the banks, which has a high credit rating and is directly supervised by the ECB.

# 22. Equity

### 22.1. Share capital

| EUR thousand | 2023 | 2022 |
|---|---|---|
| **Authorised shares** | | |
| Ordinary shares | 894,630 | 894,630 |
| **Ordinary shares issued and fully paid** | 894,630 | 894,630 |

As at 31 December 2023 and 2022, the issued capital of the Company amounted to EUR 259,442,797 and it was divided into 894,630,333 ordinary registered shares with a par value of EUR 0.29 each. All issued shares were fully paid.

### 22.2. Dividends

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Declared dividends | 28,986 | 50,010 |

On 28 March 2023, during the Ordinary General Meeting of Shareholders of the Company a decision was made to approve profit distribution for 2023 and to distribute EUR 0,032 dividend per share, EUR 28,986 thousand of dividends in total.

on 29 April 2022, during the Ordinary General Meeting of Shareholders of the Company, a decision was made to approve profit distribution for 2022 and to distribute EUR 0,056 dividend per share, EUR 50,010 thousand of dividends in total.

# 23. Reserves

### 23.1. 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 share capital. The legal reserve shall not be used for payment of dividends and is formed to cover future losses only.

The Company's legal reserve was fully established at 31 December 2023 and 2022.

### 23.2. Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to the fair value changes (for more information see Note 16.3). This reserve cannot be used to cover losses.

The movement in the Company's revaluation reserve during the year was as follows:

| EUR thousand | Revaluation reserve | Deferred income tax | Less deferred income tax |
|---|---|---|---|
| **Carrying amount at 1 January 2022** | **97,766** | **(14,665)** | **83,101** |
| Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals) | (11,586) | 1,738 | (9,848) |
| Profit or loss due to revaluation of property, plant and equipment during the year | (1,746) | 262 | (1,484) |
| **Carrying amount at 31 December 2022** | **84,434** | **(12,665)** | **71,769** |
| **Carrying amount at 1 January 2023** | | | |
| Transfer of revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals) | (8,938) | 1,341 | (7,597) |
| Profit or loss due to revaluation of property, plant and equipment during the year | 970 | (146) | 824 |
| **Carrying amount at 31 December 2023** | **76,466** | **(11,470)** | **64,996** |

# 24. Loans

| EUR thousand | Note | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Non-current** | | | |
| Loans from related parties | 31 | 827,027 | 834,929 |
| **Current** | | | |
| Loans from related parties | 31 | 7,901 | 7,901 |
| Cash-pool | | 65,562 | - |
| Accrued interests payable | 31 | 12,278 | 10,432 |
| **In total** | | **912,768** | **853,262** |

Loans by maturity:

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Up to 1 year | 85,741 | 18,333 |
| From 1 to 2 years | 7,901 | 7,901 |
| From 2 to 5 years | 442,972 | 184,028 |
| After 5 years | 376,154 | 643,000 |
| **In total** | **912,768** | **853,262** |

### 24.1. Covenants and unwithdrawn balances

The Company has the following undrawn committed credit facilities from related parties expiring within or after one year:

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Credit facilities | 84,438 | 110,000 |

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

# 25. 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 is monitoring net debt metric as a part of risk-management strategy.

Net debt balances:

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Non-current loans | 827,027 | 834,929 |
| Current loans – loans including accrued interest | 19,842 | 18,239 |
| Current loans – cash pool including accrued interest | 65,899 | 94 |
| Lease liabilities | 9,556 | 7,426 |
| Cash and cash equivalents | (11,930) | (84,625) |
| **Net debt** | **910,394** | **776,063** |

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

| EUR thousand | Assets | Lease liabilities | | Loans | | In total |
|---|---|---|---|---|---|---|
| | Cash and cash equivalents | Non-current | Current | Non-current | Current | |
| **Net debt at 1 January 2022** | **(14,524)** | **6,634** | **4,572** | **649,830** | **63,439** | **709,951** |
| **Cash changes** | | | | | | |
| (Increase) decrease in cash and cash equivalents | (70,101) | - | - | - | - | **(70,101)** |
| Proceeds from borrowings | - | - | - | 193,000 | - | **193,000** |
| Repayments of borrowings | - | - | - | - | (7,901) | **(7,901)** |
| Cash-pool loans – net change | - | - | - | - | (47,122) | **(47,122)** |
| Lease payments | - | - | (4,085) | - | - | **(4,085)** |
| Interest paid | - | - | (133) | - | (17,415) | **(17,548)** |
| **Non-cash changes** | | | | | | |
| Accrual of interests payable | - | - | 133 | - | 16,071 | **16,204** |
| Lease contracts concluded | - | 785 | 176 | - | - | **961** |
| Lease liabilities written-off | - | - | (19) | - | | **(19)** |
| Reclassifications between items | - | (1,091) | 1,091 | (7,901) | 7,901 | **-** |
| Reclassifications to trade payables | | - | (637) | - | - | **(637)** |
| VAT on interest payable | - | - | - | - | 3,360 | **3,360** |
| **Net debt at 31 December 2022** | **(84,625)** | **6,328** | **1,098** | **834,929** | **18,333** | **776,063** |
| **Net debt at 1 January 2023** | **(84,625)** | **6,328** | **1,098** | **834,929** | **18,333** | **776,063** |
| **Cash changes** | | | | | | |
| (Increase) decrease in cash and cash equivalents | 72,695 | - | - | - | - | **72,695** |
| Proceeds from borrowings | - | - | - | - | - | **-** |
| Repayments of borrowings | - | - | - | - | (7,902) | **(7,902)** |
| Cash-pool loans – net change | - | - | - | - | 65,562 | **65,562** |
| Lease payments | - | - | (4,265) | - | - | **(4,265)** |
| Interest paid | - | - | (318) | - | (22,294) | **(22,612)** |
| **Non-cash changes** | | | | | | |
| Accrual of interests payable | - | - | 318 | - | 20,161 | **20,479** |
| Lease contracts concluded | - | 6,153 | 409 | - | - | **6,562** |
| Lease liabilities written-off | - | (14) | (77) | - | | **(91)** |
| Reclassifications between items | - | (6,011) | 6,011 | (7,902) | 7,902 | **-** |
| Reclassifications to trade payables | - | | | | | |
| VAT on payable interest | - | | | | 3,979 | **3,979** |
| Other non-cash changes | | (76) | | | | **(76)** |
| **Net debt at 31 December 2023** | **(11,930)** | **6,380** | **3,176** | **827,027** | **85,741** | **910,394** |

# 26. Lease liabilities

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Minimum payments** | | |
| Within the first year | 3,473 | 1,204 |
| From two to five years | 5,004 | 5,227 |
| More than five years | 3,268 | 2,972 |
| **In total** | **11,745** | **9,403** |
| **Future finance costs** | | |
| Within the first year | (297) | (106) |
| From two to five years | (465) | (268) |
| More than five years | (1,427) | (1,603) |
| **In total** | **(2,189)** | **(1,977)** |
| **Carrying amount** | **9,556** | **7,426** |

Major Company's lease liabilities are related to lease of buildings and vehicles.

The Company's lease liabilities related to buildings amounted to EUR 3,805 thousand as at 31 December 2023 (31 December 2022: EUR 4,517 thousand). As at 31 December 2023 and 2022, interest rates of lease of buildings were from 0.61 to 5,88%. The lease agreements valid as at 31 December 2023 expire during the period of 2024-2049.

The Company's lease liabilities related to vehicles amounted to EUR 4,301 thousand as at 31 December 2023 (31 December 2022: EUR 1,378 thousand). As at 31 December 2023 and 2022, interest rates of lease of vehicles were from 0.72 to 5,1%. The lease agreements on vehicles valid as at 31 December 2023 expire in 2026.

# 27. Grants and subsidies

The balance of grants comprises grants to finance acquisition of property plant and equipment and assets acquired free of charge. Movements on the account of grants were as follows:

| EUR thousand | |
|---|---|
| **Carrying amount at 1 January 2022** | **27,168** |
| Grants received | 13,906 |
| Depreciation and amortisation | (1,184) |
| **Carrying amount at 31 December 2022** | **39,890** |
| **Carrying amount at 1 January 2023** | **39,890** |
| Grants received | 6,451 |
| Depreciation and amortisation | (2,390) |
| **Carrying amount at 31 December 2023** | **43,951** |

Amortisation of grants is accounted for under depreciation and amortization in Statement of Profit or Loss and reduces depreciation expenses of related property, plant and equipment. Grants written off are reported within revaluation/impairment of assets and reduce these expenses.

# 28. Provisions

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Non-current | 8,163 | 10,689 |
| Current | 3,722 | 3,183 |
| **Total** | **11,885** | **13,872** |

The movement in the Company's provisions is shown below:

| EUR thousand | Provisions for servitudes | Provisions for employee benefits | Provisions for registration of security zones | Other provisions | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January 2022** | **14,376** | **3,618** | **10,687** | **-** | **28,681** |
| Increase during the year | - | 707 | - | **-** | **707** |
| Utilised during the year | - | - | (4,672) | **-** | **(4,672)** |
| Result of change in assumptions | (6,222) | (182) | (4,440) | **-** | **(10,844)** |
| **Balance as at 31 December 2022** | **8,154** | **4,143** | **1,575** | **-** | **13,872** |
| **Balance as at 1 January 2023** | **8,154** | **4,143** | **1,575** | - | **13,872** |
| Increase during the year | - | 1,076 | - | 1,187 | **2,263** |
| Utilised during the year | - | - | (588) | - | **(588)** |
| Result of change in assumptions | (2,724) | (938) | | - | **(3,662)** |
| **Balance as at 31 December 2023** | **5,430** | **4,281** | **987** | **1,187** | **11,885** |
| Non-current | 4,656 | 3,497 | - | 10 | 8,163 |
| Current | 774 | 784 | 987 | 1,177 | 3,722 |

Total change in provisions in 2023 EUR (1,987) thousand. Change recognised in the Statement of profit or loss EUR 2,386 thousand, recognised in the Statement of other comprehensive income EUR (938) thousand and recognised in the Intangible assets EUR (3,435) thousand (total change in provisions in 2022 EUR (14,809) thousand, change recognised in the Statement of profit or loss EUR 698 thousand, recognised in the Statement of other comprehensive income EUR (182) thousand, recognised in the Intangible assets EUR (15,325) thousand).

**Description of Company's provisions and the expected timing of resulting outflows of economic benefits**

The provision for servitudes relates to the compensation of easements to third parties when the distribution operator (the Company) installs electricity networks on land belonging to them. A one-time compensation for the use of statutory easements is paid to compensate for losses when a third party applies the request for compensation. The Company's management estimated (Note 5.4.1) that the period during which third parties will apply for compensation is 10 years starting from 2023. An additional 1-year deadline for the payment of compensation from the date of submission of the application was applied (the methodology of servitude related compensations provides two years for the payment from the date of submission of the application, but in fact the Company pays within one year).

The provision for registration of protection zones relates to the Company's obligation to register special protection conditions (protection zones) for land near the Company's infrastructure objects. According to the Company's management plans the registration of protection zones should last till the end of 2026 (Note 5.4.3).

Provisions for employee benefits include a statutory retirement benefit payable to the Company's employees (Note 3.11.3). The period of non-current provision is calculated according to each employee using actuarial assumptions that include:

| | 2023 | 2022 |
|---|---|---|
| Discount rate | 3,37% | 0.55% |
| Annual employee turnover rate | 7.6% | 7.7% |
| Annual salary increase | 5% | 5% |
| Average time until retirement (years) | 18 | 19 |

# 29. Other current liabilities

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Amounts payable for property, plant and equipment | 37,867 | 45,102 |
| Payroll related liabilities | 12,125 | 11,020 |
| Deposits received from independent electricity suppliers | 8,550 | 6,202 |
| Other accrued expenses | 2,632 | 2,163 |
| Accrued expenses for electricity and related services | 2,612 | 42,098 |
| Non-controlling interest dividends | 2,162 | 2,193 |
| Taxes (other than income tax) | 269 | 20,364 |
| Other current liabilities | 4,339 | 1,456 |
| **Carrying amount** | **70,556** | **130,598** |

Line items “Amounts payable for property, plant and equipment”, “Deposits received from independent electricity suppliers”, “Non-controlling interest dividends” and “Other current liabilities” are financial instruments.

# 30. Deferred income and advances received

### 30.1. Deferred income

| EUR thousand | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | Current portion | Non-current portion | Current portion | Non-current portion |
| **Deferred income under contracts with customers** | | | | |
| Deferred income related to new customers connection and upgrade fees | 14,079 | 285,862 | 12,380 | 251,014 |
| Deferred income related to electricity over declaration | - | - | 6,634 | - |
| Other deferred income | 3 | - | 3 | - |
| **Carrying amount** | **14,082** | **285,862** | **19,017** | **251,014** |

Movement in the Company’s deferred income:

| EUR thousand | 2023 | | Total |
|---|---|---|---|
| | Current portion | Non-current portion | |
| **Carrying amount at 1 January** | **19,017** | **251,014** | **270,031** |
| Increase during the year | 1,699 | 48,125 | 49,824 |
| Recognised as revenue | (19,911) | - | (19,911) |
| Reclassifications between items | 13,277 | (13,277) | - |
| **Carrying amount at 31 December** | **14,082** | **285,862** | **299,944** |

| EUR thousand | 2022 | | Total |
|---|---|---|---|
| | Current portion | Non-current portion | |
| **Carrying amount at 1 January** | **11,247** | **231,759** | **243,006** |
| Increase during the year | 7,770 | 31,082 | 38,852 |
| Recognised as revenue | (11,827) | - | (11,827) |
| Reclassifications between items | 11,827 | (11,827) | - |
| **Carrying amount at 31 December** | **19,017** | **251,014** | **270,031** |

Revenue from new customers fees is recognised over the average useful life of related items of property, plant and equipment (Note 16).

### 30.2. Advances received

| EUR thousand | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Current prepayments under contracts with customers (contract liabilities) | 48,746 | 46,057 |
| Current prepayments under other contracts | 447 | 797 |
| **In total** | **49,193** | **46,854** |

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# 31. Contingent liabilities

**31.1. Capital investment commitments**

In 2023, the Company's commitments for capital investments made under contracts entered into at the date of the financial statements but not accounted for in the financial statements amounted to EUR 323 million (EUR 80 million at 31 December 2022).

**31.2. Temporary regulatory differences**

31.2.1 Electricity distribution

Regulatory differences are determined in accordance with the Methodology for setting the price caps for electricity transmission, distribution and public supply services (hereinafter – the Methodology) and are of two types: adjusted by NERC or estimated by the company.

NERC adjusts the regulatory differences of the regulated activities after the first two years of the regulatory period, and thereafter after four years of the regulatory period and the entire regulatory period (including the extension of the regulatory period), which reduces the level of revenue allowed for the regulated activities for the following year.

The Company has agreed with the regulator (NERC) to amend the repayment period of the EUR 160.0 million regulatory difference to 2024–2031 (from 2024–2036). In this regard, NERC upgraded the methodology for calculating the additional tariff component and linked it to the leverage level cap of 5.5x (ESO Net Debt/ESO Adjusted EBITDA, both calculated based on the methodology approved by NERC), which means that if ESO's leverage level exceeds the predetermined cap, the additional tariff component will increase proportionally.

According to the amendment, the regulatory differences for B2C customers (EUR 57.1 million, including the accrued interest) will be repaid over a period of 2 years and 3 months (from on 1 April 2024 to 30 June 2026). For B2B customers (EUR 100.6 million, including the accrued interest), the repayment period is 7 years and 9 months (from 1 April 2024 to 31 December 2031).

The regulatory difference mentioned above relates to the changes in the Networks methodology in 2021 and, in turn, the recalculated ROI and D&A for the period 2018–2021. Accordingly, after the agreement made, the Methodology for determining the price caps for electricity transmission, distribution and public supply services has been changed.

The evaluation of the return on investment for 2022–2023 will be performed in 2024, when setting the electricity distribution price caps for 2025.

On 31 December 2023, total over collected amount EUR (284.3) million (2022: over collected amount of EUR 194.8 million).

31.2.2. Natural gas distribution

Regulatory differences are determined in accordance with the Methodology for setting the state regulated prices in the natural gas sector (hereinafter – the Methodology) and are of two types: adjusted by NERC or estimated by the company.

NERC adjusts the regulatory differences of the regulated activities after the first two years of the regulatory period, and thereafter after four years of the regulatory period and the entire regulatory period (including the extension of the regulatory period), which changes the level of revenue allowed for the regulated activities for the following year.

By the Resolution No. O3E-1571 passed on 20 October 2023, NERC has set the upper limit of the natural gas distribution price for 2024 on the basis of a certificate No.O5E-904 issued on 19 October 2023.

The evaluation of the return on investment for 2023 will be performed in 2024, when setting the gas distribution price limits for 2025.

On 31 December 2023, total over collected amount EUR (14.1) million (2022: under collected amount of EUR 1.2 million).

**31.3. Evaluation of Russia's invasion of Ukraine on Company's financial statements**

The Company has evaluated current and, to the extent possible, expected impact of Russia's invasion of Ukraine on the financial position, performance, cash-flows and the principal risks and uncertainties to which the Company is exposed. As the Company does not have any significant operations in the affected markets and does not have subsidiaries in the affected markets, the management of the Company has concluded that:

a) no expected credit losses adjustments should be made as Company does not have balances with affected markets;
b) no adjustment to the carrying amounts of assets and liabilities should be made;
c) the situation does not have impact on Company's ability to continue as a going concern.
d) general potential effects that are tightly related to the Company's activities are an increase in electricity and natural gas prices, possible disruptions in supply chains as well as increased inflation and growing prices of other materials. Furthermore, the level of vigilance in cybersecurity is being raised nationwide while the Company is classified as the owner of critical infrastructure.

As to the above no significant impact of Russia's invasion of Ukraine on Company's financial statements was identified. However, it should be noted that, due to the ongoing uncertainty, impact of the Russia's invasion of Ukraine on the business of the Group companies is being constantly reviewed.

# 32. Related party transactions

| Related parties, EUR thousand | Loans payable | Accounts payable | Accounts receivables | Purchases | Sales | Finance income | Finance expenses |
|---|---|---|---|---|---|---|---|
| Parent company AB „Ignitis grupė" | 904,912 | 144 | 36 | 1,118 | - | - | (18,521) |
| AB „Ignitis grupė" group companies | 7,856 | 16,383 | 28,508 | 81,209 | 196,463 | 60 | (172) |
| UAB „EPSO-G" group companies | - | 17,794 | 801 | 103,568 | 75,324 | - | - |
| Other related parties | - | 577 | 8,544 | 175 | 5,669 | - | - |
| **Total** | **912,768** | **34,898** | **37,889** | **186,070** | **277,456** | **60** | **(18,693)** |

The Company purchased the following goods and services from other group companies: leases of assets, information technology and telecommunication services, organization and execution of tenders, accounting and personnel administration services, also construction, reconstruction and maintenance of electric equipment. The main share of purchases from AB „Ignitis grupė" group companies belongs to purchase of electricity. Companies of UAB „EPSO-G" group provide electricity and gas transmission services, public service offerings (PSO), and carry out contractual works.

On 18 May 2016 the Company signed with AB „Ignitis grupė" the Group account (cash-pool) agreement of an unlimited validity, under which the Company may obtain current loans from other companies of the Group. The internal lending limit established from 25 May 2023 is EUR 150,000 thousand. The latter limit is valid until 24 May 2024. The interest rate of 1.03% is determined for the one year period and coincides with interest rates of commercial banks.

As at 31 December 2023, the Company's balance of cash-pool is disclosed under borrowings – EUR 57,709 thousand was borrowed from parent company and EUR 7,853 thousand was borrowed from other group companies of AB „Ignitis grupė".

In the table presented for 2022, the balance of cash-pool is disclosed under borrowings – EUR 5,952 was borrowed to associate and other group companies of AB „Ignitis grupė"..

The Company's transactions with related parties during the year 2022 and the balances as at 31 December 2022 are presented below:

| Related parties, EUR thousand | Loans receivable | Loans payable | Accounts payable | Accounts receivables | Purchases | Sales | Finance income | Finance expenses |
|---|---|---|---|---|---|---|---|---|
| Parent company AB „Ignitis grupė" | - | 853,262 | 329 | - | 2,304 | - | - | (15,155) |
| Associates | 206 | - | 5,990 | - | 23,548 | - | - | - |
| AB „Ignitis grupė" group companies | 5,746 | - | 8,297 | 27,664 | 43,425 | 166,293 | 1 | (38) |
| UAB „EPSO-G" group companies | - | - | 35,207 | 910 | 214,178 | (1,714) | - | - |
| Other related parties | - | - | - | - | - | 15 | - | - |
| **Total** | **5,952** | **853,262** | **49,823** | **28,574** | **283,455** | **164,594** | **1** | **(15,193)** |

### 32.2. Terms of transactions with related parties

Payment terms set range from 30 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. As at 31 December 2023, the Company had EUR 200 thousand of guarantees paid to LITGRID AB under the electricity balancing service agreement (31 December 2022 EUR 200 thousand). These guarantees were reported in the line item other non-current receivables in the statement of financial position. During the year 2023, the Company did not have bad debt allowance for expected credit losses, receivables from related parties.

### 32.3. Compensations to key management personnel

| EUR thousand | 2023 | 2022 |
|---|---|---|
| Wages and salaries and other short-term benefits to key management personnel | **323** | **675** |
| Whereof: | | |
| *Short-term employee benefits* | 314 | 633 |
| *Termination benefits* | 9 | 42 |
| Number of key management personnel | 7 | 8 |

In 2023 and 2022 members of Board, Supervisory board and Chief Executive Officer are considered to be the Company's key management personnel. For more information on the key management personnel, see the 'Governance report' of Annual Management Report.

# 33. Fair values of financial instruments

The Company does not have any financial instruments measured at fair value. The Company discloses financial liabilities related to loans received.

The Company discloses the fair value of loans granted to the Group companies under loan agreements, which is calculated by discounting future cash flows referring to the interest rate observed in the market. As at 31 December 2023 the Company had no material loans granted (31 December 2022, cash flows were discounted at weighted average discount rate of 4.80% for loans over EUR 1 million and 4.84% for loans under EUR 1 million). The measurement of loans granted to the Group companies is attributed to Level 3 of the fair value hierarchy.

The Company discloses the fair value of financial liabilities, related to loans received from the Group companies under loan agreements, which is calculated by discounting future cash flows referring to the interest rate observed in the market. As at 31 December 2023, cash flows were discounted at weighted average discount rate of 6.42% for loans over EUR 1 million and 5.58% for loans under EUR 1 million (31 December 2022: 4.80%). Neither as at 31 December 2022 nor 31 December 2021, the Company had no loans of less EUR 1 million. The measurement of loans received from the Group companies is attributed to Level 2 of the fair value hierarchy.

The fair value of the Company's financial liabilities related to loans received under proportional transfer agreements for Green Bonds concluded with the parent company is calculated by discounting cash flows related to the coupon payments with reference to the interest rate observable in the market and the regular future payments related to issued bonds of the parent company. The cash flows were discounted using a weighted average discount rate of 3.95% as at 31 December 2023 (31 December 2022: 5.01%). Discount rates for certain bond issues are determined as bond yields for certain issued bond. Loans under proportional transfer agreements for Green Bonds, concluded with the parent company, are attributed to Level 2 of fair value hierarchy.

The table below shows distribution of the fair value of the Company’s financial instruments by hierarchy levels:

| EURk | Notes | Carrying amount | Level 1 Quoted prices in active markets | Level 2 Other directly or indirectly observable inputs | Level 3 Unobserv-able inputs | In total |
|---|---|---|---|---|---|---|
| **As at 31 December 2023** | | | | | | |
| **Financial instruments for which fair value is disclosed** | | | | | | |
| **Liabilities** | | | | | | |
| Loans received from the Group companies | 24 | **288,124** | **-** | 225,787 | - | **225,787** |
| Loans received from the parent company | 24 | **624,644** | - | 575,067 | - | **575,067** |
| **As at 31 December 2022** | | | | | | |
| **Financial instruments for which fair value is disclosed** | | | | | | |
| **Assets** | | | | | | |
| Loans granted | 20 | **5,951** | | | 5,951 | **5,951** |
| **Liabilities** | | | | | | |
| Loans received from the Group companies | 24 | **228,618** | - | 184,188 | - | **184,188** |
| Loans received from the parent company | 24 | **624,644** | - | 537,691 | - | **537,691** |

# 34. Events after reporting period

There were no material subsequent events after the reporting period until the date of issue of these financial statements.

*********

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**Klaipėda branch**
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Lithuania

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home.kpmg/lt

# Independent Auditor's Report

**To the Shareholder of AB "Energijos skirstymo operatorius"**

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of AB "Energijos skirstymo operatorius" ("the Company"). The Company's financial statements comprise:

- the statement of financial position as at 31 December 2023,
- the statement of profit or loss and other comprehensive income 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
- the notes to the financial statements, comprising material accounting policies and other explanatory information.

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 Accounting Standards, 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.





Company code: 111616158
VAT code: LT114949716

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

### Revenue recognition related to the estimation of overdeclaration /underdeclaration of electricity usage

We refer to the financial statements:

Revenue from electricity distribution recognized in the statement of profit or loss and other comprehensive income in 2023 amounts to EUR 452,996 thousand.

Material accounting policies – Note 3.2 “Revenue from contracts with customers”; financial disclosures – Note 5 “Significant accounting estimates and judgements used in the preparation of the financial statements”, Note 7 “Revenue from contracts with customers”.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The Company’s electricity revenue depends on declarations of electricity consumed by private customers together with automated readings of meters from business and part of private customers. The Company has identified that private customers that do not have automated meter readings tend to over/underdeclare the consumption of electricity in the last months of the year.<br><br>At each reporting date, the Company estimates the amount of the overdeclared / underdeclared consumption in order to calculate the actually earned revenue to be recognized in the statement of profit or loss and other comprehensive income for the year.<br><br>The estimate takes into account, among other things, historical consumption by private customers and the Company’s assessment of technological losses in the electricity grid at the reporting date.<br><br>Due to the materiality of the recognized revenue and judgements of the management involved in revenue recognition above, the area required our increased attention in the audit and as such was determined to be a key audit matter. | Our audit procedures in the area included, among others:<br><br>• Obtaining understanding of and evaluating the Company’s revenue recognition process;<br><br>• Assessing whether the revenue recognition accounting policy applied to all revenue streams complies with the requirements of the relevant financial reporting framework;<br><br>• For the estimation of revenue overdeclaration/underdeclaration of electricity usage:<br><br>- Evaluating the design and implementation of key controls over the revenues recognition processes,<br><br>- Testing the internal consistency, underlying formulas and mathematical accuracy of the calculation of over/underdeclaration impact,<br><br>- Challenging the reasonableness of the Company’s key assumptions and judgment used in estimating the overdeclared/underdeclared usage of electricity, by tracing main inputs to supporting evidence,<br><br>- Assessing completeness and accuracy of estimated amount by performing independent analytical analysis of overdeclared consumption based on the key performance indicators, including historical revenue and technological grid losses information, |

| | |
|---|---|
| | changes in approved tariffs, and comparing result to actual amounts recognised,<br>• Evaluating whether the disclosures in the financial statements in respect of the overdeclared/underdeclared usage of electricity satisfy the requirements of the relevant financial reporting standards. |

## Fair value assessment of Property, plant and equipment used in electricity distribution

We refer to the financial statements:

The carrying amount of property, plant and equipment used in electricity distribution as at 31 December 2023: EUR 1,692.1 million.

Material accounting policies – Note 3.4 “Property, plant and equipment”, Note 5 “Significant accounting estimates and judgments used in the preparation of the financial statements”; financial disclosures – Note 16 “Property, plant and equipment”.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Property, plant and equipment (thereafter “PPE”) allocated to electricity distribution cash generating unit („CGU”) is accounted for at revalued amounts less subsequent accumulated depreciation and impairment losses.<br><br>In 2021 the Company performed a revaluation of property, plant and equipment of the electricity PPE and accounted for revaluation results. IAS 16 requires the Company to perform a further revaluation of assets, when the fair value of a revalued asset differs materially from its carrying amount.<br><br>As disclosed in Note 16 to the financial statements, the management of the Company assessed possible change in fair value by using discounted cashflow model.<br><br>We identified determination of fair value of PPE as a focus area in our audit because of the significance of the amounts involved, the judgments required in selection of appropriate valuation methods and estimation uncertainty related to assumptions made by the management of the Company. Accordingly, we have identified this area as a key audit matter. | Our audit procedures performed included:<br>• Assessing compliance with applicable accounting standards;<br>• Involving our internal valuation specialists who assisted us at:<br>- Assessing the appropriateness of the methodology applied by the management of the Company,<br>- Challenging the key assumptions used in the discounted cash flow model by comparing sales volumes and profit margins to historical results and regulation data as well as comparing the forecasted growth rates and the discount rate to the ones used in the industry and set by the regulator,<br>- Considering sensitivity of the discounted cash flow model to changes in key assumptions to understand the impact of such changes on levels of headroom; the key assumptions included sales volumes, profit margins, forecasted growth rate and discount rate;<br>• Evaluating the budgeting process (upon which forecasts are based) by comparing the actual results for the year with original forecasts and taking these observations into consideration into the sensitivity analysis performed; |

| | |
|---|---|
| | • Checking mathematical accuracy of the discounted cash flow model;<br>• Considering adequacy of disclosure in the Company's financial statements in respect to the assessment of fair value of PPE allocated to electricity distribution cash generating unit. |

## Allowances for impairment losses in trade receivables

We refer to the financial statements:

The carrying value of trade receivable in the statement of financial position as at 31 December 2023 amounts to EUR 64,588 thousand. The total impairment loss for trade receivables recognized in the statement of profit or loss and other comprehensive income for the year ended 31 December 2023 amounts to EUR 1,783 thousand.

Material accounting policies – Note 3.6.1 "Financial assets"; financial disclosures – Note 5 "Significant accounting estimates and judgements used in the preparation of the financial statements"; Note 4 "Risk management", Note 19 "Trade receivables".

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Impairment allowances represent Management's best estimate of the expected credit losses within the trade receivables at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment over the amounts of any such impairment.<br><br>Trade receivables are assessed by the Company for impairment at each reporting date on a collective and individual basis. For those trade receivables, measured on collective basis, the Management measures the loss allowance at an amount equal to expected credit losses (ECLs) being a probability weighted estimate of credit losses. Credit losses are measured as the present value of expected cash shortfalls (i.e. the difference between the cash flows due to the Company and the cash flows expected to be received). The estimate takes into account, among other things, repayment history and past credit loss experience and an assessment of both the current and forecast general economic conditions at the reporting date.<br><br>Accordingly, the key areas of estimation uncertainty and judgement associated with recognition of impairment allowances for trade receivables are:<br>• Assumptions used to assess credit risk for a given exposure and the expected future cash flows from the customer;<br>• Timely identification of exposures with | Our audit procedures in the area included, among others:<br>• Assessing the appropriateness of the Company's impairment methodology against the relevant financial reporting requirements;<br>• Independently assessing the relevant forward-looking information and macroeconomic forecasts used in the ECL assessment by inspecting publicly available information, our knowledge of business and through discussions with Management;<br>• Assessing the accuracy and completeness of the Company's ECL estimates at 31 December 2023 including:<br>- Assessing the key impairment model parameters, by reference to the Company's own historical credit loss experience, our understanding of the business and current economic trends and expectations,<br>- Performing a retrospective assessment of the historical accuracy of the Management Board's impairment assumptions and estimates, including estimated loss rates, against actual outcomes,<br>• Evaluating whether the disclosures in the financial statements in respect of the expected credit losses for trade receivables satisfy the requirements of the relevant financial reporting standards. |

| | |
|---|---|
| significant increase in credit risk or those credit impaired (defaulted).<br>Due to the magnitude of the amounts involved, together with the complexity of judgements and assumptions required in estimating expected credit losses, the area required our increased attention in the audit and was determined to be a key audit matter. | |

## Other Information

The other information comprises the information included in the 2023 Annual Management Report, including Sustainability Report, 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.

In addition, our responsibility is to consider whether information included in the 2023 Annual Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements and whether 2023 Annual Management Report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the financial statements, in our opinion, in all material respects:

- The information given in the 2023 Annual Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

## 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 Accounting Standards, 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 Statem

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders‘ meeting we were appointed on 27 September 2021 for the first time to audit the Company‘s financial statements. Our appointment to audit the Company‘s financial statements was renewed on 30 March 2023 under decision of the general shareholders‘ meeting, and the total uninterrupted period of engagement is 3 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report which we have submitted to the Company and the Group’s Audit Committee.

We confirm that in light of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to services provided to the Company in the course of audit and disclosed in the financial statements, we have provided translation of the annual report to the financial statements.

The engagement partner on the audit resulting in this independent auditor’s report is Rokas Kasperavičius.

On behalf of KPMG Baltics, UAB

ROKAS KASPERAVIČIUS

Digitally signed by ROKAS KASPERAVIČIUS
Date: 2024.02.28 20:11:23 +02'00'

Rokas Kasperavičius
Partner pp
Certified Auditor

Klaipėda, the Republic of Lithuania
28 February 2024

The electronic auditor‘s signature applies only to the Independent Auditor‘s Report on pages 106 to 112 of this document.

# 6.3 Information about the auditor

## OVERVIEW

On 30 March 2023, KPMG Baltics, UAB was re-appointed by the Company's General Meeting of Shareholders as auditor for the period 2023–2027. Under the previous contract, KPMG audited the Company's financial statements for the years 2021 and 2022.

It is worth noting that all tenders for an independent auditor are conducted in accordance with prevailing best practice. As the audit tender is carried out in accordance with public law requirements, experience in auditing companies in the energy sector is a key selection criterion in order to ensure competitiveness. The entire selection process is overseen by the Group's Audit Committee and the appointment of the independent auditor is made by a decision of the Company's General Meeting of Shareholders.

### Independent auditors and the financial period for which audit services were 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 independent auditors, together with their international partners, provided the following services.

### **Independent auditor's services and fees**, thousand EUR

| | 2023 | 2022 |
|---|---|---|
| Audit of financial statements | 77 | 111 |

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

# ADDITIONAL INFORMATION

# 7.1 Other important statutory information

This annual report provides information to the Company’s shareholders, creditors and other interested parties on the performance of the Company and its controlled entities, if any, during the period from January to December 2023.

The annual report has been prepared by the Company’s administration, in accordance with the requirements of the Laws on Financial Reporting of Enterprises of the Republic of Lithuania, on Joint-Stock Companies of the Republic of Lithuania, on Consolidated Financial Reporting of Groups of Enterprises of the Republic of Lithuania, and of the description of the Guidelines for Transparency in State-Owned Companies. The Company's securities are not listed or traded on a regulated market. The Articles of Association of the Company do not impose any requirements on the content of the Company's annual report beyond those provided for in the above-mentioned laws.

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 (Laisvės pr. 10, Vilnius) 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: AB Energijos skirstymo operatorius
2. Legal form: Joint Stock Company
3. Share capital: EUR 259,442,796.57
4. Registration date and place: 11 December 2015, the Register of Legal Entities of the Republic of Lithuania
5. Company code: 304151376
6. Company address: Laisvės pr. 10, LT-04215 Vilnius
7. Company‘s register: Register of Legal Entities
8. Phone: 8 697 61 852
9. E-mail address: info@eso.lt
10. Website: www.eso.lt

**Legal notes**

1. There were no significant events after the end of the financial year.
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.

**Significant transactions**

There were no material agreements, to which the Company is a party that would take effect, change or terminate upon a change of control of the Company.

There were no harmful transactions concluded on behalf of the Company during the reporting period (not complying with the parent company's objectives, normal market conditions, detrimental to the interests of shareholders and other interest groups etc.) which were or are likely to have an adverse effect on the Company's activities and (or) performance in the future, nor transactions entered into in a conflict of interest between the Company’s management, controlling shareholders or other related parties' obligations to the Company and their private interests and (or) other duties.

There were no agreements of the Company or members of its governing bodies or employees, providing for compensation in the event of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in control of the Company.

**Key features of internal control and risk management systems 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. All financial data provided in the Annual report have been calculated in accordance with IFRS and correspond to the audited financial statements of the Company.

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 and the legislation governing the preparation of the financial statements are controlled and managed.

**Alternative performance measures**

Alternative Performance Measures ("APM") are the adjusted figures presented in this report used for the internal assessment of 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 Ignitis Group website (link).

**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 in State-Owned Companies

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

| Point in the description of the Guidelines on Transparency in 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 published on the website of a state-owned entity: | | Information available on www.eso.lt |
| 5.1. name; | Yes | |
| 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.eso.lt |
| 7. The following documents shall be published on the website of a State-owned enterprise: | Yes | Information available on www.eso.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, as detailed in the Corporate Governance Code; | Yes | |
| 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. | Not applicable | |
| $9^{1}$. 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 | The requested information is published on the websites of the parent company's subsidiaries and subsequent-row subsidiaries (if any) |
| 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 | Yes | Documents are |

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| 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. | | 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. | Yes | The Company prepares 6-month interim financial statements |
| 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. | Yes | The Company prepares a 6-month interim report |
| 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 | The Company presents information in the annual report |
| 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 | |
| 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 projects and Investments during the year under review; | Yes | |
| 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. | Not applicable | |
| 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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| **AB** | Joint Stock Company |
| **APM** | Alternative performance measures - the adjusted figures used for the internal performance management assessment in this report. |
| **Company** | AB Energijos skirstymo operatorius |
| **EBIT** | Earnings before interest and tax |
| **EBITDA** | Earnings before interest, taxes, depreciation and amortisation. |
| **eNPS** | Employee Net Promoter Score |
| **EU** | European Union |
| **ESO** | AB Energijos skirstymo operatorius |
| **Supply of last resort** | Provision of electricity to ensure the supply of electricity to customers who have not chosen ar independent supplier in accordance with the established procedures or whose chosen independent supplier defaults, terminates activity or terminates an electricity sales contract. |
| **Group or Ignitis Group** | AB Ignitis grupė and its subsidiaries |
| **GW** | Gigawatt |
| **c.d.** | Calendar days |
| **Q** | Quarter |
| **etc.** | Other |
| **Y** | Year |
| **mo** | Month / months |
| **min** | Minute |
| **MW** | Megawatt |
| **MWh** | Megawatt hour |
| **n/a** | Not applicable |
| **New connection points and upgrades** | Number of new customers connected to the network and capacity upgrades of the existing connection points |
| **OPEX** | Operating expenses |
| **pp** | Percentage point |
| **Parent company** | AB Ignitis grupė (former UAB Lietuvos energija) |
| **RAB** | Regulated asset base |
| **ROCE** | Return on Capital Employed |
| **ROE** | Return on Equity |
| **ROI** | Return on Investment |
| **SAIDI** | Average duration of unplanned interruptions in electricity or natural gas transmission |
| **SAIFI** | Average number of unplanned long interruptions per customer |
| **GHG** | Greenhouse gas |
| **TWh** | Terawatt hour |
| **UAB** | Private Limited Liability Company |
| **NERC, regulator** | The National Energy Regulatory Council |
| **Public supply** | Electricity supply activity performed in accordance with the procedure and terms established by legal acts by an entity holding a public supply licence |
| **WACC** | Weighted average cost of capital |

# CERTIFICATION STATEMENT

**28 February 2024**

We, Renaldas Radvila, the Chief Executive Officer of AB Energijos skirstymo operatorius, Audrius Ruseckas, Director of Finance and Administration of AB Energijos skirstymo operatorius, and Pranas Miltenis, Head of Corporate Accounting of UAB Ignitis grupės paslaugų centras, acting in accordance with Decision No. 24_GSC_SP_0004 of 10 January 2024, hereby confirm that, to the best of our knowledge, the financial statements of AB Energijos skirstymo operatorius, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit or loss for the period and cash flows of AB Energijos skirstymo operatorius, and that the annual report for the year 2023 includes a fair review of the business development and performance of the business as well as the condition of AB Energijos skirstymo operatorius, together with the description of the main risks and uncertainties it faces.

| **Renaldas Radvila** | **Audrius Ruseckas** | **Pranas Miltenis** |
|---|---|---|
| CEO | Head of Finance and Administration | UAB Ignitis grupės paslaugų centras, Head of Corporate Accounting, acting in accordance with Decision No 24_GSC_SP_0004 of 10 January 2024 |


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