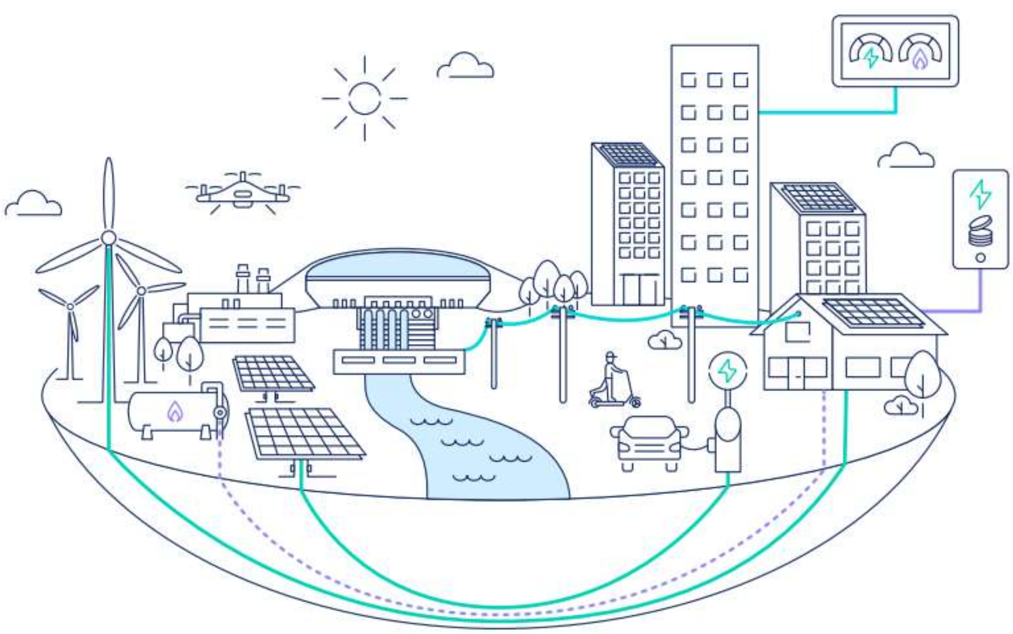
Vilniaus kogeneracinė jėgainė

UAB VILNIAUS KOGENERACINĖ JĖGAINĖ

Annual report 2022

Annual report for the year ended 31 December 2022 and the Company's financial statements for the year ended 31 December 2022, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, presented together with independent



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ignitis grupė

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Overview

1.1 CEO‘s statement

Ladies and Gentlemen,

For the team of Vilniaus kogeneracinė jėgainė, the year 2022 was a particularly intensive year, requiring quick decisions. Just after 2021, which presented many challenges due to the COVID-19 pandemic, 2022 started with war and an unprecedented situation in the energy markets, which had a negative impact on the still unrecovered material and equipment supply markets. Nevertheless, we have made every effort to cope with the challenges and continue implementing the project of Vilniaus kogeneracinė jėgainė.

In 2022, the waste-to-energy unit operated throughout the year and contributed to stabilising heat prices.

Two years of experience in generating energy from waste shows that we are capable of handling more municipal waste. Therefore, instead of 160,000 tonnes of sorted municipal waste that is not recyclable we aim to convert 200,000 tonnes into energy each year. This will not only contribute to lower heating prices for the capital's residents, but will also ensure that the flow of waste going to landfill is reduced. The Environmental Impact Assessment (EIA) procedure, which started in 2021, was continued throughout 2022, at the end of which we managed to agree the EIA report with all authorities and entities. The EIA report was approved by the Environmental Protection Agency at the end of 2022. The coordination procedures related to the Integrated Pollution Prevention Control (IPPC) permit are ongoing. It is expected that the permit will be received during 2023.

I am pleased to note that in 2022, the Stockholm Arbitration Court in Phase I of the case against the former general contractor of the biofuel unit, Rafako, Poland upheld all of the claims of Vilniaus kogeneracinė jėgainė and ruled that the former general contractor was to blame for the project's delay and that Vilniaus kogeneracinė jėgainė was justified in terminating the contract with it. At the date of publication of the report, the negotiations regarding compensation for damages were continued between Vilniaus kogeneracinė jėgainė and Rafako.

However, the main objective for 2022 was to ensure continuation of the construction of the VKJ biofuel unit of Vilniaus kogeneracinė jėgainė. In May, we signed a contract with Valmet, one of the market leaders in boiler manufacturing, regarding completion of the biofuel boilers, flue gas scrubbing and flue gas condensing economiser systems, thus essentially completing all the major contract purchases. I consider this a great achievement for the team of Vilniaus kogeneracinė jėgainė, as finding reliable partners has become a challenge for companies across Europe, given the uncertainty in the markets due to the war and the disruption in supply chains.

Despite the fact that due to broken supply chains we had to postpone the pilot operation of the biofuel unit of Vilniaus kogeneracinė jėgainė from the end of 2022 to the first quarter of 2023, we plan to start full-scale heat production during the 2023-2024 heating season, as previously announced. In September 2022, we already completed the construction of the biofuel storage site and started purchasing biofuel for testing, and in November we started the cold testing of the biofuel unit itself. Therefore, I am confident that we will achieve the project's objectives on time. Despite the challenging situation in the energy markets, the financial results for 2022 were successful. Adjusted EBITDA for 2022 was EUR 23.6 million, by 57.8% higher than adjusted EBITDA of EUR 9.9 million in 2021. The main contributor to the increase is higher revenues from an increase in electricity prices on the power exchange. Last year, the adjusted net profit amounted to EUR 16.7 million, 34.7% higher than in 2021 (EUR 12.4 million). The change is mainly due to a 50.7% increase in revenues in 2022, due to higher heat and electricity prices as well as higher volumes of heat and electricity sold, compared to 2021.

Looking ahead to 2023, we will continue making the most of the waste-to-energy unit, generating competitive heat and electricity and contributing to lower prices. However, we see this as a significant challenge in the biofuel plant trials. The focus of the entire team of VKJ is the heating season 2023-2024 in Vilnius with a fully operational VKJ plant.

Mantas Burokas

Chief Executing Officer of UAB Vilniaus kogeneracinė jėgainė

1.2 Business highlights

During the reporting period

February

- The preserved construction of the Biofuel plant site was resumed.

March

- One of the most important contracts for the completion of the Biofuel Plant - the boiler house, the FGT and FGC technology - was signed with VALMET Technologies. Completion of the procurement phase.

July

- Purchase and delivery of the first biomass to the biofuel storing site.

August

- Successful completion of hydraulic tests on both boilers.

September

- Completion of all underground utilities, roads, storage yards and the main part of the engineering works required for all the buildings of the Biofuel Plant.

October

- Signed IDA agreements for the sale of electricity.

November

- Approval of the updated project plan (LOT3) for the Biofuel Plant.

December

- Signed Act on Completion of the construction of the biofuel site.
- EU decision to impose an electricity price ceiling for manufacturers.
- Adoption of the legal act by NERC setting a cap on the waste rate effective from 2024.
- The Company‘s membership in the PREWIN European Network Association.

Subsequent to the reporting period

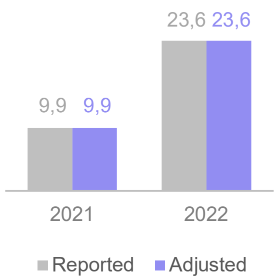
January

- Adoption of the legal act by NERC setting a cap on the electricity prices for manufacturers.
- Approval of the base price for the waste-to-energy plant.

1.3 Performance highlights

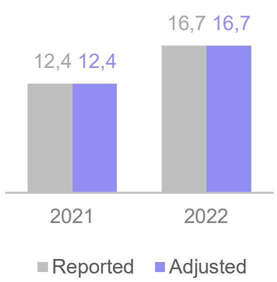
Financial performance

EBITDA, Adjusted EBITDA APM
Eur million



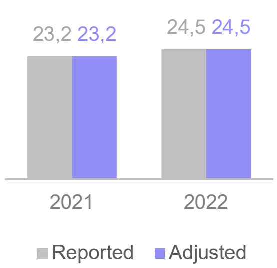
EBITDA increased significantly compared to last year due to higher revenues in 2022, mainly due to the increase in heat and electricity sales prices - +112% and +125% respectively. This effect was partially offset by increased derivative costs of EUR 6.7 million in 2022 and EUR 2.5 million in 2021.

Net profit, Adjusted net profit APM
Eur million



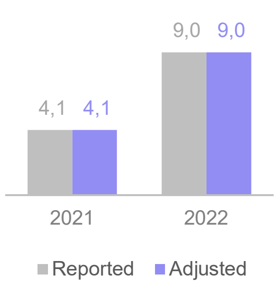
In 2022, net profit is by EUR 4.3 million higher than in 2021 due to higher revenues (+EUR 21.5 million), which were influenced by higher prices for heat and electricity.

ROE (LTM), Adjusted ROE (LTM) APM
%



The high ROE is due to the Company's high profitability, driven by increased revenues (+ EUR 21.4 million).

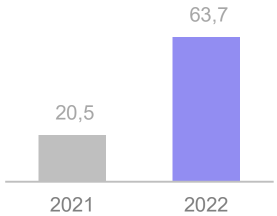
ROCE (LTM), Adjusted ROCE (LTM) APM
%



ROCE increased due to higher profitability as a result of increased revenues (+ EUR 21.4 million)

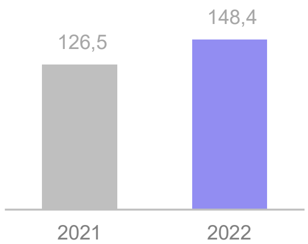
APM *Alternative Performance Measure - adjusted figures used in this report refer to measures used for internal performance management. As such, they are not defined or specified under International Financial Reporting Standards (IFRS), nor do they comply with IFRS requirements. Definitions of alternative performance measures can be found on the Group's website (link).*

Investments APM
Eur million



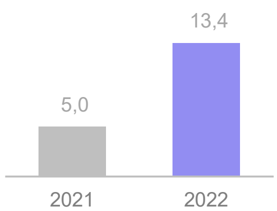
Due to the restructuring of the main contractor, no construction of the biofuel plant was performed in 2021, the construction of the biofuel plant was resumed in 2022.

Net debt APM
Eur million



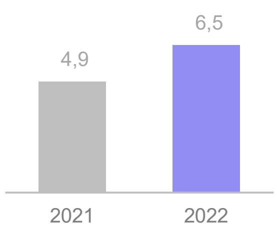
Net debt increased due to an increase in short-term borrowings under the Group's borrowing arrangements.

FFO (LTM) / Net debt APM
%



The increase in the FFO/Net debt ratio was determined by the increase of FFO indicator due to increased EBITDA

OPEX
Eur million

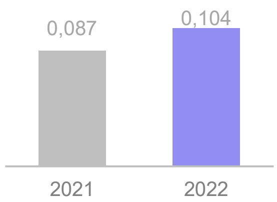


The main reasons for the increase in expenses are as follows:
• Development and training of the team needed to run the plant (increased salary expenses and related fees, training);
-Increase in repair and maintenance costs due to longer operating period and accidental failures.

APM *Alternative Performance Measure - adjusted figures used in this report refer to measures used for internal performance management. As such, they are not defined or specified under International Financial Reporting Standards (IFRS), nor do they comply with IFRS requirements. Definitions of alternative performance measures can be found on the Group's website (link).*

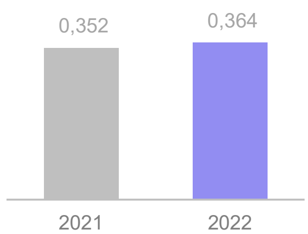
Operating performance

Produced amount of electricity (net)
TWh



In 2021, tuning work was carried out on the waste-to-energy plant until May 2021, during which the plant's efficiency was not optimal. 2022 was the first full commercial year of the VKJ, resulting in a slight increase in the volume of electricity sold.

Produced amount of thermal energy (net)
TWh



In 2021, tuning work was carried out on the waste-to-energy plant until May 2021, during which the plant's efficiency was not optimal. 2022 was the first full commercial year of the VKJ, resulting in a slight increase in the volume of thermal energy sold.

Business overview

2.1 Business profile

Description of the Company’s activities

The main activity of the Company is operation of a high-efficiency combined heat and power (CHP) plant in Vilnius, production of local and competitive electricity and heat from municipal waste. Thermal energy produced by the combined heat and power (CHP) plant is distributed to the centralised heating network of Vilnius, and the produced electricity is distributed to the operator's LITGRID network of electricity transmission grid. With its production capacities, the Company will be able to ensure one fifth of the heat demand of Vilnius City during the coldest period and approximately 40% of total thermal energy necessary for Vilnius over the year

Key customers of the Company

The Company’s key customers by the source of income:

- Management of sorted municipal waste - waste management centres and other waste managers;
- Sale of electricity - electricity is realised in the exchange of Nord Pool AS and under fixed electricity sales/purchase contracts.
- Sale of thermal energy - distributor of centralised heating in Vilnius AB Vilniaus šilumos tinklai.

2.2 Business environment

Regulation and competitive environment

Sale of thermal energy

On 23 December 2021, the National Commission for Energy Control (hereinafter - NERC) recognised UAB Vilniaus kogeneracinė jėgainė as a regulated independent heat producer. The Company has provided NERC with projects of investments and 3-year base price adjustments. NERC approved the base price and the annual maximum level of revenue allowed. Regardless of the level of the base price establishment, thermal energy must be sold at a heat auction according to the provisions of Article 10 of the Law on Heat

Thermal energy produced by the Company is supplied to the integrated heat transmission network of Vilnius which is controlled by the heat supplier AB Vilniaus šilumos tinklai. Besides the heat supplier and VKJ, there are another 6 independent heat suppliers that participate at auctions.

Sale of electricity

In order to secure a stable revenue stream, the Company has signed long-term electricity trading contracts for most of its electricity production. The remaining electricity is traded on the Nord Pool AS exchange.

Waste management services

In order to ensure availability of waste, the Company enters into contracts with suppliers of sorted municipal waste by setting a waste handling fee per tonne. It is expected that in the next few years, NERC will establish waste management fee regulations.

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2.3 Strategy

Overview

The Company is part of the Ignitis grupė and performs activities with the aim to ensure implementation of the „Ignitis grupė" Strategy, updated in 2020, which is applicable to all subsidiaries of the group.

Sustainability is at the core of the Strategy. Ignitis grupė is accelerating changes that will contribute to reduction of greenhouse gas emissions worldwide, is transforming business models by developing and scaling smart energy-related solutions, is expanding business within its region, and is exploring new opportunities in the markets undergoing substantial energy-related changes.

In the Strategy, Ignitis grupė focuses on four key strategic priorities. Firstly, it is creating sustainable future. Environmental, social, and governance (ESG) criteria are an integral part of the strategic goals with strong commitment to a more sustainable future. Ignitis grupė aligns its business targets with the United Nations' Sustainable Development Goals (SDG) and it is committed to reducing net carbon dioxide (CO2) emissions to zero by 2050. Ignitis grupė also thrives to align its businesses with science-based targets to a 1.5°C-compliant business model. Second, it is ensuring resilience and flexibility of the energy system, as well as enabling energy transition and evolution. Third, it is growing renewables to meet regional energy commitments. It targets to reach 4 GW of the installed green generation capacity by 2030. Fourth, it is capturing growth opportunities and developing innovative solutions to make life easier and energy-smart.

Ignitis grupė focuses on the 'home' markets – the Baltic countries, Poland, and Finland. It also explores new opportunities in countries that are on a substantial energy transition path.

We pursue our strategic priorities with a strong focus on financial discipline. Engaged employees, agile teams, learning culture, organisation with a strong governance model and digital approach are the integral parts of the Strategy of Ignitis grupė.

To ensure strategy implementation on an annual basis, Ignitis grupė announces a strategic plan with targets and KPIs set for the next 4-year period that subsidiaries of the group follow in their activities and are responsible for their implementation.

Our values

RESPONSIBILITY

Care. Do. For Earth.
Starting with myself.

PARTNERSHIP

Diverse. Strong.
Together.

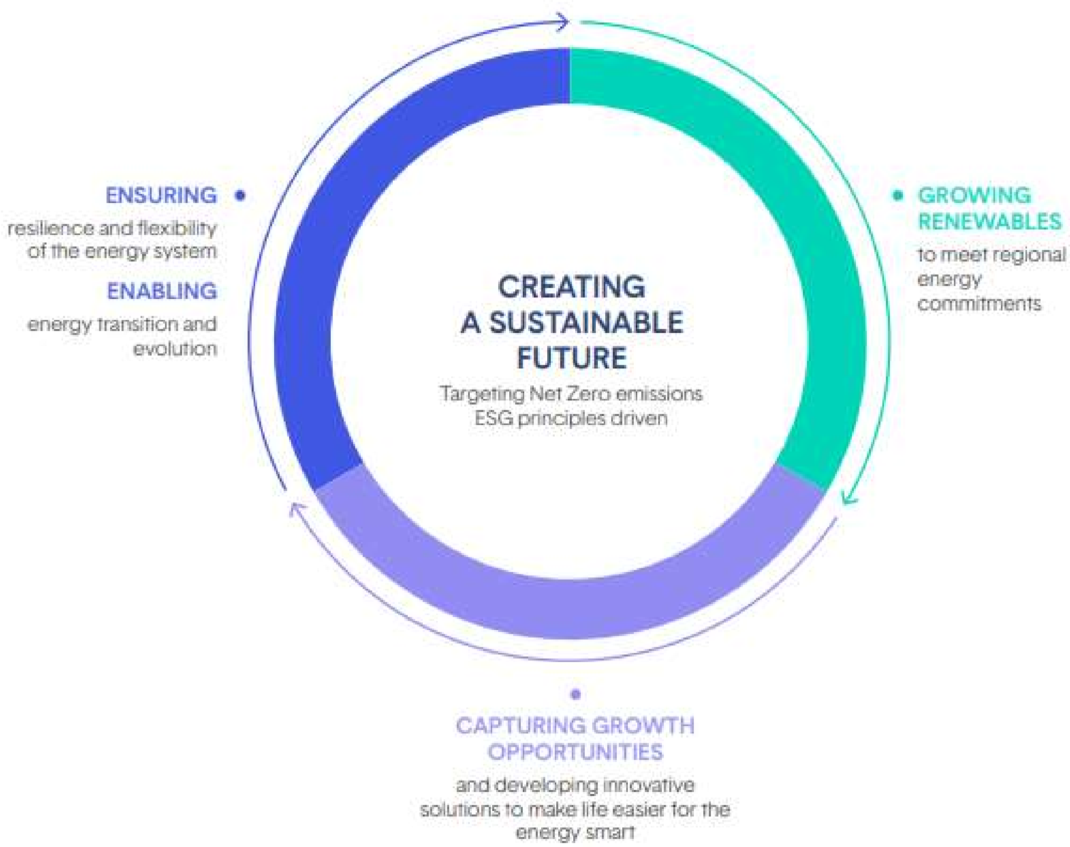
OPENNESS

See. Understand. Share.
Open to the world.

GROWTH

Curious. Bold.
Everyday.

In our vision, we transform for **a more sustainable world**.



In everything we do, we are united by the **mission**
to make the world more **Energy Smart.**

Investments

Overview

The goal of the project "Construction of the biomass power plant and biomass processing farm of Vilnius kogeneracinė jėgainė is to construct a 169 MW capacity heating power plant and a 73 MW capacity electricity power plant in line with environmental protection requirements according to the scope, budget and deadlines set out in the project plan

Project implementation period - 2016- Q3 of 2023. Total investment in the biofuel plant project is EUR 270 million (including the grant for this project provided by Lithuanian Business Support Agency).

The project is currently in the implementation phase, with service and works contracts in place and 9 main contractors working on the biofuel plant site (i.e. an average of 370 workers per day). Key missing equipment for biofuel preparation has been delivered to the site, and the repeated hydraulic test of the boilers has been successfully completed. Cold testing has started.

Results

3.1 Annual results

Revenue

In 2022, revenues increased by 103% compared to 2021 and amounted to EUR 42.3 million. The main reasons for the change in revenues are a substantial increase in heat and electricity prices (112% and 125% respectively) and the higher volumes of heat and electricity sold (3% and 19% respectively).

Revenue by nature of activity, EUR million

	2022	2021	Δ	Δ,%
Electricity	22.0	8.6		
Thermal energy	14.8	6.8		
Waste management	5.5	5.2		
Other	-	0.2		
Revenue	42.3	20.8		

The largest part of the revenues, due to the increase in electricity prices on the power exchange in 2022, comes from electricity sales - 52%. 35% of sales come from thermal energy sales and 13% from waste management revenues. In 2021, 1% was other income received from waste plant contractors for water and electricity used during construction.

Revenue by country, EUR million

	2022	2021	Δ	Δ,%	2022
Lithuania	42.3	20.6	*21.7*	*105.3%*	*100.0%*
Other[1]	-	0.2	*(0.2)*	*(100.0)%*	*0 %*
Revenue	**42.3**	**20.8**	***21.5***	***103.4%***	***100.0%***

[1] Other – Germany

The Company sells electricity in the power exchange Nordpool and under fixed electricity sale-purchase contracts, thermal energy is sold to AB Vilniaus šilumos tinklai, waste management fee is received from Lithuanian waste management centres; thus, in 2022 all revenue is earned in Lithuania. In 2021, 1% of revenue was received from waste-to-energy plant contractors for consumption of water and electricity during the construction

Expenses

Purchases of electricity, gas and other services

Purchases of electricity and gas amounted to EUR 5.5 million in 2022, an increase of 57.1% compared to 2021. The increase is achieved because of larger volume of electricity purchases (EUR +1.6 million), mainly due to the increase in market prices and the unscheduled shutdowns in December when electricity was purchased on the stock exchange in order to meet the obligations of long-term electricity sales contracts.

OPEX

In 2022, OPEX amounted to EUR 6.5 million showing an increase of 32.7 % (EUR +1,6 million). The change was determined by an increase of EUR 0.9 million (or +300.0%) in repair and maintenance expenses due to a longer operating period (the plant started operation in May 2021) and unplanned shutdowns. The variation is also due to the expansion of the team needed to operate the waste plant (higher payroll expenses and related taxes + EUR 0.3 million).

Other

In 2022, expenses arising from derivative financial instruments which resulted from the increase in market prices of electricity and gas amounted to EUR 6.7 million. According to the accounting policies of the Group, positive results from derivative financial instruments for the period are disclosed in other revenue, and negative results - in other expenses from derivative financial instruments. In in November and December 2021, the Company incurred costs from transactions of derivative financial instruments (EUR 2.5 million)

In 2022, depreciation and amortisation expenses amounted to EUR 5.0 million. An increase resulted from the commissioning of the waste-to-energy plant in May 2021.

In 2022, expenses from financing activity amounted to EUR 1.5 million. Financial expenses incurred in 2021amounted to EUR 0.9 million (they were capitalised during January - April 2021).

Expenses, EUR million

	2022	2021	Δ	Δ,%
Purchases of electricity, gas and other services	5.5	3.5	*2.0*	*57.1%*
Purchase of electricity and related services	2.7	1.2	*1.5*	*125.0%*
Purchase of gas and related services	0.2	0.4	*(0.2)*	*(50.0)%*
Other	2.6	1.9	*0.7*	*36.8%*
OPEX APM	6.5	4.9	*1.6*	*32.7%*
Payroll and related expenses	2.9	2.6	*0.3*	*11.5%*
Repair and technical maintenance	1.2	0.3	*0.9*	*300.0%*
Other	2.4	2.0	*0.4*	*20.0%*
Other	13.2	6.1	*7.1*	*116.4%*
Depreciation and amortisation	5.0	2.7	*2.3*	*85.2%*
Derivative financial instruments	6.7	2.5	*4.2*	*168.0%*
Finance expenses	1.5	0.9	*0.6*	*66.7%*
Total expenses	25.2	14.5	*10.7*	*73.8%*

EBITDA

Adjusted EBITDA for 2022 amounted to EUR 23.6 million and was by 144% or EUR 13.9 million higher than in 2021. The adjusted EBITDA margin was 55.8% (2021– 47.7%). EBITDA increased due to higher revenues in 2022, mainly driven by higher sales prices of heat and electricity by +112% and +125% respectively. This effect was partially offset by higher derivative expenses of EUR 6.7 million in 2022 and EUR 2.5 million in 2021.

EBITDA adjustments

In prior years, the revenue arising from the use of property, plant and equipment in bringing those assets to the location and condition necessary for them to be capable of operating in the manner intended by management, and the cost of earning that revenue, was recognised as asset, i.e. was included in the cost of the property, plant and equipment. When the amendments become effective in 2022, such revenue and the costs associated with earning it are recognised in profit or loss. These amendments have been applied retrospectively. The positive impact on EBITDA for 2021 amounted to EUR 3.6 million.

Net profit

In 2022, the adjusted net profit amounted to EUR 16.7 million showing an increase of 34.7% than in 2021. Positive effect of the adjusted EBITDA (EUR +13.7 million) was partly offset by higher depreciation and amortisation charges (EUR -2.5 million), higher finance expenses (EUR -0.65 million) and a negative impact from deferred income tax (EUR -6.5 million).

Reported net profit and adjusted net profit for 2022 are identical.

Investments

In 2022, investments amounted to EUR 63.7 million and were by EUR 43.2 million higher than in 2021. The main reason for the increase in investment is the resumption of the construction of the biofuel plant. In 2021, following the restructuring of the main contractor, the construction of the biofuel plant did not take place and the construction of the waste-to-energy plant was completed.

Balance sheet

Assets

As at 31 December 2022, the total value of assets amounted to EUR 368.1 million (16.0% increase since 31 December 2021). The increase is mainly due to an increase in inventories (due to the acquisition of biofuel stocks), an increase in property, plant and equipment determined by investments made in 2022.

Equity

As of 31 December 2022, equity amounted to EUR 76.8 million and has increased by EUR 2.3 million since 31 December 2021, mainly due to net profit.

Liabilities

In 2022, total liabilities increased by 11.7% or EUR 34.22 million to EUR 291.28 million. Current liabilities increased by 13.5% or EUR 34.6 million. This growth was mainly due to an increase in payables related to investments by EUR 8.7 million, as well as to a current loan received by an amount of EUR 19.1 million.

Balance sheet, EUR million

	31.12.2022	31.12.2021	Δ	Δ,%
Non-current assets	352.5	297.5	*55.0*	*18.5%*
Current assets	15.6	19.7	*(4.1)*	*(20.8)%*
TOTAL ASSETS	368.1	317.2	*50.9*	*16.1%*
Equity	76.8	60.1	*16.7*	*27.8 %*
Total liabilities	291.3	257.1	*34.2*	*13.3 %*
Non-current liabilities	251.2	247.6	*3.6*	*1.5 %*
Current liabilities	40.0	9.4	*30.6*	*325.5%*
TOTAL EQUITY AND LIABILITIES	368.1	317.2	*50.9*	*16.05%*
Asset turnover APM	0.123	0.067	*0.056*	*83.58%*
ROA APM	4.9%	4.0%	*n/a*	*0.9 p .p.*
Gross liquidity ratio APM	0.39	2.08	*(1.69)*	*(81.3)%*
Working capital / Revenue (12-month) APM	6.3%	4.2%	n/a	2.1 p. p.

Financing

Net debt

As of 31 December 2022, net debt amounted to EUR 148.4 million, an increase of 17.3% or EUR 21.9 million, as compared to 31 December 2021.

FFO (LTM) / Net Debt ratio increased from 5.0% to 13.4%, due to increased FFO indicator, determined by the growth of EBITDA.

Net debt, EUR million

	31.12.2022	31.12.2021	Δ	Δ,%
Total non-current financial liabilities	**126.4**	**135.6**	***(9.2)***	***(6.8)%***
Non-current loans	126.2	135.3	*(9.1)*	*(6.7)%.*
Lease liabilities (IFRS 16)	0.2	0.3	*(0.1)*	*(33.3)%*
Total current financial liabilities	**28.7**	**4.7**	***24***	***510.6%***
Current portion of non-current loans	9.1	4.2	*4.9*	*116.7%*
Current loans	19.5	0.4	*19.1*	*47.8*
Interest payable (including accrued interest)	-	-	-	*n/a*
Lease liabilities (IFRS 16)	0.1	0.1	-	*0%*
Financial debt APM	**155.1**	**140.2**	**14.9**	**10.6%**
Cash, cash equivalents and cash in escrow account	**6.7**	**13.7**	***(7)***	***(51.1)%***
Cash and cash equivalents	*6.7*	*13.7*	*(7)*	*(51.1)%*
Net debt APM	**148.4**	**126.5**	***21.9***	***17.3%***
Net debt / adjusted EBITDA (12-month) APM	6.3	12.7	*(6.4)*	*(50.4)%*
Net debt / EBITDA (12-month) APM	6.3	12.7	*(6.4)*	*(50.4)%*
FFO (LTM) / Net debt APM	13.4%	5.0%	*n/a*	*8.4 p. p.*
Financial debt / Equity APM	2.0	2.3	*(0.3)*	*(13.3)%*
Equity level APM	0.2	0.2		*0%*

Dividends

On 15 December 2020, the Management Board of Ignitis grupė approved an updated dividend policy (link) of the controlled subsidiaries according to which:

1. governance bodies of the subsidiaries are proposing appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year to be at least 80% of the net profit for the financial period for which the dividends are proposed;
2. governance bodies of the subsidiaries may propose to appropriate profit for the payment of dividends for the financial year or a period shorter than the financial year in case a company incurred loss during the reporting period yet it retained earnings accrued in the previous reporting periods. This provision is applicable only if there is an imperative need of the parent company to receive dividends in implementing the dividend policy of the parent company;
3. governance bodies of the subsidiaries may propose to set a lower share of profits for the payment of dividends for companies, set out in sub-paragraph 1, or they may propose not to pay dividends for the reporting period if at least one of the following conditions is met:

   3.1. a subsidiary implements green generation investment projects in accordance with the strategy of Ignitis grupė;

   3.2. a subsidiary's ability to allocate dividends is limited by the covenants set out in the financing agreements;

   3.3. a subsidiary implements or participates in the implementation of an economic project of state importance recognised by the decision of the Government of the Republic of Lithuania;

   3.4. a subsidiary's equity, after payment of dividends, would become less than the amount of the Company's authorised capital, mandatory reserve, revaluation reserve and reserve for acquisition of own shares;

   3.5. a subsidiary is insolvent, or would become insolvent upon payment of dividends;

   3.6. a subsidiary's net financial debt at the end of the reporting period is equal to or greater than the Company's EBITDA for the last twelve months (from the end of the reporting period) multiplied by six (i.e. Net financial debt ≥ 6 EBITDA for the last 12 months);

3.7. a subsidiary has received a written consent passed by the Head for Treasury service and the Head for Finance and Treasury Service of the parent company to apply sub-paragraph 3 with regard of cases which are not anticipated in sub-paragraphs 3.1 - 3.6.

Dividends for the years 2022 and 2021 were not distributed.

Key performance indicators

		2022	2021	Δ	Δ,%
Electricity					
Installed capacity of the green generation	MW	20	20	-	*0.00%*
Green generation capacity under construction	MW	73	73	-	*0.00%*
Production of electricity *(net)*	TWh	0,104	0,087	*0,018*	*20.69%*
Portion of the green generation	%	100%	100%	-	*0.00%*
Thermal energy					
Installed capacity of the green generation	MW	70	70	-	*0.00%*
Green generation capacity under construction	MW	169	169	-	*0.00%*
Production of thermal energy (*net*)	TWh	0,364	0,352	*0,012*	*3.41%*

Tuning work was carried out on the waste-to-energy plant until May 2021, during which the plant's efficiency was not optimal. 2022 was the first full commercial year of the VKJ, resulting in a slight increase in energy sales.

3.2 Three-year annual summary

Key financial indicators

		2022	2021	2020
Revenue	EUR million	42.3	20.8	0.1
EBITDA APM	EUR million	23.6	9.9	(3.1)
Adjusted EBITDA APM	EUR million	23.6	9.9	(3.1)
Adjusted EBITDA margin APM	%	55.8%	47.7%	(2601.7)%
EBIT APM	EUR million	18.5	7.2	(3.3)
Adjusted EBIT APM	EUR million	18.5	7.2	(3.3)
Net profit	EUR million	16.7	12.4	(2.8)
Adjusted net profit APM	EUR million	16.7	12.4	(2.8)
Investments APM	EUR million	63.7	20.5	31.0
FFO APM	EUR million	20.0	6.3	(5.6)
FCF APM	EUR million	(25.7)	(14.1)	(19.7)
ROE APM	%	24.5%	23.2%	(6.6)%
Adjusted ROE APM	%	24.5%	23.2%	(6.6)%
ROCE APM	%	9.0%	4.2%	(2.2)%
Adjusted APM	%	9.0%	4.2%	2.2%
ROA AVR	%	4.9%	4.0%	(1.0)%
Adjusted ROA APM	%	4.9	4.0%	(10)%
		31.12.2022	31.12.2021	31.12.2020
Total assets	EUR million	368.1	317.2	302.1
Equity	EUR million	76.8	60.1	46.9
Net debt APM	EUR million	148.4	126.5	113.5
Net working capital APM	EUR million	2.7	0.87	(4.9)
Net debt / EBITDA APM	times	6.23	12.7	(36.7)
Net debt / Adjusted EBITDA APM	times	6.3	12.7	(36.7)
FFO / Net debt APM	%	13.4%	5.0%	(4.9)%
Gross liquidity ratio. APM	%	39. %	208%	429%
Asset turnover APM	times	0.1	0.07	0.0

Key performance indicators

		2022	2021	2020
Electricity				
Installed capacity of the green generation	MW	20	20	-
Green generation capacity under construction	MW	73	73	80
Production of green energy (net)	TWh	0,104	0,087	-
Portion of the green generation	%	100.00%	100%	-
Thermal energy				
Installed capacity of the green generation	MW	70	70	60
Green generation capacity under construction	MW	169	169	169
Production of thermal energy (net)	TWh	0,364	0,352	0,017

Governance

4.1 Governance framework

Governance framework of the Company

The Company follows the good governance practices referred to in the good governance recommendations published by the Organisation for Economic Co-operation and Development (OECD), recommendations of the United Nations and Nasdaq Vilnius, and other internationally recognised standards and recommendations for good governance.

The Company's Articles of Association registered in the Register of Legal Entities provide for the following bodies of the Company:

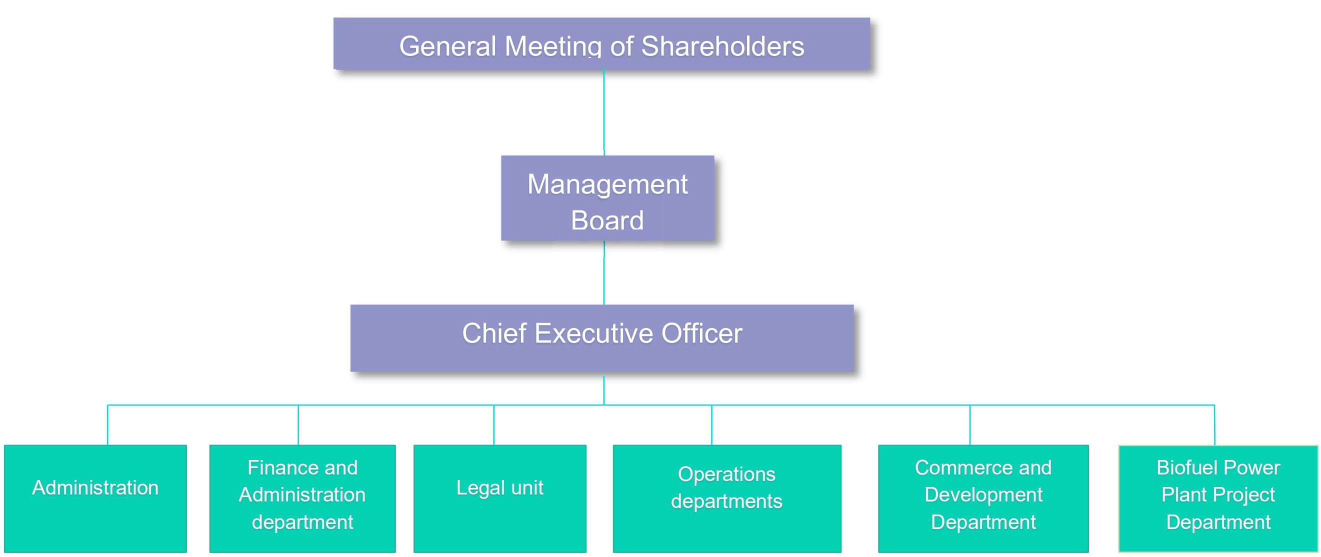
- General Meeting of Shareholders
- Collegial governing body - Management Board
- Single-person governing body - Chief Executive Officer.

The General Meeting of Shareholders is the supreme governing body of the Company. The General Meeting of Shareholders consists of the sole shareholder - AB Ignitis grupė, company code 301844044, registered office at Laisvės ave. 10, Vilnius, holding 100% of the Company's shares. 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.

The Management Board is a collegial governing body of the Company. The Company's Management Board consists of 3 members elected under the decision of the General Meeting of Shareholders for a 4-year term of office. The Management Board elects the chairman of the Management Board from among its members. The competence of the Management Board, 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 as well as the Regulation of the Management Board.

The Chief Executive Officer is a single-person governing body of the Company. The Chief Executive Officer organises, directs, acts on behalf of the Company and concludes transactions unilaterally, except for cases provided for in legislation and the Articles of Association. 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.

Structure



Shareholders, their rights and functions

The sole shareholder of the Company is AB Ignitis grupė, company code 301844044, registered office at Laisvės ave. 10, Vilnius.

There were no changes in the structure of the Company's shareholders in 2021. There were no changes in the Company's authorised capital.

In 2021, the authorised capital of the Company amounted to EUR 52,300,000.12. It was divided into 180,344,828 ordinary registered uncertificated shares at par value of EUR 0.29 each. All shares are fully paid.

Shareholder of the Company	Number of shares	Par value per share, EUR	Share capital, EUR	Owned share, %
AB „Ignitis grupė"	180,344,828 units	EUR 0.29	EUR 52,300,000.12	100

The Company's shares are not subject to any restrictions on the transfer of securities other than those provided for in legislation. The Company has not issued convertible securities. The Company does not have any own shares. The Company did not acquire or transfer any of its own shares during the reporting period. The Company's shareholder does not have special control rights other than those provided for in legislation of the Republic of Lithuania.

The sole shareholder of the Company AB „Ignitis grupė" adopts decisions anticipated in the Company's Articles of Association and the Law on Companies of the Republic of Lithuania.

4.2 Management Board

Overview

The Management Board is a collegial governing body of the Company. According to the applicable version of the Company's Articles of Association, the Management Board consists of 3 (three) members who are appointed by the sole shareholder of the Company for a 4-year term of office. One of the members of the Management Board shall be independent. Members of the Management Board shall provide declaration of interests in accordance with the procedure established by the Republic of Lithuania Law on the Adjustment of Public and Private Interests in the Public Service.

Members of the Management Board are elected in accordance with the Description of Selection of Candidates for the Board of State or Municipal Enterprise and Candidates for Collegial Supervisory or Management Body Elected by the General Meeting of Shareholders of State- or Municipal-Owned Company approved by the Resolution No. 631 of the Government of the Republic of Lithuania of 17 June, 2015 (hereinafter - Description). Candidates for the positions of independent members of the Management Board shall meet the independence criteria provided for in the Description.

The Management Board of the Company:

- is responsible for organisational and systemic development and management of the Company within the scope and competence assigned to it;
- monitors implementation of the following: the Company's activities, its strategies, operating targets and plans, documents approved by the Management Board and other decisions;
- supervises and controls implementation of the Company's strategic projects included in the National Energy Strategy, projects of special national interest, and projects of national importance;
- performs supervisory functions as it is provided for in the Law on Companies of the Republic of Lithuania.

The competence, decision-making, election and revocation of members of the Management Board shall also be governed by laws, other legal acts, as well as the Rules of Procedure of the Management Board.

Information on selection criteria of the Management Board members

The selection to the Board shall be carried out in accordance with the Resolution of the Government of the Republic of Lithuania No 631 of 17 June 2015, based on the approved description of the selection of candidates to the collegiate supervisory or management body of a state-owned or municipally-owned enterprise, a state-owned or municipally-owned company or its subsidiary.

Activity during the reporting period

Overall 34 meetings of the Management Board were held in 2022, 3 (three) of which took place by voting in writing by all the Management Board members. The table below provides an overview of the attendance at meetings

Overview of meeting attendance by the Management Board members

Name, surname	
Nerijus Rasburskas	10 / 10
Mantas Mikalajūnas	24 / 24
Jonas Rimavičius	31 / 34
Paul K. Dainora	32 / 34

** The figures indicate how many meetings of the total organised the members have attended in 2022*

The Management Board has implemented all measures anticipated in the preliminary activity plan for 2022. Activities of the Management Board covered the following key areas in 2022:

- Approval of the Company's Strategic Plan 2022-2025, operating budget and planning documents;
- Approval of the Company's annual report, financial statements for the year 2021, and draft appropriation of profit (loss);
- Decisions in respect of participation of the Company in a heat auction and determination of the proposal price;
- Approval of the substantive conditions of the Company's operating agreements;
- Approval on the conclusion of contracts necessary to ensure the Company's operations;
- Decisions on setting limits on intercompany borrowing and lending within the Group;
- Decisions on the Company becoming a member of other legal entities (membership of an association);
- Performance of other supervisory functions as anticipated in the Law on Companies of the Republic of Lithuania.

Members of the Management Board

	Description	Experience	Education	Other currently held positions
	**Mantas Mikalajūnas** Chairman Start and end of term of office: from 14-04-2022 to 20-10-2023	He started his career and worked for more than 10 years in various positions at Lietuvos Dujos, spent one and a half years as an intern at an energy concern in Germany, and later held positions of General Director of Lietuvos dujų tiekimas, General Director of Lietuvos energijos tiekimas, and Business Development Manager of Ignitis Group. From March 2023 - a Member of the Management Board of Ignitis Group, Head of Regulated Activities	Bachelor's degree in Communication and Information and Master's degree in Business Administration and Management from Vilnius University.	• AB Ignitis grupė member of the Management Board, • Head of Regulated Activities of the Group. • Member of the Management Boards of Vilnius Cogeneration Power Plant UAB and Kaunas Cogeneration Power Plant UAB • Member of the Supervisory Board of UAB Ignitis
	**Nerijus Rasburskis** Chairman Start and end of term of office: from 30-04-2020 to 31-03-2022	Majority of the projects are related to energy efficiency, distribution safety and environment protection. He worked as an energy consultant for consulting firms in Lithuania and Sweden for more than 15 years. When he was an advisor to the President of the Republic of Lithuania on energy, he cooperated closely with European and Lithuanian legislative and executive authorities in implementing such strategic energy infrastructure projects of Lithuania and the Baltic region as Klapėda LNG Terminal, NordBalt, etc. LitPol Link power connectors.	He has graduated from Kaunas University of Technology and has gained a Bachelor's degree in Management and Economics and has defended his doctoral dissertation in Energetics and Thermal Engineering. He finished the environmental management studies in Aalborg University, Denmark.	UAB Ignitis grupė, Head of Heat and Power Solutions

	**Paul K. Dainora** Independent member Start and end of term of office: from 21-06-2019 to 20-10-2023	He has more than 25 years of experience in the energy sector	He has studied mechanical engineering in Villanova University in the USA and has gained a Master's degree in Economics and Finance in West Chester University in the USA.	A Board member at UAB Vilkaviškio šilumos tinklai, a member of the organisations Global Lithuanian Leaders and American Society of Mechanical Engineers. thyssenkrupp nucera (Germany), Head of Green Hydrogen Development
	**Jonas Rimavičius** Member Start and end of term of office: from 27-07-2021 to 20-10-2023	UAB Ignitis grupė, Head of Finance and Investments; he has worked for the Group since 2016.	Bachelor's degree in Accounting and Finance, University of Warwick Master's degree in Business Administration, University of Cambridge	A Board member at AB Ignitis grupė and UAB Ignitis renewables. Head of Finance and Investment Management at AB Ignitis grupė.

Chief Executive Officer

Overview

The Chief Executive Officer is a single-person governing body of the Company. The Chief Executive Officer is appointed by the decision of the Management Board. The Chief Executive Officer is accountable to the Management Board. The Chief Executive Officer organises, directs, acts on behalf of the Company and concludes transactions unilaterally, except for cases provided for in legislation and the Articles of Association.

Profile

	Description	Experience	Education	Other current place of employment, position
	**Mantas Burokas** Chief Executive Officer Term of office: from 24-02-2021 to 24-02-2026.	M. Burokas has more than 10 years of experience in the energy sector; for seven years thereof he has held managing positions.	Mantas has gained a Master's degree in Law at Mykolas Romeris University. He has completed training for professional board members at Baltic Institute of Corporate Governance. He has completed the modules of financial and management accounting at ISM.	A Board member at VŠĮ Plačiajuostis internetas, and a member of the Supervisory Board of AB Panevėžio energija.

4.3. People and remuneration

People and culture

Overview

Ignitis grupė, that the Company belongs to, is one of the largest employers in Lithuania. Good relationships with employees and contribution to engagement and well-being of employees are a huge responsibility, a challenge and, at the same time, an opportunity.

Ignitis grupė forms and seeks to maintain organisational culture which would foster a long-term employer-employee partnership based on values and the Code of Ethics, as well as on mutual understanding and the opportunity to create energy-smart future together.

The Strategy of Ignitis grupė specifies the following strategic directions in the area of People and Culture: Engaged people, Agile teams and Learning Everywhere, Always, and Fast. The Policy of People and Culture of Ignitis grupė sets out the principles and defines the main provisions to be followed by the Company in its activities when managing the potential of people, the cultural area and in implementing the strategic objectives.

In accordance with the Policy of People and Culture, the Company aims at retaining and attracting the best employees who are able to professionally develop the existing organisational activities and able to create new business opportunities and innovations by sustainably developing a traditional yet innovative organisation in this way. It is aimed that employees uphold the values of the organisation: to be open, evolving, responsible and to foster partnership.

Employees, their diversity and representation

As at 31 December 2022, the Company employed 102 employees (88 employees as at 31 December 2021).

Both in the Company and in the entire Ignitis grupė, job opportunities do not depend on an employee’s gender. The Company ensures diversity and equal opportunities for employees and does not tolerate direct or indirect discrimination in all their areas of activity. As at 31 December 2022, men accounted for 76% of all employees. Women comprised 24%. Male specialists accounted for 76%, and female - for 24%. Distribution of mid-level executives: men accounted for 86%, and women - for 14%.

The Company provides job opportunities to people of various ages. As at 31 December 2022, most employees of the Company belonged to the age group of 25-36 years (47%), and the lowest number of employees belonged to the age group of 17-24 years (3%). More than 85% of employees have gained higher education.

The Company promotes and maintains social dialogue with representatives of employees. Employees are represented by the Labour Council that consists of 3 members.

Remuneration within the Company

Overview

Within Ignitis grupė it has been rapidly moving towards a sustainable performance management model, including management of human resources. The ongoing transition requires new skills and competences as well as continuous development of the culture of Ignitis grupė. Seeking for retaining a leading position in the market, the remuneration system was substantially revised in 2019 in order to reduce a gap between the salary market (fixed base salary) and the remuneration median of Ignitis grupė by transferring part of the short-term incentives to the fixed base salary. In order to ensure external competitiveness, it is participated in remuneration market surveys on an annual basis. More information on personnel management and remuneration-related issues is available on the website of the parent company Ignitis grupė (link).

Remuneration policy

The key objective of the Remuneration Policy, applicable to all companies of Ignitis grupė, is to improve performance efficiency and to promote achievement of the strategic targets. Ignitis grupė has defined 5 key Remuneration Policy principles: fairness, competitiveness, clarity, transparency, and flexibility.

Key principles of Group Remuneration Policy

Internal fairness	We ensure that similar- or same-value-creating work is compensated equally throughout the organisation.
External competitiveness	Employees are entitled to receive a competitive salary based on their function, market conditions and geography
Clarity	We aim that all employees are informed about how their performance, competences and qualification impact their remuneration package as well as on what basis it is set
Transparency	We believe in transparency and share our objective remuneration criteria with our employees.
Flexibility	We are flexible to retain employees of strategic importance to the organisation or in critical positions, in line with the principles listed above.

Overall, the remuneration structure of Ignitis grupė consists of two components: the fixed base salary (FBS) and the short-term incentive (percentage of FBS). Dependent on employees' position, short-term incentives (STIs) are paid on a quarterly basis, semi-annual basis or annually and are tied to performance results of an employee, a team and (or) a company / Ignitis grupė. Specialised remuneration systems are applicable to positions in a highly competitive environment (e. g. heads of development of renewable energy projects, specialists and salespeople of wholesale trade in electricity and gas).

Full version of the Remuneration Policy is available on the website of Ignitis grupė (link).

Remuneration of the Company's employees

The Company's salary fund in 2022 amounted to EUR 2.9 million compared to EUR 2.6 million in 2021. Average monthly salary (FBS and STI) for the period of 2022–2021 is provided in the following table.

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

Position category	2022		2021	
	Number of employees	Average salary	Number of employees	Average salary
Chief Executive Officer	1	7,859	1	6,993
Top level executives	4	6,546	4	5,866
Mid-level executives	7	4,319	7	4,170
Experts / Specialists	90	2,751	74	2,513
Employees	-	-	2	1,299
Total	**102**	**3,109**	**88**	**2,832**

Remuneration of the Company's CEO and the Management Board

By applying the provisions of the Remuneration guidelines for executives, it is aimed at attracting and retaining competent members of the Management Board. In order to attract high-level professionals to managerial positions, it is sought to maintain the remuneration close to the market median of the country in which the Group company operates. The remuneration structure for members of the Management Board corresponds to the remuneration structure for the Group's employees (except for a company's car). The remuneration comprises FBS, STI and is described in detail in the table below.

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

Name, surname	FBS	STI	PBM	Total
Mantas Burokas	94,311	13 261	-	107,572

Remuneration of the Company's CEO in 2021, EUR (before taxes)

Name, surname	FBS	STI	PBM	Total
Mantas Burokas	71,051	-	-	71,051

Remuneration structure for the CEO and the Management Board

Element	Purpose	Description and performance measures
Fixed base salary (FBS)	Remuneration for job responsibilities, also reflects the skills, knowledge, and experience of the individual.	Remuneration is determined by the employment contract, considering the level of the position and the level of competence of the employee required for the position. Fixed base salary is paid on a monthly basis. Fixed base salary revision is performed during the annual remuneration review.
Compensation for the Management Board members' activities (PBM)	Remuneration for Management Board members' activities performed.	PBM is a fixed monthly payment paid on a monthly basis., the amount of which usually is reviewed before a 4-year tenure contract is signed.
Short-term incentive (STI)	To promote implementation of the Group's or Company's annual objectives.	Remuneration paid for performance results, i.e. set as a percentage on the basis of FBS for meeting objectives or indicators set for an individual position. This component of remuneration may amount to up to 20% of annual FBS.
Health insurance, 3rd pillar pension fund or life insurance	To apply marketing best practices and retain current executives.	Employees are covered by the health insurance schemes, unless they choose the contributions to the private pension funds. Benefits package for the members of the parent company's Management Board additionally includes the company's car.

Remuneration of the Company's members of the Management Board in 2021 (before tax)

Name, surname (position)	FBS	STI	PBM	Total
Paul Kęstutis Dainora			15,567	15,567

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

Name, surname (position)	FBS	STI	PBM	Total
Paul Kęstutis Dainora			15,567	15,567

More information on remuneration establishment principles of Ignitis grupė is available in the Annual Report 2022 of Ignitis grupė.

Operational plans

The Company develops and updates its strategy and its action plans for their implementation in line with the strategy of the Įgnitis Group of Companies. The Company reviews its long-term financial plans and annual budget on an annual basis in accordance with its strategy, strategic and operational plans, which are drawn up for a period of 4 years.

The company regularly reviews its strategy and assesses the status of the strategic objectives. It regularly reports to the Įgnitis Group on the implementation of strategic initiatives and performance management results. In the event of changes in circumstances that alter the company's structure, areas of activity, or have a material impact on forecast performance, strategic directions and strategic objectives, the strategies are updated.

Targets for 2022

Performance assessment criteria	Wight	Indicators	Implementation
Financial targets	25%	Adjusted EBITDA, EUR million (25%)	100%
Strategic projects and key milestones	55%	Biofuel power plant construction project: Implementation according to the approved timetable and scope (25%)	86%
		Availability of the waste treatment plant (20%)	
		An environmental impact assessment (PAV) (10%)	
Sustainability targets	20%	Occupational safety : TRIR indicator, and without fatal accidents at work (10%)	98 %
		Employee Net Promoter Score : eNPS (5%)	
		Ensuring of environmental protection requirements according to the permit of Integrated Pollution Prevention and Control (IPPC : the average daily IPPC emission values were exceeded during commercial operation (5%)	
		Total implemented	92%

Targets for 2023

Performance assessment criteria	Wight	Indicators
Financial targets	30%	Adjusted EBITDA, EUR million* (30%)
Strategic projects and key milestones	55%	First time production of thermal energy using biofuel*** Biofuel power plant COD (25 %)
		Availability of the waste treatment plant (15 %)
		Regulatory impact on long-term EBITDA** (15%)
Sustainability targets	15%	Increasing occupational safety (10 %)****
		Ensuring of environmental protection requirements according to the permit of Integrated Pollution Prevention and Control (IPPC : the average daily IPPC emission values were exceeded during commercial operation (5%)

* EBITDA calculated without taking into account the impact of regulation.
** The Management Board of the Company, after assessing the Company's efforts to mitigate the impact of potential regulation on the Company's results, may, by a separate resolution, approve the achievement of the target by 70%, irrespective of the Adjusted EBITDA achieved. The impact on EBITDA is assessed using a theoretical model based on the Company's long-term financial plan for 2022 based on 2024 assumptions. The assumptions of this model are assumed to be fixed, with the exception of the prices for the sale of heat and municipal waste ('prices'), which will be recalculated according to the methodologies of the regulated activities.
*** Both targets are assessed separately with equal weighting. If either target is met later than 2023, the overall achievement of the target is scored 0%.
**** Zero occupational deaths (workers and contractors), with a TRIR ≤ 6 for workers and a TRIR ≤ 9.4 for contractors. TRIR (Total Recordable Injury Rate) - number of accidents per million hours worked

4.4 Risks and risk management

Risk management framework

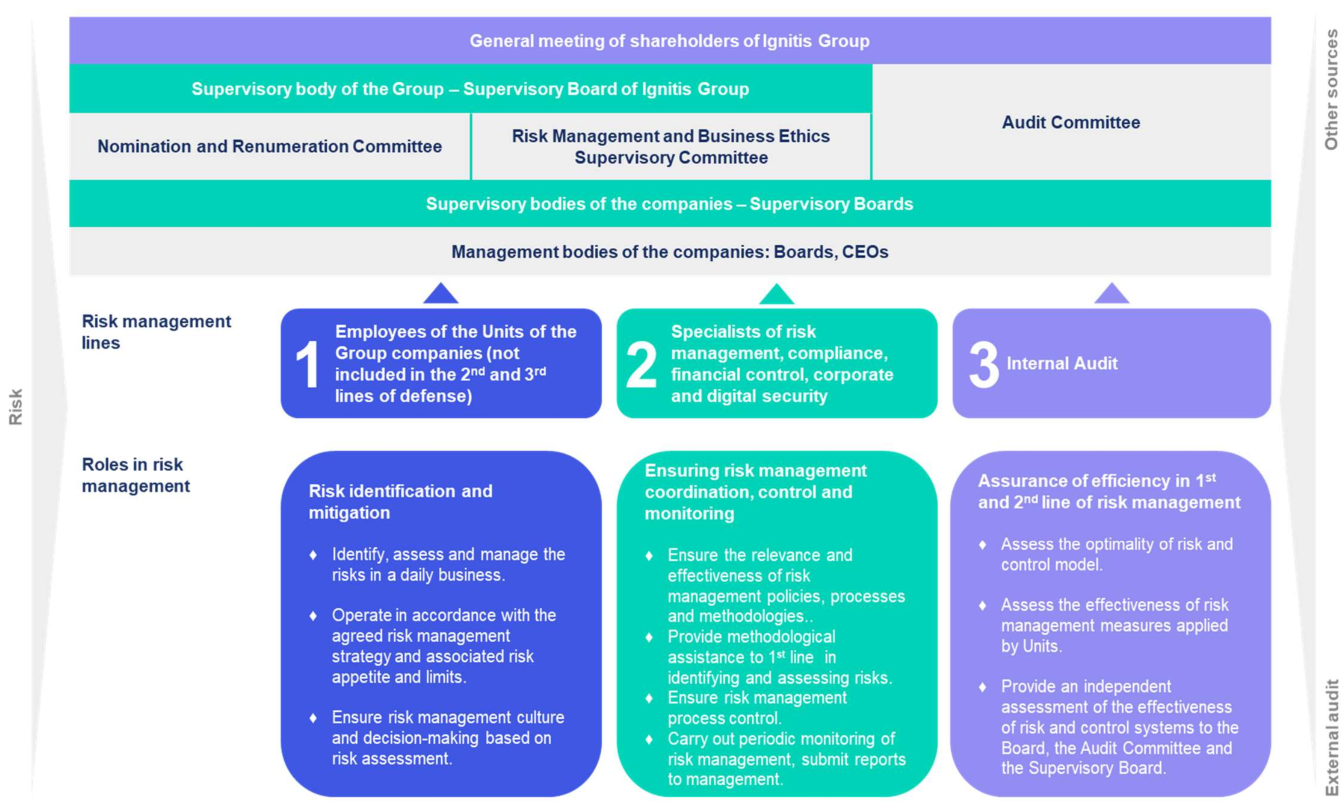
Overview

In carrying out its activities, the Company faces strategic, operational (performance), financial and external risks that may affect the performance results. In order to reduce them to an acceptable level, the Company applies uniform risk management principles based on the best market practices, including the main principles of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and AS/NZS ISO 31000:2009 (Risk management – Principles and guidelines). Ignitis Group and the Company apply the Three Lines of Defence principle (the table below), which establishes clear distribution of risk management and control responsibilities between the management and supervisory bodies, structural units and functions in Ignitis Group and the Company.

To ensure that risk management information and decisions are in line with the Company's needs and developments, the Company's risk management process covers all the Company's activities. In order to ensure effective risk management control, we monitor risks, risk management measures, key risk indicators and prepare internal reports to the Company's Management Board on a quarterly basis (the Company's risks exceeding the risk appetite set by AB Ignitis grupė would be presented to the Group's management and supervisory bodies).

Below is more detailed information on the Group's risk management framework.

Three Lines Defence risk management framework



The main risk management objectives:

- eliminate or minimise the impact of risks on the Company's objectives for different periods;
- ensure that accurate and timely information reaches decision-makers, shareholders and other stakeholders;
- protect the Company's reputation and ensure its credibility;
- protect the interests of shareholders, employees, customers, stakeholders and the public;
- ensure the stability (including financial stability) and sustainability of the Company's operations.

Risk management process and key principles

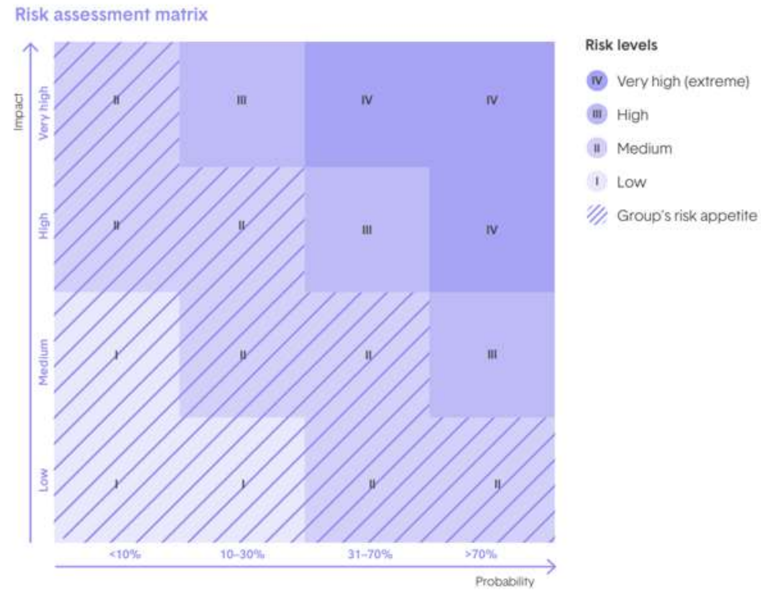
In order to achieve strategic objectives and respond to a dynamic operating environment, the Company pays special attention to proactive risk management. Therefore, on a quarterly basis, the Company reviews risk levels, plans new risk management measures as needed, refines key risk indicators, identifies 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.

The risk management process of the Company comprises four parts: risk identification, assessment, establishing management strategy and monitoring. We constantly assess sources of risks and register new risks immediately, subsequently, the risk assessment is then carried out, the risk management strategy is established and periodic risk management monitoring is started.

We classify the risks arising from a Company's activities into 4 different types. A description of them is given below.

Strategic risks	Operational (activity) risks	Financial 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 an insufficient response to the external factors, e.g., political, legislative changes.	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 from financial assets and/or obligations of the Group. 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 changes in market conditions, regulatory, and legislation changes, natural resources, natural disasters, etc.

The Company's risks are assessed in terms of their likelihood of occurrence and their impact on: finances, compliance, reputation, and human health and safety. The risk assessment matrix is presented below.

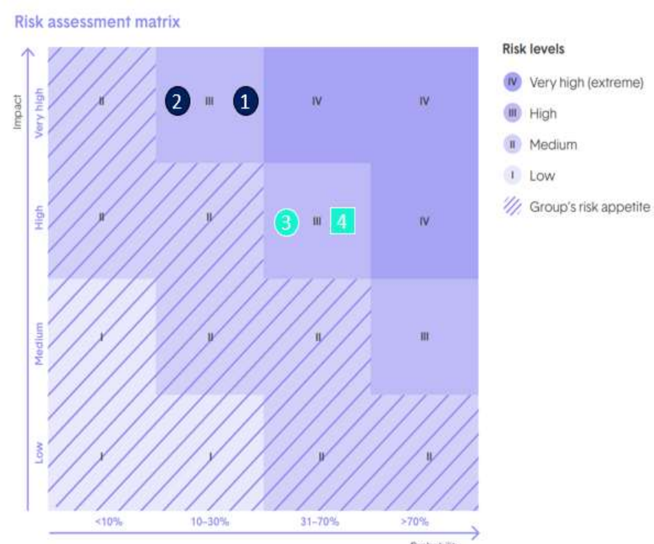


More detailed information on the risk management framework applied to all Ignitis Group companies is provided in the Annual Report of AB Ignitis grupė for 2022.

Map of the Company's key risks

As of 2023, the Company's risk map identifies 4 high-level risks, one of which - Cyber Attack Risk - is relevant for the entire Ignitis Group and is therefore managed centrally. The Ignitis Group's high-level Accident risk (employees and contractors) is assessed as medium in the Company's activities and is not included in the Company's list of key risks.

1. Risk of former contractor's insufficient compensation due to made harm while developing Biomass power plant project
2. Risk of Biomass power plant project (LOT3) implementation delay and on budget
3. Risk of environmental violations (ESG)
4. Risk of cyber attack (Group risk, ESG)



ESG risks

As countries and international organisations increasingly focus on various aspects of sustainability, such as climate change prevention, anti-corruption, the promotion of transparency practices, and the application of good governance principles, we are aware of our responsibilities and are contributing to the achievement of the sustainability goals. To achieve these objectives, we focus our risk management process on the ESG areas. Therefore, we consider all our risks in the context of the above mentioned topics, i.e. by assigning related risks to a specific ESG risk type. The following are key principles for disclosing, managing and raising awareness of the ESG risks.

1. **Disclosure of information related to ESG risks:** transparency of sustainability-related information is crucial to maintain stakeholder trust. Therefore, Ignitis Group (including the Company) discloses this information in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
2. **Management of ESG risks:** Risks and opportunities related to climate change are treated as an integral part of the Group's (including the Company's) day-to-day operations and are fully integrated into the risk management process, i.e. the processes used to identify and assess climate change risks are identical to the processes used for other risks (see the section on "Risk Management Process" above). The Company pays particular attention to recognising the potential impacts of climate change and the associated economic, transitional and economic impacts of the changes on the Company's operations. This impact may arise from physical (extreme) weather phenomena and from the aspiration of states to switch to the Green Deal, which may lead to additional demands on the energy sector: comply with new regulations, implement new technological solutions, manage reputational risk, respond to the rapidly growing demand for green solutions, etc. Climate change can be considered as a negative factor in assessing the potential likelihood of occurrence of various risks and/or the potential impact of risks (financial, reputational, compliance, health and safety).
3. **Promoting awareness of ESG risks:** The Group's (including the Company's) employees receive training and advice on climate change and other ESG risks and their potential impact on business objectives. This enables timely identification and appropriate management of climate-related and other ESG risks, while contributing to the achievement of international sustainability goals.

The Company assess all the risks if they meet the ESG risks' criteria. Risks that meet these criteria are assigned to the relevant ESG risk type. “E” type is assigned to risks including climate-related physical, transitional, and other environmental risks, “S” to social responsibility, and “G” to governance related risks. We disclose below the main ESG risks of the Company by type of risk (for further information on the typology of these and other risks of the Company, the risk management directions and other relevant information, please refer to the section "Management plan of key risks").

ESG risks that meet environmental criteria:

- 3 Risk of non-compliance with environmental requirements.

ESG risks that meet governance criteria:

- 4 Risk of cyber-attack.

Management plan of key risks

1 Risk of insufficient compensation for damages caused by the former contractor of a biofuel plant		
Main source of risk he former developer of a biofuel power plant project, with whom the contract was terminated, may not be able to reimburse the project for all losses caused by his fault. **Key risk indicators** Periodic reporting of risk signals to management **Risk category** | Financial **ESG type** | Not related	**Period** | Short-term **Impact on the Group's strategic direction** Green generation **Primary potential impact** Financial **Risk level** High	**Main risk management direction** – Ongoing direct negotiations with Rafak on a possible peace settlement – Internal and external legal team in place – Cooperation with national institutions
2 Risk of delays and increased costs for the biofuel power plant project (LOT3)		
Main source of risk – Uncertainty in raw material and product prices and delivery times due to the war in Ukraine (disruption of supply chains) – Damage caused by the former main contractor of the project and the impact of the terminated contract on the duration of the project – Commitment to the proper and timely use of EU support received **Key risk indicators** – Delay in implementation of biofuel power plant project, months. – Monitoring of changes in the project budget **Risk category** | Operational **ESG type** | Not related	**Period** | Short-term **Impact on the Group's strategic direction** Green generation **Primary potential impact** Financial **Risk level** High	**Main risk management direction** – Active monitoring of contractors' and subcontractors' work schedules – Cooperation with the authorities administering EU support Seeking alternative solutions for the imple-mentation of the project, which would re-duce the project budget or allow the works to be carried out faster.
3 Risk of non-compliance with environmental requirements		
Main source of risk – Possible failure to ensure the conditions for the reception and storage of air, water pollution, noise, odours, waste in the Integrated Pollution Prevention and Control (IPPC) permit; – Human error in the preparation of environmental reports and the calculation and declaration of environmental taxes. **Key risk indicators** – Exceeded average values of daily air emission – Operating time of the power plant in the event of a boiler malfunction – Excess of maximum allowable concentrations in surface industrial effluents – Failure to submit required reports on time – Errors in the calculation and declaration of environmental taxes **Risk category** | Operationa **ESG type** | Environmental	**Period** | Long-term **Impact on the Group's strategic direction** Green generation **Primary potential impact** Compliance **Risk level** High	**Main risk management direction** – Installation of automatic continuous air emission monitoring systems – Double gates in the waste reception area to reduce odour diffusion – Instructions, processes developed for environmental reporting, for tax calculation -automatic calculator, prepared instructions, processes. – Ambient air monitoring in community residential areas. Reporting of pollution measurements on the Company website. – Installation of surface water treatment equipment (sand and oil traps) – Installation of radiation measurement devices at the entrances to the power plant, use of hand-held dosimeters. Staff trained to deal with emergencies.

4 Risk of cyber-attack (Group)		
Main source of risk – Cyber-attacks against the Group companies organised by third parties – Social engineering attacks, data theft – Known vulnerabilities in systems have been removed late or improperly **Key risk indicators** – Number of internal and external critical vulnerabilities – Average time to fix critical vulnerabilities **Risk category** | Operational **ESG type** | Governance	**Period** | Long-term **Impact on the Group's strategic direction** Organisation **Primary potential impact** – Reputation – Compliance **Risk level** High	**Main risk management direction** – Periodic preparation of vulnerability reports and submission to responsible persons – Removal of internal and external cyber-vulnerabilities – Internal audit – Cooperation with external partners – Developing digital security competencies by becoming accredited members of the CERT organization, participating in cyber security exercises with external partners The Group-wide cybersecurity supervision is ensured 24/7

Sustainability

5.1 Overview of sustainability

The sustainability performance and results of AB Ignitis grupė as a whole (hereinafter - the Group), including its subsidiary UAB Vilniaus kogeneracinė jėgainė (hereinafter - Vilnius CHP), are summarised in the consolidated Annual Report 2022 of AB Ignitis grupė, of which the Sustainability report of the Group as a whole is an integrated part. This report is available on www.ignitisgrupe.lt under 'For Investors' and 'Sustainability'. This report is available on www.ignitisgrupe.lt under 'For Investors' and 'Sustainability'. We note that the terms 'consistency' and 'sustainability' are used interchangeably in the Group.

The Sustainability Report of the Group, which covers the period from 1 January 2022 to 31 December 2022, is prepared in accordance with the Global Reporting Initiative (GRI). Disclosures are made on the basis of materiality and reflect the progress of the Group in implementing the principles of the United Nations Global Compact (UNGC) and the contribution of the Group and its companies to the achievement of the United Nations Sustainable Development Goals (SDGs). This report meets the requirements for social responsibility reports as set out in the legal acts of the Republic of Lithuania.

In this context, Vilnius CHP does not prepare a separate report on this topic but provides below a summary of its sustainability activities and links to the relevant sections of the sustainability report of the Group, which includes the disclosure requirements also applicable to Group companies under the EU Taxonomy Regulation.

Sustainability in the Group and Vilniaus kogeneracinė jėgainė

Sustainable operations are a prerequisite for the Group's mission to build an energy-smart world. The world needs energy to exist, and that is why we strive to produce, distribute, supply and consume energy in a sustainable way. Our long-term strategy focuses on building a sustainable future. We aim to further increase the capacity of energy production from renewable sources, to ensure the reliability and flexibility of the energy system, to promote the change and development of the energy system, and to exploit opportunities for expansion. The strategy and strategic plan of the Group, updated annually, can be found here.

The guiding principles of sustainability that we follow in our day-to-day activities at Vilnius CHP and across the entire Group are defined in the Sustainability Policy of the Group, which underlines, among other things, our commitment to the ten principles of the United Nations Global Compact (UNGC) which we joined in 2016. This agreement - the universally accepted guidelines for responsible business conduct - provides a clear roadmap for the development of responsible business. Monitoring the implementation of these principles and the management of the associated risks is an integral part of the overall control and risk management of the Group companies, which is applied throughout the entire Group, and therefore Vilnius CHP.

Driving the region's energy transformation towards an energy-smart world, we are focusing on our Environmental, Social and Governance (hereinafter - ESG) performance and accountability. Sustainability Management Plan and policies of the Group, which are also applicable to Vilnius CHP, are publicly available (link). We publish key data on ESG indicators and key achievements in our interim and semi-annual reports, and provide detailed information in our annual reports.

Sustainability activities in the Group companies are coordinated centrally through a separate Sustainability function reporting directly to the CEO of the parent company. The Management Board of the Group decides on the formulation, approval and updating of the organisation's sustainability strategic directions, policies and activities. A detailed description of the management of sustainable activities at the Group can be found in the Sustainability Report of the Group for 2022 and in the 'Sustainability' section on the Group's website. The following is the basis on which we are improving our ESG performance.

Key sustainability themes and principles of governance and accountability in the Group

MAIN THEMATIC AREAS	GOVERNANCE AND PROCESSES	ACCOUNTABILITY
We aim for a zero GHG emissions balance by 2050. We contribute directly to the United Nations Global Compact, the Sustainable Development Goals and the Paris Agreement.	We follow good governance practices and take into account the recommendations of international institutions and the scientific community.	We disclose information on the progress of the Group in accordance with globally recognised standards and in formats tailored to a wide range of stakeholders.

MEASURING PROGRESS

We continuously assess the progress of the Group on the basis of ESG ratings provided by independent, leading ESG rating agencies.

Sustainability goals of the Group and Vilnius CHP are available on the Group's website www.ignitisgrupe.lt under 'Sustainability', and on the website of Vilnius CHP.

Indicators

The ESG aspects of the Vilnius CHP are of exceptional importance, key indicators of the ESG status have been identified and their values are continuously monitored.

Key ESG indicators monitored by Vilnius CHP

Sustainability direction	Indicator	Measurement unit	2021	2022
Reducing impact on climate	GHG emissions	million t of CO_2 eq.	0,199	0,184
	Coverage 1	million t of CO_2 eq..	0,112	0,088
	Coverage 2	million t of CO_2 eq.	0,009	0,001
	Coverage 3	million t of CO_2 eq.	0,003	0,001
	Other emissions (of biological nature)	million t of CO_2 eq.	0,075	0,094
	Water savings in production	thousand m^3	n/a	100.4
Protection of natural resources	Share of green procurement in public procurement	%	n/a	25
	Sorting accessibility as a share of total administrative premises	%	n/a	100
Staff ready for the future	Fatal accidents (total)	unit	0	0
	Employees	unit	0	0
	Contractors	unit	0	0
	TRIR (total work-related injury rate)	times	6.03	0
	eNPS (Employee Satisfaction Indicator)	%	26.7	57.3
	Share of women in management positions	%	n/a	11.11
	Share of women in engineering and IT positions	%	n/a	21.74
	Proportion of employees who have participated at least once in volunteering initiatives	%	n/a	2.9
Robust organisation	No tolerance of corruption among employees	%	n/a	93.1
	Proportion of staff taking and passing the Code of Conduct and anti-corruption knowledge test	%	n/a	96.88

Stakeholder relations and assessment of ESG priorities

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

That is why, when planning our activities, such as investment plans, we analyse stakeholder expectations based on international principles (AA1000 standard) and involve stakeholders, as recommended by recognised sustainability standards. In surveys conducted in spring 2021, stakeholders were asked which aspects of environmental, social and governance the Company should focus on and how they perceive current performance of Vilnius CHP in relation to each aspect of ESG.

The stakeholder engagement exercise identified and interviewed 3 main stakeholder groups:

- employees,
- contractors and suppliers,
- state, municipal and their subordinate institutions.

This grouping was chosen to reflect the specificity of the expectations of each group. Other stakeholders relevant at the level of the entire Group were interviewed in an additional Group survey (a full survey report is available on the Group's website under 'Sustainability pillar'). Responses received from 47 respondents are an equivalent to 39-67% of accountability, depending from a stakeholder. A materiality assessment was carried out on the basis of the survey results.

The expectations of stakeholders expressed during this process were aligned with existing goals and objectives of Vilnius CHP which led to the identification of priority themes that are in line with both stakeholders' expectations and the stated operational objectives of Vilnius CHP. The outcome of the materiality assessment provides the basis for further embedding of sustainable development in the Company's activities in a way that takes into account the overall impact of Vilnius CHP on its stakeholders and aligns the expectations expressed by the stakeholders with the strategic objectives.

Key facts on Vilnius CHP materiality assessment:

- We interviewed 47 stakeholder representatives;
- We identified 17 thematic aspects of the ESG that are most relevant to Vilnius CHP and its stakeholders;
- Stakeholders shared their views on which aspects of the ESG should be relevant for the company;
- During the internal strategy sessions, the management of Vilnius CHP clarified the links

Vilnius CHP materiality assessment matrix for 2021

ESG risks and their management

The main ESG risks and the decisions taken to manage them are disclosed in more detail in the section "4.7 Report on risks and their management" of this report“.

An overview of key effects of sustainability of Vilnius CHP and implemented initiatives / measures in 2022

Environmental area

Main environmental impacts of Vilnius CHP:

- climate change impact and GHG emissions - reduction of greenhouse gases (CO2, etc.) generated by activities, production of electricity and thermal energy from less pollutant sources;
- reduction of impact on environmental components (soil, water, and air quality) - maintenance of soil, water, and air quality, prevention of environmental pollution;
- diverting waste from landfills, promotion circular economy principles - energy generation from unsortable waste;
- more sustainable self-consumption of energy - use of green energy for self-consumption; reduction of energy consumption in the power plant;
- use of secondary raw materials in the activities of the power plant and reduction of operational waste.

impact on biological diversity and ecosystems - protection of flora, fauna, natural ecosystems

Reducing impacts on climate change

Climate change is one of the greatest human challenges of this century, and it requires action by everyone – people, businesses, non-governmental organisations and governments. Although energy is the engine of the economy, its production and distribution accounts for a significant share of greenhouse gas (GHG) emissions. Transformation and decarbonisation of the energy sector are therefore prerequisites for the implementation of the Paris Agreement and for limiting the average increase in the Earth's temperature to 1.5 degrees Celsius above pre-industrial levels. Energy is a key sector in the European Union's policy towards climate neutrality by 2050.

In November 2021, the Science Based Targets initiative (SBTi) adopted ambitious GHG emission reduction targets for the Group, in line with the latest scientific recommendations on the actions that should be taken to keep climate warming below 1.5°C compared to pre-industrial levels. According to the scientists, this limit should not be exceeded to avoid catastrophic natural phenomena and adverse impacts on health and wealth.

Vilnius CHP promotes efficient energy use, contributes to education of employees and implements measures improving efficiency of energy consumption. By seeking for the GHG emission reduction targets, and in order achieve them, we will focus on operational emissions throughout the year and will seek to involve its partners, suppliers and customers in this process. The planned emission reduction measures of the Group and its companies include increasing green generation capacity, increasing the share of green electricity sold to consumers and consumed by Group companies, promoting the phase-out of natural gas, reducing losses in the distribution network, adding electric vehicles to the vehicle fleet. The start-up of the Vilnius CHP biofuel unit is expected to have a negative effect on the Group's emissions (the share of bio-based emissions will increase), and therefore emission reduction measures (e.g. adaptation of CCS technology) will be important in the future.

For more information on the Group's objectives and planned emission reduction measures, please refer to the 'Climate Impact mitigation' section of the Sustainability Report integrated to the Annual Report of the Group for 2022 (link).

Mitigation of impact on components of the environment (quality of soil, water and air), biodiversity and ecosystems

The most important general provisions and principles of environmental protection applied by the Group, which aim to reduce the impact on the environment, manage risks related to the environment and foster a culture based on the principles of sustainable development in the Group and its environment, are defined in the Group's Environmental Policy, which applies to all Group companies.

In order to ensure continuous improvement of the environmental performance of the Group's operations, the Group's environmental policy includes, among the measures to implement the environmental principles, the promotion of the adoption of an environmental management system standard (ISO 14001) in the Group's companies and the continuous improvement of the system adopted. Vilnius CHP implemented the ISO 14001 environmental management standard in February 2022.

Vilnius CHP is operated in accordance with the terms of the IPPC permit issued by the Environmental Protection Agency. The IPPC permit is a way to ensure that the activities of companies cause the least possible damage to the environment as a whole, rather than to individual parts of it, by analysing all the potential environmental impacts of the economic activity and managing the impacts properly as the activity proceeds. The aim of IPPC is to prevent the discharge of pollutants into the air, water or soil wherever possible and, where it is not possible, to minimise it so that a high level of environmental protection is achieved.

Vilnius CHP's facilities comply with the requirements of the Industrial Emission Directive 2010/75/EU and the Best Available Technologies (BAT) for large combustion plants).

Vilnius CHP closely monitors emissions. Monitoring of the emissions from incinerator is carried out in accordance with the Environmental Protection Agency. In 2022, emissions were significantly below the limit values set in the Integrated Pollution Prevention and Control (IPPC) permits. All environmental monitoring reports are available on the Vilnius CHP website.

To address the concerns of the communities in the vicinity of Vilnius CHP about potential air pollution, we are carrying out voluntary programmes to measure ambient air pollution concentrations, agreed with the communities and the Environmental Protection Agency. Observations in the Lazdynai micro-district have been ongoing since 2018. The surveys have assessed air quality not only during the operation of the power plants, but also prior to the commissioning of the power plants in order to provide a reliable assessment. The surveys are carried out using modern mobile equipment, such as the Environmental Protection Agency's and the Estonian Environmental Testing Agency's mobile laboratories, which measure particulate matter, nitrogen dioxide, carbon monoxide, and benzene, as well as other parameters, several times a year and in different seasons of the year (twice a year, in the warm and cold season, to measure furans and dioxins). Such equipment provides reliable and independent data on the nature of air pollution and changes in concentrations. Ambient air quality measurements also take into account the instantaneous meteorological conditions that may determine the concentration of pollution in the air. The independent results of the measurements are made public on the website of Vilnius CHP.

We estimate that the condensing economisers will generate about 460 thousand m^3 of industrial wastewater per year, 80% from the biofuel boilers and 20% from the waste incinerator. All the condensate from the condensing economisers is directed to the plant's treatment plant, where part of it (at least 200 thousand m^3 per year) will be treated to the parameters for process water and reused in all the plant's processes, from the production of steam to the air purification plant. Condensate treatment and return to the process water system is still being carried out today (about 100,411 m^3 of condensate from the production process was reused in 2022), but with the start of operation of the biofuel boiler plant, the amount of condensate will increase significantly and will account for more than 37% of the total wastewater of the Vilnius CHP plant.

The territory of Vilnius CHP does not fall within or adjoin any protected areas of the national or European ecological network Natura 2000 (the nearest protected area is the BAST of the River Neris, 0.95 km from the territory of Vilnius CHP). It does not contain any animal species included in the List of Protected Species of Animals, Plants and Fungi of the Republic of Lithuania or the Habitats Directive.

The natural environment here is determined by human activity, and is therefore dominated by plant and animal communities that are typical of urbanised areas and have adapted (or are adapted) to the human environment.

The territory of Vilnius CHP is home to the following species of plant communities that are common to such habitats: common bindweed, soil-lover's bindweed, odourless Mayweeds, soil-lover's bird's-foot trefoil, soil pussy-weed, barnyard grass and other species. In the non-managed part of the site, willow and common spruce scrub predominate. There are also alder, aspen and sycamore trees. In the more open areas, hawthorn, Scots pine and Scots pine grow.

All protected, Natura 2000 and biologically important sites in the vicinity of Vilnius CHP are located within a safe distance and are not adversely affected by the activities of Vilnius CHP.
For more information on the Group's objectives and actions in the field of nature conservation, please refer to the section 5.5 „Protection of natural resources" in the Sustainability Report integrated into the Group's 2022 Annual Report“ (link).

Diverting waste from landfill, generating energy from unsortable waste

Around a quarter of the municipal waste generated in Lithuania and left over after sorting is converted into energy in the Group's cogeneration plants. According to EU waste policy, the basic principle of waste management is based on the waste hierarchy: prevention is the first priority, followed by reuse, recycling, other uses (energy recovery), with landfill as the least desirable option. The development of the Group's cogeneration plants as an alternative to landfill plays an important role in the implementation of the waste hierarchy principles.

Vilnius CHP (Green generation) has now submitted an application for renewal of its IPPC permit. Once approved, it is planned that Vilniaus CHP will be able to convert 200,000 tonnes of non-recyclable, non-hazardous waste into energy (40,000 tonnes more than previously permitted).

For more information on the Group's waste reduction targets and actions, please refer to the integrated Sustainability Report in the Group's 2022 Annual Report under 5.5 „Protection of natural resources“ (link).

Use of secondary raw materials in the activities of the power plant, and reduction of operational waste

Waste management in each Group company is carried out in accordance with the Environmental Protection Policy. To contribute to environmental protection and pollution reduction in Lithuania, all waste generated by Vilnius CHP activities is sorted by separating out secondary raw materials, hazardous waste that accounted for in the GPAIS (Unified Product Packaging and Waste Information System), and transferred to licensed waste handlers according to contracts.

In 2022, the largest part of the Group's waste was generated by cogeneration power plants of Vilnius and Kaunas - mostly ash and slag. Fly ash generated is used for restoration of the landscape of the Langoya Island of Norway. Using modern technology, fly ash is mixed with water and acid from industrial waste. It this way, a gypsum-like material is made which is used to fill craters resulting from limestone extraction, and the recovered part of the island will be returned to the society.

For more information on the Group’s objectives and actions in the area of use of secondary raw materials in the activities of the power plant, and reduction of operational waste, please refer to the section 5.5 ‘Protection of natural resources’ of the Sustainability Report integrated into the Annual Report 2022 of the Group (link).

Employees and society/communities area

The main impacts of Vilnius CHP on employees and society/communities:

- occupational health and safety - ensuring workplace safety and promoting the health of workers and contractors;
- employee welfare and cooperation with employees - fair remuneration, employee job satisfaction, freedom of association;
- competent employees now and in the future - professional and personal development of employees, building the competences needed for the energy sector;
- Local community welfare and relations - protection of natural environment and health of members of communities; listening to the needs of communities;
- involvement in community activities - participation in civic initiatives and NGOs; volunteering.

Occupational safety and health

The basic provisions and principles of occupational safety and health are defined in the Occupational Safety and Health Policy, which applies to the entire Group, including Vilniaus CHP. Preventing accidents and ensuring safety and health is a priority for the Company. Vilniaus CHP's *total recordable injury rate per million hours worked* (TRIR) in 2022 was 0. The Company has an occupational safety and health committee. The elected representatives of the workers to deal with safety and health issues in Vilnius CHP were trained to obtain certificates.

In 2022, Vilnius CHP implemented a system for recording and compiling data on non-conformities identified during inspections of Company and contractor workplaces. The data are analysed in reports in a defined format. When a non-conformity is detected, a report is generated and automatically sent to the responsible persons of the Company and the contractor for information and enforcement. Inspections and enforcement are carried out by the Group's DSS staff. Inspections will also be carried out by the Company's managers in order to increase the involvement of management in OSH activities. 144 workplaces at the waste plant and 72 at the biofuel site were inspected in 2022.

In 2022, technical safety training, practical training on working at height and indoors, as well as training on the use of self-contained breathing apparatus were provided to the staff of Vilnius CHP. The training prioritised the practical aspects of the training at the training base and in the Company. During the construction of the Vilnius CHP biofuel unit, occupational risk assessments are also carried out in the workplaces under construction and in the new workplaces. A risk assessment has been carried out, communicated to workers, and a plan has been drawn up to reduce and eliminate OSH risks. Vilnius CHP also actively uses the MS Teams OSH channel to communicate important health and safety information to all employees of the Company (information on accidents, incidents within the group, relevant memos, announcements, reminders of ongoing training, thank-you notes, etc).

Monthly OSH meetings are held at Vilniaus CHP for all employees, during which information is presented on workplace inspections carried out by Vilniaus CHP employees and contractors, analysis of violations, visual material, general statistics of the Group, information on accidents, incidents, trainings carried out or planned, and other relevant information.
Vilnius CHP pays great attention to the health of its employees. In 2022, a new personal health care facility was contracted to provide a comprehensive health check-up for employees and a one-stop-shop for all services, thus saving time and increasing employee satisfaction with the services provided.

Detailed information on the measures and initiatives implemented in the Group companies, including Vilnius CHP, to ensure the safety and health of employees and contractors is provided in the Sustainability Report "5.6 Employees and communities ready for the future" integrated into the Group's 2022 Annual Report (link).

Health and safety performance indicators of „Ignitis“ employees (2022)

Employee incidents and accidents (minor, serious or fatal)	No accidents in 2022
Occupational safety and health violations, their nature and accidents of contractors' workers on the Company's sites	No accidents to contractors' staff, according to information provided by the contractors.

Employee welfare and cooperation, ensuring of staff competence, community relations, participation in social activities

The Group is one of the largest employers in Lithuania, and as such, it is committed to creating and maintaining an organisational culture that fosters a long-term partnership between employer and employee based on the values of the Group and the Code of Ethics, a mutual understanding and the opportunity to build an energy-smart future together. The achievement of the Group's strategic objectives is intrinsically linked to the Group's success in attracting and retaining skilled employees, engaging them in a wide range of activities, increasing their motivation, enabling them to develop their careers and, at the same time, encouraging them to excel. We want our employees to uphold the values of the organisation: to be open-minded, development-minded, responsible and committed to partnership. The Group cares about its employees and places particular emphasis on health and safety, social dialogue, equal opportunities and diversity. At the end of 2022, Vilnius CHP had 102 employees. The Company has a Labour Council.

Vilnius CHP respects the rights of employees and opposes child labour and discrimination of any kind, both in the recruitment of new employees and among existing employees. The Company has the Labour Council and the Committee of Occupational Safety and Health. Compared to 2021, Employee Satisfaction Index (eNPS) of Vilnius CHP for 2022 increased by 30.6 p.p., from 26.7% to 57.3%. Improvement of this indicator is a strategic objective for every company of the Group.

By creating and fostering a culture and environment of continuous improvement within the organisation, as well as based on performance and career goals, new activities, and innovations in work processes, Vilnius CHP enables its employees to grow and develop, and to expand their professional, general and managerial competences.

Close relations with the communities where we operate and with non-governmental organisations are one of the key principles of our cohesive and responsible operations set out in the Code of Ethics and the Sustainability Policy. We operate in a consistent and transparent manner, taking responsibility for our activities and cooperating with various organisations. For more information on the air quality investigations carried out by Vilnius CHP, refer to the section „*Mitigation of impact on components of the environment (quality of soil, water and air), biodiversity and ecosystems*“.

The Group gives the opportunity to visit power stations to see how electricity is generated, and to learn about the history, operations, technology and basic equipment of exceptional power stations. These tours are most popular with engineering and energy students and schoolchildren who are thinking about their future careers. The tours are also available at Vilnius CHP.

Detailed information on how employee well-being and representation is ensured in Group companies, including Vilnius CHP, as well as information on the application of the Remuneration Policy and employee training and competence development initiatives, measures to improve emotional health, maintenance of relationships with communities and participation is social activities, is provided in the section „5.6 Employees and communities ready for the future” of the Sustainability Report, integrated in the Annual Report 2022 of the Group (link).

Human rights area

Main impacts of Vilnius CHP in the field of human rights:

- diversity, equal opportunities and human rights - ensuring gender equality and equal opportunities, promoting diversity at work.

We value the diversity of our workforce and strive to ensure that all our employees have equal opportunities to be a full part of the organisation. This means equal opportunities for employment, smooth working, fair pay, well-being, development, career progression, work-life balance, skills and talents. Just over two years ago, the Group developed an Equal Opportunities and Diversity Policy, which applies to both companies and all employees. The policy is the Group's equal opportunities "code", which sets out the principles of equal opportunities and diversity that are binding on all, how they are to be implemented and how, in the event of a breach of equal opportunities, reports are to be made and handled. It is important to note that this policy also provides that a person can report possible discrimination confidentially by contacting the Helpline in different ways. The principles of equal opportunities and diversity are not only enshrined in a separate dedicated policy, but are also integrated into our other internal legislation: Code of Ethics, Sustainability Policy, People and Culture Policy, Remuneration Policy.

Vilnius CHP and other companies of the Group do not tolerate discrimination, they promote a work environment that reflects the diversity of society, and implement the principles of respect for diversity in their activities.

The Group regularly collects and publishes data on the diversity of its workforce: the distribution of employees by gender, age, education, occupation and country of employment. Diversity data is a way of getting to know the people of the Group and, taking into account the fact that we are different, of creating a supportive and inclusive work culture for all. At the end of 2022, men accounted for 76% of total employees of Vilnius CHP, while women accounted for 24%.
For more information on the work and achievements in ensuring diversity, equality and human rights in the Group's businesses, refer to the Sustainability Report integrated into the Group's Annual Report for 2022 under section "5.6 Employees and communities ready for the future " (available here). For information on the Group's actions and initiatives to ensure diversity, equal opportunities and human rights, see also the Group's website.

Actual number of employees by position, 2022	Men	Women	Total
Trainees	0	0	0
Workers	0	0	0
Experts / Specialists	68	22	90
Mid-level executives	6	1	7
Top level executives	3	1	4
Key executives	1	0	1

Governance and anti-corruption area

Main impacts of Vilnius CHP on governance and anti-corruption:

- ethical business, anti-corruption and transparency - transparent corporate governance, anti-corruption, fair and ethical market conduct;
- ensuring security and uninterrupted operation of the energy system;
- ensuring access to energy - taking care that electricity and (or) heat is available to all customers;
- sustainable financial instruments - fund-raising for sustainability-encouraging projects;
- responsibility and sustainability in the company's supply chain - buying more environmentally friendly goods and services for self-use and reducing the negative impact of suppliers on the natural and social environment.

Ethical business, anti-corruption and transparency

Vilnius CHP, like other companies of the Group, is guided by the principles of ethical conduct as defined in the Code of Ethics of the Group of companies. In line with the Global Compact principle on anti-corruption, Vilnius CHP and its employees are guided by the Anti-Corruption Policy, which is in force throughout the Group. Vilnius CHP does not tolerate any form of corruption. We encourage to report possible unethical behaviour of employees or representatives of the Group, cases of discrimination or corruption, as well as other breaches of the principles of sustainability or concerns to the Helpline by email pasitikejimolinija@ignitis.lt, by phone +370 640 88889 or by filling out an online form. These contacts are open to both employees and all stakeholders.

Ensuring security and uninterrupted operation of the energy system; ensuring access to energy

Lithuania is largely dependent on energy imports, so local energy generation capacities are very important for the country's energy security. By producing energy from the waste remaining after recycling in the modern cogeneration power plant of Vilnius, we contribute not only to implementation of the Green Deal of the EU but also to the increase of Lithuania’s energy independence.

In 2022, Vilnius CHP updated the Emergency Management Plans and the Emergency Operations Centre, organised tabletop and functional exercises.

More information on actions and achievements in ensuring security and uninterrupted operation of the energy system as well as ensuring access to energy is available in the section 5.7 ‘Robust Organisation’ within the Sustainability Report integrated in the Annual Report 2022 of the Group (link).

Responsibility and sustainability in the Company's supply chain

The Group applies the same standard of contract drafting, performance and enforcement to all Group companies, as well as other internal regulations. Contracts stipulate that suppliers undertake to comply with the Group's anti-corruption policy and the Group's Supplier Code of Conduct ("SCoC") in the performance of contracts. All contracts provide for enforcement mechanisms (fines, penalties, bank guarantees, etc.) and include provisions on the enforcement of environmental and safety standards and labour safety requirements. The Group's companies have implemented a contract monitoring system to ensure proper management and control of the contracts within the Group.

With the Group's adoption of the TEK in 2021, all Group suppliers are invited to contribute to a more sustainable future. Each procurement document is also accompanied by an information note to suppliers on the application of green procurement requirements in the Group's corporate procurement. In addition, the Group's website provides information on the Group's green procurement and socially responsible procurement practices and the most common sustainability requirements in the Group's procurement. In 2022, we started checking suppliers' compliance with the TEC and the sustainability practices they apply in their operations.

The function of procurements of the companies of the Group is performed by UAB Ignitis grupės paslaugų centras (GSC). GSC carries out procurement procedures and provides services of planning and execution of procurements for goods, services or works. Procurements are centralised, and procurement procedures are standardised and concentrated in a single online platform. In order to ensure transparency of public procurement processes and open dialogue, GSC invites suppliers to information meetings during which presentations of procurements with a high value planned by contracting entities are made.

Detailed information on achievements in the application of the principles of responsibility and sustainability to the supply chain is provided in the section ‘Robust Organisation’ within the Sustainability Report integrated in the Annual Report 2022 of the Group (link).

If you have any questions concerning the content of the Sustainability Report or sustainability activities of Vilnius CHP, please contact sustainability@ignitis.lt.

6 Financial statements

6.1 Company's financial statements

For the year ended 31 December 2022, prepared in accordance with International Financial Reporting Standards as adopted by the European Union

The Company's financial statements were prepared and signed by UAB Vilniaus kogeneracinė jėgainė management on 31 March 2023:

Mantas Burokas	**Rūta Šaltmerytė**	**Paulius Žukovskis**
Chief Executive Officer	Head of Finance and Administration	Head of Financial Statements and Consultations of UAB Ignitis grupės paslaugų centras, acting under Order No 23_GSC_SP_0010 of 17 February 2023

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

EURk	Notes	2022	2021[1] (restated)
Revenue from contracts with customers	7	42,283	20,631
Other income		-	203
Total revenue and other income		**42,283**	**20,834**
Purchase of electricity, natural gas and other services	8	(5,492)	(3,530)
Depreciation and amortisation	12, 13, 21	(5,051)	(2,725)
Salaries and related expenses		(2,938)	(2,629)
Other expenses	9	(10,267)	(4,731)
Total expenses		**(23,748)**	**(13,615)**
Operating profit (loss)		**18,535**	**7,219**
Finance income		21	28
Finance expenses	10	(1,450)	(947)
Finance activity, net		**(1,429)**	**(919)**
Profit (loss) before tax		**17,106**	**6,300**
Deferred tax benefit (expenses)	11	(364)	6,139
Net profit for the year		**16,742**	**12,439**
Other comprehensive income (expenses)			
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)			
Change in actuarial assumptions		6	(7)
Items that will not be reclassified to profit or loss in subsequent periods, total		**6**	**(7)**
Total other comprehensive income (expenses) for the year		**6**	**(7)**
Total comprehensive income (expenses) for the year		**16,748**	**12,432**

[1]Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2021 due to accounting policy change in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

Statement of financial position

31 December 2022

EURk	Notes	31 December 2022	31 December 2021 (restated)[1]	1 January 2021 (restated)[1]
ASSETS				
Non-current assets				
Intangible assets	12	3,737	4,074	934
Property, plant and equipment	13	337,972	285,976	269,176
Right-of-use assets		316	403	357
Prepayments for non-current assets		4,768	144	-
Non-current receivables		379	205	100
Deferred tax asset	11	5,331	6,685	545
Total non-current assets		**352,503**	**297,487**	**271,112**
Current assets				
Inventories	14	3,235	413	-
Prepayments and deferred expenses		157	190	71
Trade receivables	15	5,511	2,258	1,162
Other receivables		-	-	484
Current loans and borrowings		-	3,064	2,922
Cash and cash equivalents	16	6,709	13,740	27,023
Total current assets		**15,612**	**19,665**	**31,662**
TOTAL ASSETS		**368,115**	**317,152**	**302,774**
EQUITY AND LIABILITIES				
Equity				
Issued capital	17	52,300	52,300	52,300
Legal reserve	18	477	-	-
Retained earnings (loss)		24,063	7,792	(4,640)
Total equity		**76,840**	**60,092**	**47,660**
Liabilities				
Non-current liabilities				
Non-current loans	19	126,151	135,261	139,633
Non-current lease liabilities		283	324	324
Grants and subsidies	21	124,811	112,019	107,774
Provisions		3	12	2
Total non-current liabilities		**251,248**	**247,616**	**247,733**
Current liabilities				
Loans	19	28,613	4,571	543
Lease liabilities		42	85	41
Trade payables		720	869	387
Prepayments received		3	-	1,300
Other current amounts payable and liabilities	22	10,649	3,919	5,110
Total current liabilities		**40,027**	**9,444**	**7,381**
Total liabilities		**291,275**	**257,060**	**255,114**
TOTAL EQUITY AND LIABILITIES		**368,115**	**317,152**	**302,774**

[1]Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2021 due to accounting policy change in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

Statement of changes in equity

For the year ended 31 December 2022

EURk	Notes	Issued capital	Legal reserve	Retained earnings (loss)	Total
Balance as at 1 January 2021		**52,300**	**-**	**(5,362)**	**46,938**
Change in accounting policy (Note 6)		-	-	722	**722**
Balance as at 1 January 2021 after restatement[1]		**52,300**	**-**	**(4,640)**	**47,660**
Net profit (loss)[1] for the year		-	-	12,439	**12,439**
Other comprehensive income (expenses)					
Result of change in actuarial assumptions		-	-	(7)	**(7)**
Total other comprehensive income (expenses) for the year				**(7)**	**(7)**
Total comprehensive income (expenses) for the year (restated)[1]		**-**	**-**	**12,432**	**12,432**
Balance as at 31 December 2021 (restated)[1]		**52,300**	**-**	**7,792**	**60,092**
Balance as at 1 January 2022		**52,300**	**-**	**7,792**	**60,092**
Net profit (loss)[1] for the year		-	-	16,742	**16,742**
Other comprehensive income (expenses)					
Result of change in actuarial assumptions		**-**	-	6	**6**
Total other comprehensive income (expenses) for the year		**-**	**-**	**6**	**6**
Total comprehensive income (expenses) for the year		**-**	**-**	**16,748**	**16,748**
Transferred to reserves and changes in reserves	19	-	477	(477)	**-**
Balance as at 31 December 2022		**52,300**	**477**	**24,063**	**76,840**

[1]Part of the amounts are inconsistent with the financial statements for the year ended 31 December 2021 due to a change in accounting policy in accordance with the requirements of the amendment to IAS 16. Further details are disclosed in Note 6.

Statement of cash flows

For the year ended 31 December 2022

EURk	Notes	2022	2021 (restated)[1]
Cash flows from operating activities			
Net profit (loss) for the year		16,742	12,439
Adjustments to reconcile net profit to net cash flows:			
Depreciation and amortisation	12, 13	7,375	4,217
Fair value changes of derivatives	22	(2,447)	2,447
Income tax expenses (income)	11	364	(6,138)
Amortisation of grants	21	(2,324)	(1,492)
Increase/(decrease) in provisions		(2)	2
Losses due to written-off property, plant and equipment		7	-
Interest income		(19)	(28)
Interest expenses	10	1,436	943
Other finance costs	10	12	4
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(3,337)	(717)
(Increase)/decrease in inventories, prepayments, deferred expenses and other current and non-current assets		(2,789)	(532)
Increase/(decrease) in trade payables, prepayments received, other current amounts payable and liabilities		2,251	(1,297)
Recovered corporate income tax	11.3	990	-
Net cash from/(used in) operating activities		**18,259**	**9,848**
Cash flows used in investing activities			
Acquisition of property, plant and equipment and intangible assets		(54,651)	(25,007)
Loan repayments received		3,062	-
Grants received	21	15,116	5,737
Interest received		21	28
Other increases/(decreases) in cash flows from investing activities		-	(142)
Net cash flows from/(used in) investing activities		**(36,452)**	**(19,384)**
Cash flows from/(used in) financing activities			
Cash-pool	20	19,112	-
Repayments of borrowings	20	(4,198)	(339)
Lease payments	20	(91)	(110)
Interest paid	20	(3,661)	(3,298)
Net cash flows from/(used in) financing activities		**11,162**	**(3,747)**
Increase (decrease) in cash and cash equivalents		**(7,031)**	**(13,283)**
Cash and cash equivalents at the beginning of the period	16	13,740	27,023
Cash and cash equivalents at the end of the period		**6,709**	**13,740**

[1]Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2021 due to accounting policy change in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

Explanatory Notes

For the year ended 31 December 2022

1 General information

UAB Vilniaus kogeneracinė jėgainė (hereinafter “the Company”) is a private limited liability company registered in the Republic of Lithuania. O 26 February 2015, the Company was registered with the Register of Legal Entities managed by the public institution the State Enterprise Centre of Registers. The registered address of the Company is: Jočionių St. 13, LT-02300 Vilnius, Lithuania. The company code is 303782367, VAT payer’s code – LT100009225717. The Company has been founded for an indefinite period. The reporting period is one year which ended on 31 December 2022.

The Company is engaged in operation of high-capacity cogeneration power plant in Vilnius, production of local competitive electricity and heat from waste.

Shareholder of the Company:

	31 December 2022		31 December 2021	
	Number of shares held	Ownership interest (%)	Number of shares held	Ownership interest (%)
AB Ignitis grupė	52,300	100	52,300	100
Total	**52,300**	**100**	**52,300**	**100**

The Company’s parent company is AB Ignitis grupė (company code 301844044, registered address Laisvės pr. 10, LT-04215 Vilnius, Lithuania), which owned 100% of shares of the Company as at 31 December 2022 and 2021. As at 31 December 2021, the shareholders were the Ministry of Finance of the Republic of Lithuania (74.99%), retail and institutional investors (25.01%). As at 31 December 2021, the shareholders were the Ministry of Finance of the Republic of Lithuania (73.08%), retail and institutional investors (25.25%), and own shares (1.67%).

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

As at 31 December 2022 and as at 31 December 2021, the Company did not have any subsidiaries.

These financial statements were signed by the management of UAB Vilniaus kogeneracinė jėgainė on 31 March 2023. The Company’s shareholders have a right to approve the present financial statements, refuse to approve them and require that new financial statements are drawn up.

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’) issued by International Accounting Standards Board (hereinafter referred to as ‘IASB’) and endorsed for application in European Union.

The Company’s financial statements as at and for the year ended 31 December 2022 (hereinafter – the financial statements) have been prepared on a going concern basis applying measurement based on historical acquisition cost.

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

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

2.2 Foreign currency

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

3 Summary of significant accounting policies

3.1 New standards, amendments and interpretations

3.1.1 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 2021, with the exception of the new standards, which entered into force during the year of 2022.

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

The following new standards and/or amendments, as approved by the International Accounting Standards Board (IASB) and adopted by the European Union for the year ended 31 December 2021

Standards or amendments that came into force during the year of 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
Annual Improvements to IFRS Standards 2018–2020
Reference to Conceptual Framework

The adoption of these standards, revisions and interpretations had no material impact on the financial statements except Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) as described below.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

In previous years, income received from the use of property, plant and equipment while bringing that asset to the location and condition necessary for it to be capable of operating in a manner intended by management and the expenses related to its earning were recognized as assets, i.e. were included in the acquisition cost of property, plant and equipment. After the amendments came into force, such income and expenses related to its earning are recognized as profit or loss.

The Company has performed an analysis of such revenues and related expenses and determined that adjustments are necessary. The Group has applied these amendments retrospectively in accordance of amendments requirements: only items of property, plant and equipment that are delivered to the site and are in such a condition that they can be used in the manner intended by management at the beginning of or after the earliest period considered for restatement of the financial statements in which the Group first applies the amendments. More information about the impact of these amendments on the Group's financial statements is disclosed in Note 6.

3.1.3 Standards issued but not yet effective and not early adopted

The Company did not adopt new IFRS, International Accounting Standards (hereinafter – IAS), their amendments and interpretations issued by International Accounting Standards Board (hereinafter – IASB), the effective date of which is later than 31 December 2022 and early adoption is permitted. The following are new standards and/or amendments to the standards that have been issued but not yet effective:

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

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 liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. Amendments are endorsed for application in European Union (hereinafter referred to as ‘EU’).

The management of the Company is currently assessing the impact of these amendments on the financial statements.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The objective of the amendments is to develop guidance and examples to help entities apply materiality judgements to accounting policy disclosures. More specifically, the amendments require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments also state that information about accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence the decisions that the primary users of those financial statements make. The amendments also clarify that:

− not all information about accounting relating to material transactions, other events or conditions is itself material;
− accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements;
− disclosing immaterial information about accounting policy is not prohibited but that it shall not obscure material accounting policy information; and the amendments do not relieve an entity from meeting other disclosure requirements within IFRS.

An entity shall apply these amendments for annual periods beginning on or after 1 January 2023. Early application is permitted. Amendments are endorsed for application in EU.

The management of the Company is currently assessing the impact of these amendments on the financial statements.

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 or amendments	IASB Effective date	EU Endorsement status
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023	Endorsed
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	Endorsed
Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)	1 January 2023	Endorsed
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2024	Not yet endorsed
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback	1 January 2024	Not yet endorsed

3.2 Revenue from contracts with customers

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

(i) customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and
(ii) the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract).

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

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

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

3.2.1 Revenue from the sale of electricity

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

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

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

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

3.2.2 Revenue from supply of thermal energy

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

The fixed part comprises the customer's payments for the actually supplied thermal energy.

3.2.3 Revenue from waste management

Based on contracts with customers, the seller is committed to provide waste disposal (incineration) services.

In the contract with customer, the consideration paid to the Company comprises the fixed consideration per waste unit. Fixed consideration comprises client payments for the actual quantity of waste accepted by the Company for disposal.

The Company recognises revenue by considering the actual delivered waste quantity at a price specified in the purchase and selling agreement.

3.3 Expense recognition

Expenses are recognised on an accrual basis when incurred under profit or loss in the statement of profit or loss and other comprehensive income.

3.4 Dividend distribution

Dividend distribution to the shareholders of the parent company is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the shareholders of the parent company.

3.5 Current and deferred tax

3.5.1 Income tax

Income tax assets and liabilities of the reporting and previous periods are stated at the amount which is expected to be recovered from or paid to a tax administration authority. The tax rates and tax laws used to compute the amount of income tax are those that are enacted or substantively enacted at the statement of financial position date.

Current income tax is calculated on profit before tax. The standard income tax rate in Lithuania was 15% in 2022 and 2021.

In Lithuania 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.

3.5.2 Deferred tax

Deferred tax is accounted for using the liability method. Deferred tax assets and deferred tax liability are recognised for future tax purposes to reflect differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent that is probable to reduce the taxable profit in future. These assets and liabilities are not recognised when temporary differences arise from goodwill or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available against which such deferred tax assets could be utilised in full or in part. Deferred tax assets are reduced to an amount which is likely to reduce the taxable profit in future.

Deferred tax is determined using tax rates that are expected to apply when the related deferred income asset is realized or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

3.5.3 Current and deferred tax for the reporting period

Current and deferred tax are recognised as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognised directly in equity or other comprehensive income in the same or subsequent period or on business combination.

3.5.4 Acquisition and transfer of accrued tax losses

Upon transfer of the accumulated tax losses, the Company derecognises deferred tax attributable to tax loss carried forward and recognises the consideration receivable in ‘Deferred income tax expenses’ caption in the statement of profit or loss and other comprehensive income.

When tax losses are acquired, the Company accounts for deferred tax assets and payables for the acquired tax losses through the deferred tax expenses account. These tax losses are deducted by the Company from the deferred income tax asset account when utilised.

For the purposes of the statement of cash flows, the consideration paid for the tax losses acquired is recorded in the line item ‘Income tax expenses (income)’ in the cash flows from operating activities.

3.6 Intangible assets

3.6.1 Patents, licences

Patents and licenses are measured initially at acquisition cost and are amortised on a straight-line basis over their estimated useful lives.

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. Amortisation is calculated using a straight-line basis over the estimated useful life of 4 years or a specific validity term of a license and/or patent, if any. Useful life is reviewed on year-by-year basis.

3.6.2 Computer software

Computer software is stated at cost, less accumulated amortisation 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 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. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3 to 13 years.

3.6.3 Other intangible assets

Intangible assets expected to provide economic benefits in future periods are measured at acquisition cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 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.

3.7 Property, plant and equipment

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

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

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

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

For accounting of borrowing costs - see Note 3.10.2.5.

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

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

Depreciation periods (number of years):

Category of property, plant and equipment	Useful lives (number of years)
Cogeneration plants and their installations	5-45
Other property, plant and equipment	3-30

3.8 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.

3.8.1 Initial measurement of right-of-use assets

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

3.8.2 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 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	50-80
Buildings	2-3
Vehicles	2-5
Other property, plant and equipment	2-3

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 Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company calculates the depreciation of the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

3.9 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amount of its property, plant and equipment, intangible assets and right-of-use assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of impairment (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, otherwise they are allocated to the smallest groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of the asset’s fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which were not considered in estimation of future cash flows.

If the recoverable amount of an asset (or cash generating unit - hereinafter “CGU”) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income.

3.10 Financial instruments

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

3.10.1 Financial assets

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

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

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

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

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets and characteristics of cash flows from these assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. The intentions of the Company’s management regarding separate instruments has no effect on the applied business model. The Company may apply more than one business model to manage its financial assets. In view of the business model applied for managing the group of financial assets, the accounting for financial assets, except for financial assets subsequently measured at FVOCI or FVPL as the Company does not have this kind of assets, is as follows:

3.10.1.1 Financial assets at amortised cost

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

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

3.10.1.2 Effective interest rate method

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

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

3.10.1.3 Impairment of financial assets – expected credit losses (hereinafter “ECL”)

The Company recognised ECL for all debt instruments not at fair value through profit or loss. ECL 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. Expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

ECL of other receivables and contract assets are estimated based on individual valuation.

3.10.1.4 Credit-impaired financial assets

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

3.10.1.5 Derecognition of financial assets

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

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

3.10.2 Financial liabilities and equity instruments issued

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

3.10.2.1 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.

3.10.2.2 Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:
- Financial liabilities at FVPL;
- Financial liabilities at amortised cost.

3.10.2.3 Financial liabilities at FVPL

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

3.10.2.4 Financial liabilities 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 in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

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

3.10.2.5 Classification and borrowing costs

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

If a financing agreement concluded before the statement of financial position date 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 that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income related to investment of borrowings until they are utilised for acquisition of assets are deducted from cost of those assets.

3.10.2.6 Derecognition of financial liabilities

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

3.10.3 Derivatives

The Company enters into derivative financial instruments transactions related to purchase and sale prices of electricity.
The Company enters into derivative transactions for hedging purposes, but does not document such transactions and does not apply hedge accounting.

3.10.3.1 Presentation

Fair value of derivative financial instruments is presented In the statement of financial position as “Other current amounts payable and liabilities” (Note 22).

Changes in fair value and result of settled derivatives for hedges that do not meet the qualifying criteria for hedge accounting are disclosed in the statement of profit or loss and other comprehensive income either as “Other income”, if result for a period of such derivatives is profit, or “Other expenses” if result of such derivatives for a period is loss (Note 8).

3.11 Inventories

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

3.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

3.13 Issued capital

Ordinary shares are classified as equity.

3.14 Lease liabilities

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

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

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

3.14.1 Short-term leases and leases of low-value assets

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

3.15 Grants and subsidies

3.15.1 Asset-related grants

For presentation of grants related to assets, the Company uses the method which recognises the grant as deferred revenue that is recognised in the statement of profit or loss and other comprehensive income 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 in the statement of profit or loss and other comprehensive income 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 non-current liabilities’ item “Grants and subsidies”.

3.16 Provisions

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

3.17 Employee benefits

3.17.1 State plans

The Company participates only in the State plans. State plans are established by legislation covering all entities and are managed by national or local government or another body (for example, in the case of the Company, the National Social Insurance Fund). State plans are a defined contribution plan, under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

3.17.2 Termination benefits

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

3.17.3 Non-current employee benefits

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

3.18 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

3.19 Related parties

Related parties include:

- Group companies
- parent company's controlling shareholders or those who have significant influence;
- associated companies;
- state-controlled entities and their subsidiaries (transactions with these entities are disclosed only if they are material);
- Ministry of Finance of the Republic of Lithuania and entities under control of the Minister of Finance (transactions with these entities are disclosed only if they are material);
- key management personnel, their close family members and their controlled entities.

3.20 Offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when a certain IFRS specifically requires such set-off.

3.21 Fair value

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

– in the principal market for the asset or liability

or

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

– Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
– Level 2: fair value of assets is based on other observable market data, directly or indirectly;
– Level 3: fair value of assets is based on non-observable market data.

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

3.22 Events after the reporting period

All events after the reporting period (adjusting events) are accounted for in the financial statements provided that they are related to the reporting period and have a significant impact on the financial statements. Events after the reporting period that are significant but are not adjusting events are disclosed in Note 26.

4 Financial risk management

4.1 Overview

Risk is a natural and inherent part of doing business and the risk profile is constantly changing. The Company aims to mitigate its risks and reduce them to acceptable levels through risk management. This section only describes the management of the main financial risks. The management of other risks is set out in the Governance Report.

4.2 Financial risk factors

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

4.2.1 Market risk

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

4.2.1.1 Currency risk

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

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

4.2.1.2 Interest rate risk

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

The Company’s income and operating cash flows are not substantially dependent of changes in market interest rate. As at 31 December 2022 and 2021, the Company's issued and received loans were subject to fixed interest rates.

As interest rate is fixed, analysis of sensitivity to fluctuations in interest rates is not presented.

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 Company (trade and other amounts receivable) and from financing activities (cash and cash equivalents).

The majority of the Company's receivables are held by two companies – a Group company, from which receivables account for 45% of total receivables, and an external customer, from whom receivables account for 41%. The Company's credit risk related to receivables is low as the Company's main customers are financially stable companies.

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

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

	Note	31 December 2022	31 December 2021
Financial assets measured at amortised cost:			
Non-current receivables		379	205
Trade receivables	15	5,511	2,258
Current borrowings		-	3,064
Cash and cash equivalents	16	6,709	13,740
Off-balance sheet commitments:			
Nominal value of the guarantees issued	23.2	4,103	3,051
Total		**16,702**	**22,318**

4.2.3 Liquidity risk

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

As at 31 December 2022, the Company's current liquidity ratio (total current assets/total current liabilities) and quick ratio (total current assets – inventories) / total current liabilities) were 0.39 (Note 4.3) and 0.31 respectively (31 December 2021: 2.08 and 2.04 respectively).

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

EURk	Note	31 December 2022	31 December 2021
Amounts payable measured at amortised cost			
Loans and borrowings	19	154,764	139,832
Lease liabilities		325	409
Trade payables		720	869
Other current amounts payable and liabilities	22	9,257	623
Financial liabilities measured at FVPL or FVOCI			
Derivatives	22	-	2,447
Total		**165,066**	**144,180**

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):

EURk	2022				Total
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	
Loans	20,705	9,077	44,505	90 074	**164,361**
Lease liabilities	24	29	47	673	**773**
Trade payables	720	-	-	-	**720**
Other payables	8,716	541	-	-	**9,257**
Derivatives	-	-	-	-	**-**
31 December 2022	**30,165**	**9,647**	**44,552**	**90,747**	**175,111**

EURk	2021				Total
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	
Loans	710	4,923	43,408	101,801	**150,842**
Lease liabilities	27	72	86	685	**870**
Trade payables	869	-	-	-	**869**
Other payables	623	-	-	-	**623**
Derivatives	2,447	-	-	-	**2,447**
31 December 2021	**4,676**	**4,995**	**43,494**	**102,486**	**155,651**

4.3 Going concern

The Company's financial statements are prepared on a going concern basis. Notwithstanding the assumption that at 31 December 2022, current liabilities exceeded current assets by EUR 24,415 thousand, the Company's management believes that this circumstance will not have a material impact on the Company's going concern. The negative difference between current assets and current liabilities is due to the loans received through the Group's cash-pooling platform and the current portion of the long-term loan received from the European Investment Bank.

It should be noted that the Company's stable cash flows from operating activities amounting to EUR 18,259 thousand in 2022 (EUR 9,848 thousand in 2021), will ensure future liquidity. As disclosed in Note 19, to manage a short-term need of cash flows as at 31 December 2022, the Company had unused financing facilities of EUR 50,888 thousand under the Group's intercompany borrowing and lending agreement.

On 20 February 2023, the Company's parent company presented a confirmation letter stating that it undertakes to continue providing financial and other support for at least the next twelve months from the date of this letter in order to enable the Company to continue trading and to meet its obligations.

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

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

To prepare the financial statements in accordance with IFRS, the management needs to make certain assumptions and estimates which have impact on the disclosure of amounts of assets, liabilities, income and expenses, and contingencies. Change in the underlying assumptions, estimates and judgements may have a material effect on the Company’s financial statements in the future.

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

5.1 Useful lifetime

As of 31 December 2022, a biomass site was put into operation. The useful lifetime was established based on the valuation of internal experts. More details on useful lives are presented in Notes 3.6 and 3.7.

5.2 Provision for plant dismantling and closure works

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

6 Restatement of comparative information as a result of change in accounting policy

The Company discloses the effect on these financial statements (Note 3.1.2) of the amendments to IAS 16 Property, Plant and Equipment. The cumulative effect of the first-time adoption of these amendments is recognised as an adjustment to the opening balance of retained earnings in the statement of changes in equity at the beginning of the earliest period presented.

The Company sets out below a restatement of the statements of financial position as at 1 January 2021 and 31 December 2021 and of the statements of cash flows and statements of profit or loss and other comprehensive income for the year 2021.

Restatement of the statement of financial position as at 1 January 2021:

EURk	Notes	As at 1 January 2021, before restatement	Restatement	As at 1 January 2021, after restatement
ASSETS				
Non-current assets				
Intangible assets		934	-	934
Property, plant and equipment		268,304	872	269,176
Right-of-use assets		357	-	357
Non-current receivables		100	-	100
Deferred tax asset		695	(150)	545
Total non-current assets		**270,390**	**722**	**271,112**
Total current assets		**31,662**	**-**	**31,662**
TOTAL ASSETS		**302,052**	**722**	**302,774**
EQUITY AND LIABILITIES				
Equity				
Issued capital		52,300	-	52,300
Retained earnings (loss)		(5,362)	722	(4,640)
Total equity		**46,938**	**722**	**47,660**
Total Liabilities		**255,114**	**-**	**255,114**
TOTAL EQUITY AND LIABILITIES		**302,052**	**722**	**302,774**

Restatement of the statement of financial position as at 31 December 2021:

EURk	Notes	As at 31 December 2021, before restatement	Restatement	As at 31 December 2021, after restatement
ASSETS				
Non-current assets				
Intangible assets		4,074	-	4,074
Property, plant and equipment		281,617	4,359	285,976
Right-of-use assets		403	-	403
Prepayments for non-current assets		144	-	144
Non-current receivables		205	-	205
Deferred tax asset		7,432	(747)	6,685
Total non-current assets		**293,875**	**3,612**	**297,487**
Total current assets		**19,665**	**-**	**19,665**
TOTAL ASSETS		**313,540**	**3,612**	**317,152**
EQUITY AND LIABILITIES				
Equity				
Issued capital		52,300	-	52,300
Retained earnings (loss)		4,180	3,612	7,792
Total equity		**56,480**	**3,612**	**60,092**
Total Liabilities		**257,060**	**-**	**257,060**
TOTAL EQUITY AND LIABILITIES		**313,540**	**3,612**	**317,152**

Restatement of the statement of profit or loss and other comprehensive income for 2021:

EURk	Notes	2021, before restatement	Restatement	2021, after restatement
Revenue from contracts with customers		16,373	4,258	20,631
Other income		203	-	203
Total revenue and other income		**16,576**	**4,258**	**20,834**
Purchase of electricity, natural gas and other services		(2,629)	(901)	(3,530)
Depreciation and amortisation		(,2,596)	(129)	(2,725)
Salaries and related expenses		(2,629)	-	(2,629)
Other expenses		(4,990)	259	(4,731)
Total expenses		**(12,844)**	**(771)**	**(13,615)**
Operating profit (loss)		**3,732**	**3,487**	**7,219**
Finance income		28	-	28
Finance expenses		(947)	-	(947)
Finance activity, net		**(919)**	**-**	**(919)**
Profit (loss) before tax		**2,813**	**3,487**	**6,300**
Deferred tax benefit (expenses)		6,736	(597)	6,139
Net profit (loss) for the year		**9,549**	**2,890**	**12,439**
Other comprehensive income (expenses)				
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)				
Change in actuarial assumptions		(7)	-	(7)
Total items that will not be reclassified to profit or loss in subsequent periods		**(7)**	**-**	**(7)**
Total other comprehensive income (expenses) for the year		(7)	-	(7)
Total comprehensive income (expenses) for the year		**9,542**	**2,890**	**12,432**

Restatement of the statement of cash flows for 2021:

EURk	Notes	2021, before restatement	Restatement	2021, after restatement
Cash flows from operating activities				
Net profit (loss) for the year		9,549	2,890	12,439
Adjustments to reconcile net profit to net cash flows:				
Depreciation and amortisation		4,088	129	4,217
Fair value changes of derivatives		2,447	-	2,447
Income tax expenses (income)		(6,736)	598	(6,138)
Amortisation of grants		(1,492)	-	(1,492)
Increase/(decrease) in provisions		2	-	2
Losses due to written-off property, plant and equipment		(28)	-	(28)
Interest income		943	-	943
Interest expenses		4	-	4
Other finance costs				
Changes in working capital:		(717)	-	(717)
(Increase)/decrease in trade and other receivables		(532)	-	(532)
(Increase)/decrease in inventories, prepayments, deferred expenses and other current and non-current assets		(1,296)	(1)	(1,297)
Increase/(decrease) in trade payables, prepayments received, other current amounts payable and liabilities		**6,232**	**3,616**	**9,848**
Cash flows used in investing activities				
Acquisition of property, plant and equipment and intangible assets		(21,391)	(3,616)	(25,007)
Grants received		5,737	-	5,737
Interest received		28	-	28
Other increases/(decreases) in cash flows from investing activities		(142)	-	(142)
Net cash flows from investing activities		**(15,768)**	**(3,616)**	**(19,384)**
Net cash flows from financing activities		**(3,747)**	**-**	**(3,747)**
Increase (decrease) in cash and cash equivalents		**(13,283)**	**-**	**(13,283)**
Cash and cash equivalents at the beginning of the period		27,023	-	27,023
Cash and cash equivalents at the end of the period		**13,740**	**-**	**13,740**

7 Revenue from contracts with customers

7.1 Disaggregated revenue information

EURk	2022	2021 (restated)[1]
Revenue from the sale of electricity	21,948	8,594
Revenue from distribution of thermal energy	14,838	6,796
Revenue from waste management	5,497	5,241
Total	**42,283**	**20,631**

[1]Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2021 due to accounting policy change in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

7.2 Rights to returned goods and payable amounts

The Company has no material contracts in place that set out the customer rights to return goods.

8 Purchases of electricity, gas and other services

EURk	2022	2021 (restated)[1]
Electricity costs, balancing services and procurement of related services	2,705	1,188
Operating costs of CHP plants	2,575	1,914
Purchases of gas and related services	212	428
Total	**42,283**	**20,631**

[1]Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2021 due to accounting policy change in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

9 Other expenses

EURk	2022	2021 (restated)[1]
Derivative financial instruments	6,702	2,447
Repair and maintenance	1,184	289
Consulting services[2]	712	746
Telecommunications and IT services	405	247
Personnel training and administration expenses[3]	233	132
Taxes	118	94
Utilities[2]	97	184
Other[2]	816	592
Total	**10,267**	**4,731**

[1]Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2021 due to accounting policy change in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.
[2] In 2022, the Company has classified the consulting expenses within the line 'Consulting services', therefore the comparative figures for 2021 have been changed accordingly by reclassifying EUR 393 thousand from the line 'Business support services' and EUR 199 thousand from 'Legal expenses'.
[3] In 2022, the Company has classified personnel training and administration expenses in the line 'Personnel training and administration expenses'; therefore the comparative figures for 2021 have been changed accordingly by reclassifying EUR 67 thousand from the line 'Business support services'. and EUR 65 thousand from the line 'Other'.

The result of realised and unrealised derivatives is presented in the profit and loss part in the statement of profit or loss and other comprehensive income (Note 3.10.3). The result of derivatives in the statement of profit or loss and other comprehensive income is presented on a net basis, taking into account the final result for the period. The result of these financial instruments can be presented as follows:

EURk	2022	2021
Profit (loss) from realised derivative financial instruments	(9,149)	-
Profit (loss) from unrealised derivative financial instruments[1]	2,447	(2,447)
Total profit (loss)	**(6,702)**	**(2,447)**

[1]Change in the fair value of unrealised derivative financial instruments

10 Finance expenses

EURk	2022	2021
Interest expenses	1,427	931
Interest and discount expense on lease liabilities	9	12
Other expenses of financing activities	14	4
Total	**1,450**	**947**

10.1. Interest expenses of the Company

The Company incurs interest expense on non-current loans payable. In 2022, the Company paid interest in cash in the amount of EUR 3,661 thousand (2021 – EUR 3,298 thousand), which are presented in the cash flow statement under 'Interest paid'.

11 Income taxes

11.1 Amounts recognised in profit or loss

EURk	2022	2021 (restated)[1]
Deferred income tax expenses (benefit)	322	(6,139)
Result from sale of tax losses	42	-
Income tax expense (benefit), recognised in profit or loss	**364**	**(6,139)**

[1] Part of the amounts do not agree with the financial statements issued for the year 2021 due to change of accounting policy in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

11.2 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:

EURk	2022	2022	2021	2021 (restated)[1]
Profit (loss) before tax		17,106		6,300
Income tax expenses (benefit) at tax rate of 15%	15.00%	2,566	15.00%	945
Expenses not deductible for tax purposes	0.55%	94	0.17%	11
Income tax relief for the investment project	(13.67)%	(2,338)	(98.49)%	(6,205)
Adjustments of the prior year	-	-	1.17%	74
Tax losses utilised	-	-	(15.30)%	(964)
Tax losses sold	0.25%	42	-	-
Income tax expenses (benefit)	**2.12%**	**364**	**(97.45)%**	**(6,139)**

[1] Part of the amounts do not agree with the financial statements issued for the year 2021 due to change of accounting policy in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

11.3 Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.
Movement of deferred tax assets and liabilities during the reporting period were as follows:

EURk	As at 31 December 2020	Recognised In profit or loss	Recognised in other comprehensive income	2021 (restated)[1]	Recognised in profit or loss	Impact of tax losses sold	Recognised in other comprehen-sive income	As at 31 December 2022
Deferred tax asset								
Accrued expenses	29	27	-	56	7	-	-	63
Unrealised investment relief	-	6,096	-	6,096	292	-	-	6,388
Tax losses carry forward	1,065	(3)	-	1,062	(30)	(1,032)	-	-
Derivatives	-	367	-	367	(367)	-	-	-
Other	1	3	1	5	46	-	(1)	50
Deferred tax asset	**1,095**	**6,490**	**1**	**7,586**	**(52)**	**(1,032)**	**(1)**	**6,501**
Deferred income tax liability								
Differences in depreciation rates	-	2	-	2	-	-	-	2
Capitalised interest	550	349	-	899	269	-	-	1,168
Deferred tax liability	**550**	**351**	-	901	**269**	**-**	**-**	**1,170**
Deferred tax, net	**545**	**6,139**	**1**	**6,685**	**(321)**	**(1,032)**	**(1)**	**5,331**

[1] Part of the amounts do not agree with the financial statements issued for the year 2021 due to change of accounting policy in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

Deferred tax assets and liabilities are offset in the statement of financial position to the extent that they relate to the same tax authority.

On 14 June 2022, the Company signed a tripartite agreement under which AB "Ignitis Gamyba" transferred tax losses of EUR 6,882 thousand (deferred tax assets amount to EUR 1,032 thousand) and received consideration of EUR 990 thousand.

As at 31 December 2022, the Company did not have any temporary differences for which deferred tax was not recognized.
As at 31 December 2021, the Company did not recognised an additional deferred tax asset on the unused investment relief of EUR 60,936 thousand (the deferred tax asset would be EUR 9,140 thousand).

12 Intangible assets

	Patents and licences	Computer software	Other intangible assets	Total
1 January 2021				
Acquisition cost	84	574	328	**986**
Accumulated amortisation	(25)	-	(27)	**(52)**
Carrying amount	**59**	**574**	**301**	**934**
Carrying amount as at 1 January 2021	**59**	**574**	**301**	**934**
Additions	-	64	-	**64**
Reclassified (to) from property, plant and equipment	-	3,362	-	3,362
Amortisation charge	(21)	(183)	(82)	(286)
Carrying amount as at 31 December 2021	**38**	**3,817**	**219**	**4,074**
31 December 2021				
Acquisition cost	84	3,999	328	**4,411**
Accumulated amortisation	(46)	(182)	(109)	**(337)**
Carrying amount	**38**	**3,817**	**219**	**4,074**
Carrying amount as at 1 January 2022	**38**	**3,817**	**219**	**4,074**
Additions	-	8	3	**11**
Reclassified (to) from property, plant and equipment	-	71	-	71
Amortisation charge	(21)	(315)	(83)	(419)
Carrying amount as at 31 December 2022				
31 December 2022				
Acquisition cost	84	4,084	331	**4,499**
Accumulated amortisation	(67)	(503)	(192)	**(762)**
Carrying amount	**17**	**3,581**	**139**	**3,737**

12.1. Fully amortised intangible assets

As at 31 December 2022 and 2021, the Company had no fully amortised intangible assets used in operations.

12.2. Acquisition commitments

Acquisitions of intangible non-current assets in 2022 amounted to EUR 11 thousand and were related to other activities.

As at 31 December 2022 and 2021, the Company had no significant acquisition commitments of intangible assets to be fulfilled during subsequent years.

12.3. Pledged assets

As at 31 December 2022 and 2021, the Company did not have any pledged intangible non-current assets.

13 Property, plant and equipment

13.1. Company's property, plant and equipment

	Cogeneration plants	Other property, plant and equipment	Construction-in-progress	Total
1 January 2021				
Acquisition cost	-	225	268,061	**268,286**
Accumulated depreciation	-	(19)	-	**(19)**
Carrying amount	**-**	**206**	**268,061**	**268,267**
Effect of change in accounting policy (Note 5)	-	-	872	872
Restated carrying amount as at 1 January 2021[1]	**-**	**206**	**268,933**	**269,139**
Additions	108	69	23,847	**24,024**
Reclassifications between categories	125,800	24,135	(149,935)	**-**
Reclassified (to) from property, plant and equipment	-	-	(3,362)	**(3,362)**
Depreciation charge	(3,185)	(640)	-	**(3,825)**
Carrying amount as at 31 December 2021[1]	**122,723**	**23,770**	**139,483**	**285,976**
31 December 2021				
Acquisition cost	125,908	24,429	139,483	**289,820**
Accumulated depreciation	(3,185)	(659)	-	**(3,844)**
Carrying amount	**122,723**	**23,770**	**139,483**	**285,976**
Carrying amount as at 1 January 2022				
Additions	37	431	58,555	**59,023**
Write-offs	-	(7)		**(7)**
Reclassifications between categories	5,745	1,832	(7,577)	**-**
Reclassified (to) from property, plant and equipment	-	30	(101)	**(71)**
Reclassified from/to inventories	(73)	(16)	-	**(89)**
Depreciation charge	(5,307)	(1,553)	-	**(6,860)**
Carrying amount as at 31 December 2022	**123,125**	**24,487**	**190,360**	**337,972**
31 December 2022				
Acquisition cost	131,616	26,692	190,360	**348,668**
Accumulated depreciation	(8,491)	(2,205)	-	**(10,696)**
Carrying amount	**123,125**	**24,487**	**190,360**	**337,972**

[1] Part of the amounts do not agree with the financial statements issued for the year 2021 due to change of accounting policy in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

13.2. Additions of property, plant and equipment

In 2022, acquisitions of property, plant and equipment amounted to EUR 59,023 thousand, of which EUR 52,881 thousand related to the operation of the biomass power plant, EUR 5,676 thousand to the operation of the biomass site and EUR 466 thousand to other activities.

The Company has significant acquisition commitments of property, plant and equipment which will have to be fulfilled during the later years. Liabilities related to the acquisition of property, plant and equipment amounted to EUR 56,599 thousand as at 31 December 2022 (31 December 2021: EUR 3,249 thousand).

In 2022, the Company capitalised EUR 1,859 thousand of interest on loans intended to finance the development of non-current assets (2021: EUR 2,352 thousand). The average capitalised interest rate was 1.224% in 2022 and 1.44% in 2021.

13.3. Fully depreciated property, plant and equipment

The cost of the Company's fully depreciated property, plant and equipment in used is as follows:

EURk	31 December 2022	31 December 2021
Other property, plant and equipment	9	7
Total	**9**	**7**

13.4. Pledged property, plant and equipment

As at 31 December 2022 and 2021, the Company did not have property, plant and equipment pledged.

14 Inventories

EURk	31 December 2022	31 December 2021
Biomass	2,685	-
Consumables, raw materials and spare parts	437	359
Other	113	54
Carrying amount	**3,235**	**413**

The Company's inventories expensed were as follows:

EURk	2022	2021 (restated)[1]
Natural gas	212	428
Total	**212**	**428**

[1] Part of the amounts do not agree with the financial statements issued for the year 2021 due to change of accounting policy in accordance with IAS 16 amendment requirements. See more information disclosed in Note 6.

15 Trade receivables

EURk	31 December 2021	31 December 2020
Amounts receivable from contracts with customers		
Receivables for distribution of electricity	2,453	99
Receivables for distribution of heat	2,269	1,402
Receivables for waste management	789	757
Total	**5,511**	**2,258**
Less: impairment of trade receivables	-	-
Carrying amount	**5,511**	**2,258**

As at 31 December 2022 and 2021, the Company had not pledged claim rights to trade receivables.

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

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

	31 December 2022		31 December 2021	
EURk	Trade receivables	Impairment	Trade receivables	Impairment
Not past due	5,417	-	2,258	-
Up to 30 days	85	-	-	-
30-60 days	5	-	-	-
60-90 days	-	-	-	-
90-120 days	-	-	-	-
More than 120 days	4	-	-	-
Carrying amount	**5,511**	**-**	**2,258**	**-**

The fair values of trade receivables as at 31 December 2022 and 2021 approximated their carrying amounts.

16 Cash and cash equivalents

EURk	31 December 2022	31 December 2021
Cash balances in bank accounts	6,709	13,740
Carrying amount	**6,709**	**13,740**

The fair values of cash and cash equivalents as at 31 December 2022 and 31 December 2021 approximated their carrying amounts.

Under the loan agreements signed with the banks, the Company has pledged current and future cash inflows. As at 31 December 2022, the balance of cash pledged amounted to EUR 6,013 thousand (31 December 2021: EUR 4,246 thousand).

17 Equity

17.1 Capital management

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

According to the Law on Companies of the Republic of Lithuania, the authorised capital of a private joint-stock company must be at least EUR 2.5 thousand. The shareholders' equity must be at least 50% of the authorised capital of the company. As at 31 December 2022 and 2021, the Company complied with the capital regulatory requirements.

17.2 Issued capital

EURk	31 December 2022	31 December 2021
Issued capital		
Ordinary shares, EUR	52,300	52,300
Ordinary shares issued and fully paid, EUR	**52,300**	**52,300**

As at 31 December 2022 and 2021, the Company's issued capital comprised EUR 52,300 thousand and was divided in to 180,344,828 registered ordinary shares with par value of EUR 0.29 of each. As at 31 December 2022, all issued shares were paid fully.

18 Reserves

18.1 Legal reserve

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

As at 31 December 2022 and 2021, the Company's legal reserve was not fully formed.

19 Loans

EURk	31 December 2022	31 December 2021
Non-current		
Bank loan	126,151	135,261
Current		
Current part of Bank loan	9,123	4,211
Cash-pool	19,112	-
Accrued interest	378	360
Total	**154,764**	**139,832**

Non-current loans by maturity:

EURk	31 December 2022	31 December 2021
From 1 to 2 years	9,798	9,098
From 2 to 5 years	29,436	49,059
After 5 years	86,917	77,104
Total	**126,151**	**135,261**

On 5 December 2016, the Company and the European Investment Bank (EIB) signed the agreement for the loan of EUR 190 million designated for the funding of the construction of a cogeneration power plant in Vilnius. The EIB loan for this project is allocated from the European Strategic Investment Fund also referred to as the European Commission President Jean-Claude Juncker Plan.

On 18 May 2016, the Company entered into an intercompany borrowing and lending agreement with the Group of companies of AB Ignitis grupė, which is open-ended and under which the Company may obtain short-term loans from other Group companies. As of 25 May 2022, the internal borrowing limit is EUR 70,000 thousand and is set for the period until 24 May 2023. As at 31 December 2022, the Company has borrowed EUR 19,112 thousand from related parties on the Group's intercompany borrowing platform.

19.1 Covenants and unwithdrawn balances

The loan agreements provide for financial and non-financial covenants that the Company is obliged to comply with. As at 31 December 2022 and 2021, the Company complied with all contractual commitments.

As at 31 December 2022, the balance of the Company's undrawn loans on the Group's cash-pool platform was EUR 50,888 thousand. (31 December 2021: EUR 30,000 thousand).

As at 31 December 2022, the unused balance of the loan was EUR 50 million (31 December 2021: EUR 50 million), which is not planned to be used. The loan has to be paid until 7 April 2037. The loan is subject to a fixed interest rate.

20 Net debt

Net debt is a non-IFRS liquidity metric used to determine the value of debt against highly liquid assets owned by the Company. While implementing risk management strategy, the management monitors net debt ratio.

This note sets out an analysis of net debt, a non-IFRS measure for the purposes of these financial statements presentation defined by management as presented below.

Net debt balances:

EURk	31 December 2022	31 December 2021
Cash and cash equivalents	(6,709)	(13,740)
Non-current loans payable after one year	126,151	135,261
Current loans - Cash-pool	19,318	-
Current loans payable within one year (including accrued interest)	9,295	4,571
Lease liabilities	325	409
Net debt	**148,380**	**126,501**

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

EURk	Assets	Lease payments		Loans		
	Cash	Non-current	Current	Non-current	Current	Total
Net debt as at 1 January 2021	**(27,023)**	**324**	**41**	**139,633**	**543**	**113,518**
Cash changes						
(Increase) decrease in cash and cash equivalents	13,283	-	-	-	-	**13,283**
Repayments of borrowings	-	-	-	-	(339)	**(339)**
Lease payments	-	-	(110)	-	-	**(110)**
Interest paid	-	-	(10)	-	(3,288)	**(3,298)**
Non-cash changes						
Accrual of interest payable	-	-	12	-	3,283	**3,295**
Lease contracts concluded	-	72	80	-	-	**152**
Reclassifications between items	-	(72)	72	(4,372)	4,372	**-**
Net debt as at 31 December 2021	**(13,740)**	**324**	**85**	**135,261**	**4,571**	**126,501**
Net debt as at 1 January 2022						
Cash changes						
(Increase) decrease in cash and cash equivalents	7,031	-	-	-	-	**7,031**
Cash-pool platform	-	-	-	-	19,112	**19,112**
Repayments of borrowings	-	-	-	-	(4,198)	**(4,198)**
Lease payments	-	-	(91)	-	-	**(91)**
Interest paid	-	-	(9)	-	(3,652)	**(3,661)**
Non-cash changes						
Accrual of interest payable	-	-	9	-	3,286	**3,295**
Lease contracts concluded	-	7	21	-	-	**28**
Write-off of lease liabilities	-	-	(21)	-	-	**(21)**
Reclassifications between items	-	(48)	48	(9,110)	9,110	**-**
VAT on payable interest	-	-	-	-	384	**384**
Net debt as at 31 December 2022	**(6,709)**	**283**	**42**	**126,151**	**28,613**	**148,380**

21 Grants and subsidies

The balance of grants and subsidies comprises grants to finance acquisition of property, plant and equipment. Movements on the account of grants were as follows:

EURk	Company's waste and biofuel power plants and biofuel site projects
Carrying amount as at 1 January 2021	**107,774**
Depreciation and amortisation	(1,492)
Grants received	5,737
Carrying amount as at 31 December 2021	**112,019**
Carrying amount as at 1 January 2022	
Depreciation and amortisation	(2,324)
Grants received	15,116
Carrying amount as at 31 December 2022	**124,811**

On 18 October 2017, the Company signed the agreement with the Environmental Project Management Agency (hereinafter "the APVA") under the Ministry of Environment of the Republic of Lithuania. Financing granted for the implementation of the project from the 2014–2020 EU structural funds (the Cohesion Fund) amounted to EUR 48,553 thousand. On 31 October 2017, the bilateral agreement was signed between the Company and the public institution Lithuanian Business Support Agency (hereinafter "the LVPA"), under which the financial support of EUR 90,859 thousand was granted for the implementation of the project from the EU structural funds (the Cohesion Fund).

On 17 January 2022, the contract with APVA project was extended until 31 July 2022, and on 26 March 2021, the project implementation term of the contract with LVPA was extended until 1 September 2023.

In 2022, the Company received EUR 15,116 thousand from EU structural funds (the Cohesion fund) (2021: EUR 5,737 thousand). In total, until 31 December 2022, the amount of EUR 128,626 thousand was received.

22 Other current amounts payable and liabilities

EURk	31 December 2022	31 December 2021
Amounts payable for property, plant and equipment	9,256	607
Taxes (other than income tax)	662	175
Employment related liabilities	625	545
Accrued expenses	105	129
Other current amounts payable	1	16
Derivatives	-	2,447
Carrying amount	**10,649**	**3,919**

Financial liabilities comprise EUR 9,257 thousand from 'Total other current amounts payable and liabilities' (EUR 3,070 thousand as at 31 December 2021). Taxes (other than income tax), employment related liabilities and accrued expenses are not financial liabilities.

22.1 Derivatives

As at 31 December 2021, liabilities from derivatives related to trade in electricity amounted to EUR 2,447 thousand.

On 26 October 2022, the Company agreed with a Group company on the terms and conditions for the physical purchase and sale of electricity, and as a result, as at 31 December 2022, there were no electricity transactions remaining to be accounted for as derivative financial instruments.

The Company carries out trade in derivative financial instruments linked to the market prices of electricity through over-the-counter transactions (directly with the Group company).

23 Contingent liabilities and commitments

23.1 Litigations

23.1.1 Litigation with Rafako S.A.

On 10 July 2020 Rafako S.A. filed a claim in Arbitration Institute of the Stockholm Chamber of Commerce (hereinafter "Arbitration Court") concerning the construction contract. On 22 January 2021, Rafako S.A. filed full Statement of Claim and mandates its requests after assessing the termination of the contract on 6 October 2020.

In accordance with the schedule approved by the Arbitral Court, in 2021 and 2022, the parties submitted procedural documents to the Arbitral Tribunal and the Arbitral Tribunal held hearings. On 5 August 2022 ,the Arbitral Tribunal issued a favourable award which, among other things, held that the Company was justified in terminating its contract with Rafako S.A. and was entitled to liquidated damages. The issues of damages and their amount are scheduled to be examined in a second phase. The issues of damages and the amount of damages are scheduled to be examined in a second phase. Further hearings before the Court of Arbitration will be held and other procedural steps of the parties will be carried out in accordance with the schedule approved by the Court of Arbitration.

The company expects to successfully defend its interests. The Company's management believes that the dispute is unlikely to have significant financial implications for the implementation of the project.

23.1.2 Litigations with subcontractors

As at 31 December 2022, the Company, as a defendant or a third party, has been involved in litigations with subcontractors regarding potential liabilities, although it has paid the main contractor in full for the contract and its work.

The outcome of litigation should not create additional obligations for the Company in relation to subcontractors.

23.2 Guarantees

As at 31 December 2022, the Company had issued guarantees to secure its liabilities for the amount of EUR 4,103 thousand (31 December 2021: EUR 3,051 thousand). Significant guarantees are described below.

On 9 September 2021, the Company has issued a guarantee of EUR 1,200 thousand to Litgrid, AB, as it had entered into an agreement on connection of electricity generation facilities to electricity transmission grids, a letter of intent is signed with producer not seeking to participate in the auction for the allocation of promotion quotas. The Company is committed to complete the works of construction and installation of electrical equipment of biofuel plant. The guarantee expires on 31 August 2024.

On 29 March 2022, the Company issued a guarantee of EUR 782 thousand to the Environmental Protection Department under the Ministry of Environment. When generating power from waste incineration, the Company must hold an integrated pollution prevention and control (IPPC) permit. One of preconditions for the permit is to hold a plan for the cessation of waste handling or disposal operations and the statement of expenditure for the implementation of the plan. The guarantee secures the financing of measures specified in the operations cessation plan in case of bankruptcy or in other circumstances when the Company must cease waste handling or disposal operations. The guarantee expires on 26 March 2023.

On 20 November 2022 and 23 December 2022, the Company issued guarantees of EUR 2,100 thousand to Nord Pool AS. These guarantees secure fulfilment of payment obligations by the Company to Nord Pool participants and/or the Exchange Operator. The maturity dates of the guarantees are 20 November 2023 and 19 November 2024.

23.3 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, the management of the Company has concluded that: 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 Company companies is being constantly reviewed.

24 Related-party transactions

Related parties, EURk	Amounts receivable 31 December 2022	Loans issued 31 December 2022	Amounts payable 31 December 2022	Loans receivable 31 December 2022	Sales 2022	Purchases 2022	Finance income (costs) 2022
Parent company AB Ignitis grupė	-	-	17	18,759	-	47	(1,863)
Other Group companies	2,452	-	215	559	4,409	8,215	20
State-controlled UAB EPSO-G group companies	250	-	58	-	579	261	-
Total	**2,702**	**-**	**290**	**19,318**	**4,988**	**8,523**	**(1,843)**

Related parties, EURk	Amounts receivable 31 December 2021	Loans issued 31 December 2021	Amounts payable 31 December 2021	Loans receivable 31 December 2021	Sales 2021	Purchases 2021	Finance income (costs) 2021
Parent company AB Ignitis grupė	-	-	203	-	-	146	(1,841)
Other Group companies	-	3,064	2,647	-	-	3,715	26
State-controlled UAB EPSO-G group companies	175	-	1	-	243	438	-
Total	**175**	**3,064**	**2,851**	**-**	**243**	**4,299**	**(1,815)**

The Company purchases management services from the parent company, and from Group companies - purchases services related to lease of assets, information technology and telecommunications, organisation and execution of public procurement, accounting and personnel administration services.

There were also transactions involving derivatives (note 22.1).

During 2022 and 2021, the Company used the Group's cash-pool platform. In 2022, the granted funds were recovered and additional funds were drawn (Note 19). During 2021, the Company lent funds through the platform (see above table 'Loans issued').

24.1 Terms of transactions with related parties

The payment terms set range from 15 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. There were no guarantees given or received in respect of the related party payables and receivable.

24.2 Compensation to key management personnel

EURk	2022	2021
Wages and salaries and other current benefits to key management	126	131
Whereof:		
Short-term benefits: wages, salaries and other	126	131
Termination benefits	-	-
Number of key management personnel	4	4

In 2022 and 2021, the key management personnel of the Company were the Chief Executive Officer and members of the Management Board. For more information on the key management personnel, see the section 'Governance report' of the Annual report.

25 Fair values of financial instruments

25.1 Financial instruments measured at fair value

As at 31 December 2021, the Company has accounted for liabilities arising from financial derivatives. The Company accounts for financial derivative liabilities at fair value and their accounting policies are set out in Note 2.8.3. Market values based on observable inputs (Level 2) comprise derivatives where valuation models with observable inputs are used to measure fair value. All liabilities measured at market value are measured on a recurring basis. The Company attributes to Level 2 of the fair value hierarchy derivative financial instruments linked with the Lithuanian/Latvian electricity price areas. Derivatives acquired directly from other market participants (OTC contracts) and physical transmission rights acquired are determined based on the prices of the NASDAQ Commodities exchange.

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

As at 31 December 2022, there were no transactions of derivative financial instruments related to electricity market prices (Note 22.1).

25.2 Financial instruments for which fair value is disclosed

The fair value of the Company's financial liabilities related to its debt obligations to Group companies is calculated by discounting future cash flows at a rate of interest observable in the market. As at 31 December 2022, the cash flows were discounted using a weighted average discount rate of 4.80%. The measurement of financial liabilities related to debt is classified within level 2 of the fair value hierarchy.

The fair value of the Company's financial liabilities related to debt liabilities to commercial banks is calculated by discounting future cash flows with reference to the interest rate observable in the market. The cash flows were discounted using a weighted average discount rate of 4.80% as at 31 December 2022 (31 December 2021: 2.76%). The measurement of financial liabilities related to the debts is attributed to Level 2 of the fair value hierarchy.

The table below presents allocation between the fair value hierarchy levels of the Company's financial instruments as at 31 December 2022:

	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Financial instruments for which fair value disclosed						
Assets						
Loans issued to Group companies		**-**	-	-	-	**-**
Liabilities						
Loans from state-controlled investment banks	19	**135,446**	-	75,536	-	**75,536**
Current loans – cash-pool	19	**19,318**	-	19,318	-	**19,318**

The table below presents allocation between the fair value hierarchy levels of the Company's financial instruments as at 31 December 2021:

	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Financial instruments measured at FVPL or FVOCI						
Liabilities						
Derivatives	**22**	**2,447**	-	2,447	-	**2,447**
Financial instruments for which fair value disclosed						
Assets						
Loans issued to Group companies		**3,064**	-	3,064	-	**3,064**
Liabilities						
Loans from state-controlled investment bank	19	**139,832**	-	111,415	-	**111,415**
Current loans – cash-pool	19	**-**	-	-	-	**-**

26 Events after the reporting period

26.1 Company's agreement with AB Swedbank amounting to EUR 220 million

On 9 March 2023, the Company signed a long-term agreement of EUR 220 million (the 'Loan') with Swedbank AB ('Swedbank'), and the parent company entered into a credit line agreement of up to EUR 80 million (the 'Credit Line') with Swedbank. The Management Board also approved the parent company to take over the Company's loan received from the European Investment Bank.

EUR 85 million out of the EUR 220 million loan granted by Swedbank, will be used to finance the completion of the construction of the Company's biomass unit, while the remaining EUR 135 million will be used to refinance the EIB loan granted to the Company, which is taken over by the parent company.

26.2 Litigations

After the end of the reporting period, in the part of legal disputes (Note 23.1.2), court decisions were made that were favorable to the Company. The outcome of legal disputes should not create additional obligations for the Company towards subcontractors.

There were no other significant events after the reporting period until the issue of these financial statements.

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Independent Auditor’s Report

To the Shareholders of UAB Vilniaus kogeneracinė jėgainė

Opinion

We have audited the financial statements of UAB Vilniaus kogeneracinė jėgainė (“the Company”). The Company’s financial statements comprise:

- the statement of profit or loss and other comprehensive income as at 31 December 2022,
- the statement of financial position for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, comprising significant 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting 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 Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

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

Company code: 111494971
VAT code: LT114949716

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

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting 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 Statements

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

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

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

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

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

On behalf of KPMG Baltics, UAB

EDVINAS ŽUKAUSKAS Digitally signed by EDVINAS ŽUKAUSKAS Date: 2023.03.31 16:56:16 +03'00'

Edvinas Žukauskas
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
31 March 2023

The electronic auditor's signature applies only to the Independent Auditor's Report on pages 82 to 84 of this document.

6.3 Information on the auditor

Overview

There were no change in the Company's independent auditor during 2022. KPMG Baltics UAB (KPMG) became the Group's independent auditor with effect from the appointment by the Company's Ordinary General Meeting of Shareholders held on 5 October 2021. Under the contract, KPMG audited the Company's accounts for 2021 and 2022. Prior to KPMG, the Company's independent auditor was Ernst & Young Baltic UAB, which audited the Company's financial statements for the period from 2019 to 2021.

Taking into the consideration the term end of the agreement with KPMG, a new public tender for the audit of the parent company's financial statements, the Group's consolidated financial statements and the Group companies financial statements was announced in July 2022, during which the audit companies were invited to submit their offers. Finally, we expect to finalise the tender procedures in Q1 2023 and the new independent auditor for the 5 year term (for the years 2023-2027) is expected to be appointed by the parent company's General Meeting of Shareholders in H1 2023.

Worth noting that all independent auditor related tenders are carried out according to the prevailing best practices. Additionally, as public procurement law requirements are applicable to the parent company, all audit tenders are carried out in accordance to them. The key criteria of implementing public tenders is to ensure competitiveness and accordingly the only specific audit selection criteria eligible to be included is an experience in auditing energy sector companies. Finally, the whole audit selection process is supervised by the Audit Committee and the independent auditor is appointed by the decision of the General Meeting of Shareholders of the parent company and subsequently by the General Meeting of Shareholders of each Group company

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

2021 – 2022	2019 – 2020
KPMG Baltics, UAB Lvivo St. 101 LT-08104 Vilnius, Lithuania	Ernst & Young Baltic, UAB Aukštaičių St. 7 LT-11341 Vilnius, Lithuania

Services and fees

During the period of 2021–2022, the following services have been provided by the independent auditor and its international partners.

Based on the Group's policy the annual fee for non-audit services provided by our statutory auditor cannot exceed the annual fee for statutory audit services measured at Group level. The cap may be exceeded subject to approval by the Audit Committee of the parent company.

Independent auditor's services and fees

EURk	2022	2021
Audit of the annual financial statements under the agreements	31	31
Other services[1]	1	1
Total	**32**	**32**

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

7 Additional information

7.1 Other important statutory information

The Annual Report provides information to the shareholders, creditors and other stakeholders of UAB Vilniaus kogeneracinė jėgainė (hereinafter - the Company) about the Company's and its subsidiaries', if any, operations for the period of January–December 2022.

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

The Company's management is responsible for the information contained in the Annual report. The report and the documents, on the basis of which it was prepared, are available at the head office of the Company (Jočionių St. 13, 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: UAB Vilniaus kogeneracinė jėgainė
2. Legal form: Closed Joint Stock Company
3. Share capital: EUR 52,300,000.12
4. Registration date and place: 26 February 2015, Vilnius
5. Company code: 303782367
6. Company address: Jočionių St. 13, Vilnius
7. Company's register: Register of Legal Persons Of the Republic of Lithuania
8. Telephone no: +37062065856
9. Fax no:-
10. E-mail address: vkj@ignitis.lt
11. Website: www.vkj.lt

Legal notes

1. No significant events occurred after the end of the financial year.
2. The Company did not use any 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. B 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 (further in the text and also - APM) – are the adjusted figures presented in this report used for the internal assessment of performance management. These indicators are not defined by International Financial Reporting Standards (IFRS) and do not comply with IFRS requirements. Definitions of alternative performance indicators are available on the website (link) of AB Ignitis Grupė
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) 1052 On the approval of the description of the guidelines for ensuring transparency in the activities of State-owned enterprises (lrs.lt)	Disclosure	Explanation
Chapter II. Disclosure of information by a State-owned enterprise		
5. The following data and information must be announced in the internet website of a state-owned enterprise:		Information available on www.vkj.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 Board, if the Supervisory Board 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 under-way 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 manage-rial 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. If the person referred to in points 5.9 to 5.11 of the Description is elected or appointed as an independent member, this shall be indicated in addition to his details.	Yes	Information available on www.vkj.lt
7. The following documents shall be announced in the website of a State-owned enterprise:	Yes	Information available on www.vkj.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 mem-	Yes	

bers of the collegiate bodies and committees of a State-owned enterprise, as detailed in the Corporate Governance Code;		
7.5. annual and interim reports of a State-owned enterprise, and annual and interim activity reports of a State-owned enterprise for a period of at least 5 years;	Yes	
7.6. sets of annual and interim financial statements for a period of at least 5 years and auditor's reports on the annual financial statements.	Yes	
8. If a 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 ad-dresses, 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.	Yes	Information available on www.vkj.lt
9. If a State-owned company is a participant in legal entities other than those referred to in point 8 of the Description, the data and website addresses of those legal entities referred to in points 5.1 to 5.3 of the Description shall be published on its website.	Yes	Information available on www.ignitisgrupe.lt
9[1]. If the entity is a subsidiary or an entity of a subsequent row of the State-owned company, the website shall contain the parent company's data referred to in points 5.1 to 5.3 of the Description and a link to the website of the parent company	Yes	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 State-owned company, the annual activity report of the State-owned company, as well as the auditor's report on the annual financial statements of the State-owned company, must be published on the website of the State-owned company within 10 working days from the date of the approval of the annual financial statements of the State-owned company.	Yes	Documents are published on the website within a set time limit
12. The sets of interim financial statements of the State-owned company, the interim reports of the State-owned company and the interim activity reports of the State-owned company must be published on the website of the State-owned company at the latest 2 months after the end of the reporting period.	Yes	Documents are published on the website within a set time limit
13 The documents referred to in point 7 of the Description shall be published in PDF format and shall be technically printable.	Yes	Documents are published in the PDF format
Chapter III. Preparation of financial statements, reports and activity reports		
14. State-owned companies shall maintain their accounting in such a way as to ensure the preparation of financial statements in accordance with international accounting standards.	Yes	The Company‘s accounting is in accordance with IFRS
15. In addition to the annual financial statements, a State-owned company prepares a set of 6-month interim financial statements, and a state enterprise prepares sets of 3-month, 6-month and 9-month interim financial statements.	Not applicable	
16. A State-owned company classified as a public interest entity under the Law on Audit of Financial Statements of the Republic of Lithuania prepares a 6-month interim report in addition to the annual report. A State-owned enterprise classified as a public-interest entity under the Law on Audit of Financial Statements of the Republic of Lithuania shall, in addition to the annual activity report, prepare a 6-month interim activity report.	Not applicable	
17. The annual report of a State-owned company or the annual activity report of a State-owned company shall, in addition to the content requirements set out in the Law on Financial Reporting of Enterprises of the Republic of Lithuania or the Law on State and Municipal Enterprises of the Republic of Lithuania, contain:	Yes	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 share-holding (in percentage of share capital) in the authorised capital of the subsidiary and the financial and non-financial results of its operations for the financial year. Where a State-owned company which is the parent company prepares a consolidated annual report, the requirements of point 17 of the Description shall apply mutatis mutandis to it.	Yes	The Company presents information in the annual report
22. The interim report of a State-owned enterprise or the interim performance report of a State-owned enterprise shall include a brief description of the business model of the State-owned enterprise, an analysis of its financial performance for the period under review, information on significant events that occurred during the period under review, as well as the indicators of profitability, liquidity, turnover, assets and debt, and the changes of these indicators as compared to the corresponding period of the previous year.	Yes	The Company presents information in the interim report

8 Abbreviations

#	Number
%	Per cent
'000 / thousand	Thousand
12 months	Previous 12-month period
AB	Joint Stock Company
RE	Renewable energy
Company	UAB Vilniaus kogeneracinė jėgainė
Ignitis Group	AB Ignitis Grupė and its controlled companies
Parent company	AB Ignitis grupė

9 Certification statement

31 March 2023

We, Mantas Burokas, Chief Executive Officer at UAB Vilniaus kogeneracinė jėgainė, and Rūta Šaltmerytė , Director of Finance and Administration, Paulius Žukovskis, Head of Financial Statements and Consultations at UAB Vilniaus kogeneracinė jėgainė, hereby confirm that, to the best of our knowledge, UAB Vilniaus kogeneracinė jėgainė financial statements for the year ended 31 December 2022, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of UAB Vilniaus kogeneracinė jėgainė assets, liabilities, financial position, profit or loss and cash flows for the period, and the Annual Report 2022 includes a fair review of the development and performance of the business as well as the condition of UAB Vilniaus kogeneracinė jėgainė together with the description of the principle risks and uncertainties it faces.

Mantas Burokas	Rūta Šaltmerytė	Paulius Žukovskis
Chief Executive Officer	Director of Finance and Administration	Head of Financial Statements and Consultations

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