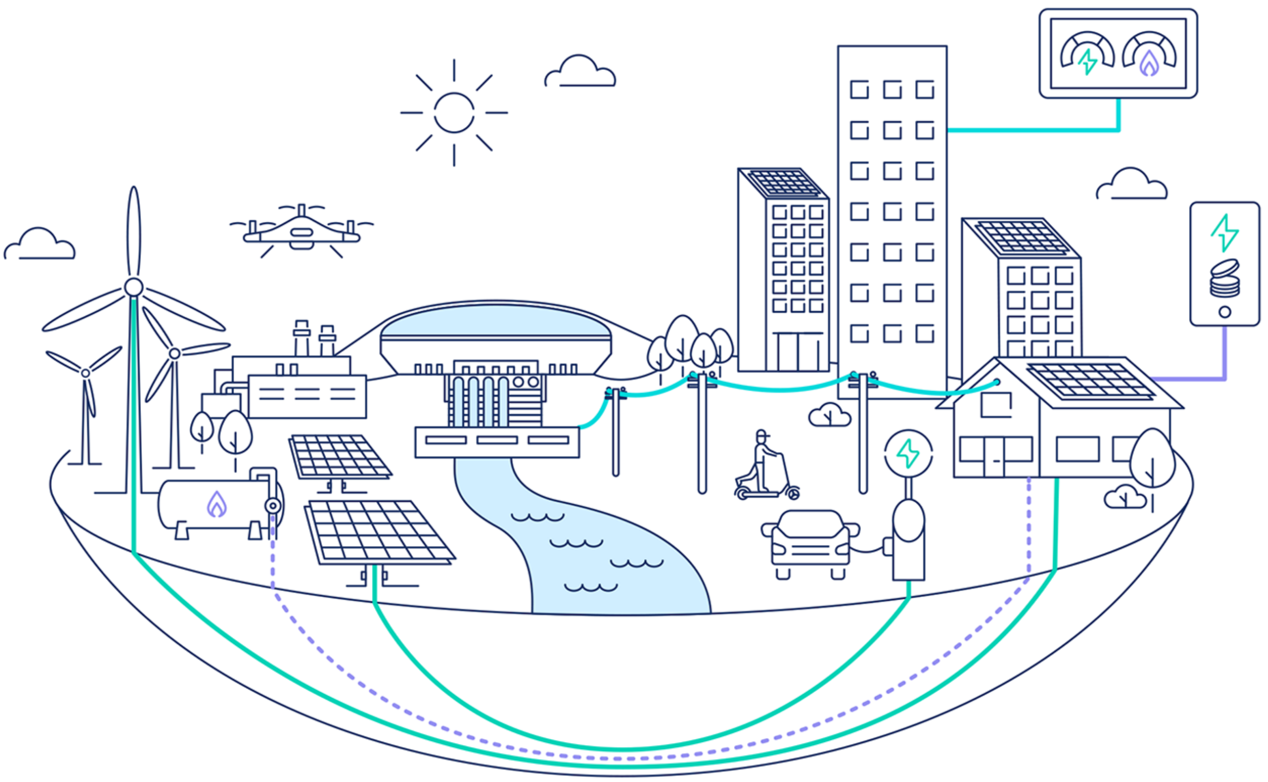
AB “Ignitis gamyba”

Annual report for the year 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, accompanied by an independent auditor’s report for the year ended 31 December 2022



Content

Overview

1.1 CEO's statement

Dear customers, shareholders, partners and colleagues,

It is likely that the year 2022 will enter world history not only as the year when Russia invaded Ukraine but also as the year when the states of the European Union showed their determination to eliminate dependence on Russian natural gas and embark on a rapid development of renewable energy sources (RES). In the context of the historical events, the significance of Ignitis Gamyba has been highlighted not only as the company without whom additional services in Lithuania it would be hard to imagine the reliability and security of our energy system but also as the company which helps to enable the development of RES in Lithuania.

As regards the company's contribution to the reliability and security of Lithuania's energy system, at the beginning of the last year we signed an additional agreement with the transmission system operator LIT GRID (TSO), whereby the TSO, having assessed the potential likelihood of isolated electricity system operation, may instruct the company in advance to prepare for continuous production of electricity according to the submitted electricity generation schedule. By signing this agreement, the company has undertaken to acquire in advance the amount of natural gas necessary for fulfilment of the agreement. As a result, a natural gas reserve of almost 1.1 TWh was built up under extremely tight deadlines.

Moreover, we have successfully tested our generators for immunity to system frequency deviations of up to 1 Hz, which is important for the reliability and safety of Lithuania's energy system, and this allowed to assess preparation of the generators of the 7th and 8th units of Elektrėnai Complex, Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP) and Kaunas Hydroelectric Power Plant (Kaunas HPP) to operate in isolated system and to provide additional services to the TSO.

In 2022, the service of ensuring tertiary active power reserve was provided to TSO in the volume of 260 MW/h by the 7th unit of Elektrėnai Complex and in the volume of 259 MW/h of the 8th unit of Elektrėnai Complex controlled by Ignitis Gamyba. This service is not ordered as of 2023. Instead of the service of tertiary active power reserve, this year the 7th and 8th units of Elektrėnai Complex as well as the combined cycle unit (CCU) of Elektrėnai Complex will provide the services of availability of electricity generation facilities to TSO. According to the agreement signed at the end of the year, in 2023, Ignitis Gamyba will provide the following services in the following volumes: power of 260 MW by the 7th unit of Elektrėnai Complex, power of 260 MW by the 8th unit of Elektrėnai Complex and power of 371 MW by CCU. In 2022, as well as this year, we will provide frequency restoration reserve and reactive power and voltage management services to TSO using our own facilities.

It is also important to mention our successful cooperation with TSO and the Lithuanian Energy Institute when the research on the joint management of the Kaunas HPP and the experimental 1 MW battery, which was successfully completed in July, showed that operating together, these different technologies would enable the unit to provide frequency restoration reserve service. Alignment of a common control logic between storage and generation technologies, in line with technical requirements, has shown alternative and innovative ways to make even more efficient use of our company's generation facilities for the provision of future additional services.

Review of the Company's performance shows that, compared to 2021, the indicators have significantly increased. In 2022, adjusted EBITDA increased by 90% and amounted to EUR 197.3 million. In 2022, increase of adjusted EBITDA was mostly affected by increased generation volumes in Kaunas HPP, effective use of Kruonis PSHP in the market, better performance of derivative financial instruments and change in electricity prices in the market.

It is worth mentioning the significant success of the Company this year – award in the Polish capacity mechanism auction, the value of which is EUR 16 million. This is the first time that Lithuanian electricity produces have won a foreign capacity auction. This award allows us to expand the use of managed capacity not only in Lithuania, but also in the region to enhance security of supply.

To ensure reliable and stable operation of power plants, in 2022, the Company's team worked intensively on projects that are important for the entire energy system, such as procurement procedures for installation of the 5th unit of Kruonis PSHP and 8th unit of the reserve power plant of Elektrėnai Complex as well as the project for major repairs of the 1st unit. Due to Russia's predatory war against Ukraine we have faced challenges in production and supply of spare parts necessary for the 1st unit of Kruonis PSHP and 8th unit of the reserve power plant of Elektrėnai Complex that should have been produced in Ukraine. To manage these risks caused by war, the contractors found a way to transfer production of the spare parts for 8th unit of Elektrėnai Complex to the Czech Republic and production of the spare parts necessary for the major repairs of the 1st unit of Kruonis PSHP was transferred by the Ukrainians to Ukrainian factories less affected by the war.

Last year, 7 years after installation, we carried out major repairs of biofuel boilers that supply heat to the residents of Elektrėnai town, greenhouses of Kietaviškių gausa and other companies. We are pleased that these complex repairs were completed on time – the first unit was repaired before the start of the heating season and the second one was repaired before frost.

One more successful project in 2022 was upgrade of CCU's control system, which further increased the reliability of this unit.

Last year we completed, on time and to a high standard, a project which attracted considerable public attention – demolition of two chimneys of Elektrėnai Complex that have no longer been used since 2014.

We can also be proud of another of our projects – the development of a remote solar power plant in Obeniai with a total capacity of 7.4 MW. For us, the choice of more than 1,500 consumers to buy a part of Ignitis Gamyba's solar power plant means that the trusting relationship we have built up over the years and the efforts of our employees to ensure the Company's stable operation and financial sustainability have paid off – consumers value and trust us.

Last year was not only a year of many successful projects but also of no accidents at work.

I have no doubt that in 2023 we will continue to make a significant contribution to the increase of the region's energy independence by continuing to ensure reliable operation of the company and availability of the managed facilities in a focused and consistent manner and by continuously analysing and anticipating future trends in the energy sector, and we will help to enable the expansion of the production of electricity from RES and to ensure safe, reliable, and smooth operation of the electricity system in the entire country.

Rimgaudas Kalvaitis
"Ignitis gamyba" AB, CEO

1.2 Business highlights

During the reporting period

January

- Ignitis Gamyba announced a tender for the procurement and installation of the 5th unit of Kruonis PSHP. The new unit will ensure even more flexible and competitive operation of the power plant.

February

- The Company signed an additional agreement with TSO to the contract on the provision of work services of the isolated electric energy system for 2022, signed on 31 December 2021. According to the signed Agreement, the TSO, having assessed the potential likelihood of isolated electricity system operation, may instruct the Company in advance to prepare for continuous electricity generation according to the submitted electricity generation schedule. Electricity will only be generated if the TSO gives an order to generate electricity. Upon receipt of this order, in accordance with the Rules for the Use of the Electrical Networks, the Company undertook to execute the ordered production schedule under the conditions provided for in the Agreement and formed in advance natural gas reserve of almost 11 TWh.

- Ignitis Gamyba signed a contract with UAB "Elektrėnų energetikos remontas", which will carry out the major repairs of the turbine and generator of the 8th energy unit (B-8) in the Elektrėnai Complex for almost EUR 3.2 million.

March

- The unique demolition works of two electric chimneys of Elektrėnai Complex that have no longer been used since 2014 and posed a threat to people and surrounding buildings were successfully completed (video).

April

- The optimisation of the electricity sector of the zone of 1-6 energy units was completed and it allowed to increase the efficiency and competitiveness of Elektrėnai Complex and to reduce electricity, maintenance and repair costs.

- Three out of five members of the new Supervisory Board of Ignitis Gamyba for a 4-year term were elected and started their activities. Among the three approved members of the Supervisory Board, there are two independent candidates: Edvardas Jatautas, a financial management specialist who worked in the previous term, and Mindaugas Šeštokas, an organisational development specialist, as well as Vilmantas Vitkauskas, a civil servant and a specialist in operational security and continuity.

May

- Ignitis Gamyba and TSO signed a cooperation agreement to conduct research on the joint operation of Kaunas HPP and 1 MW battery. This is the first TSO 1 MW battery experiment that opened to the market in May. The research, of its complexity and relevance, is the first of its kind in the entire Baltic region.

- The National Energy Regulatory Council (NERC) adjusted the upper limit of the price of the isolated electric power system work service of CCU for the II half of 2022 to cover fixed costs.

July

- The Environmental Protection Agency, having analysed the Environmental Impact Assessment (EIA) selection documents submitted by Ignitis Gamyba, found that the planned economic activity would not have a negative impact on the environment, therefore a comprehensive environmental impact assessment of Kruonis PSHP-5 was not necessary.

- The research on the joint management of the Kaunas HPP and the experimental 1 MW battery, conducted by Ignitis Gamyba, TSO and the Lithuanian Energy Institute showed that operating together, these different technologies would enable the unit to provide balancing services. Combining these two technologies through advanced control and harnessing their technological potential will increase the flexibility of the system's generation and ensure standards-compliant operation of the generation facilities, which is important for the integration of renewable sources and the provision of additional frequency regulation services.

August

- The Supervisory Board and the Management Board of Ignitis grupė have adopted a decision to replace a two-tier management model applicable in the directly controlled subsidiary Ignitis Gamyba with a one-tier management model, i.e. to remove the Executive Boards made up of employees and instead to form Boards with a supervisory function that will be made up of at least 1/3 of independent members, civil servants and shareholder representatives.

October

- Stage III of the development of Obeniai Solar Park was successfully completed. All major development works for the Obeniai solar power plant were completed and the National Energy Regulatory Council (NERC) issued a production permit for it.

December

- Ignitis Gamyba and TSO concluded the contract for the provision of availability services for electricity generation facilities in 2023. The purpose of the services provided is to ensure the availability of power generation facilities and the stable operation of the Lithuanian Electric Power System (EPS) during the operation of an isolated EPS and to prevent load shedding of consumers in the event of emergency situations in other Lithuanian EPS.

After the reporting period

January

- According to the official performance of the Polish capacity mechanism auction for provision of capacities for 2027 that were announced by the Polish transmission system operator Polskie Sieci Elektroenergetyczne (PSE), in 2027 Ignitis Gamyba will ensure the capacity of at least 250 MW available on the market for around EUR 16 million.

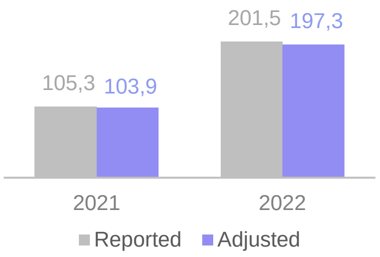
February

- New articles of association of the Company were registered.
- After replacement of a two-tier management model with a one-tier management model, the Board of a new composition was approved and started its activities. Two independent members appointed to the Board of the Company: the financial management specialist Edvardas Jatautas, the organisational development specialist Mindaugas Šeštokas, and the civil servant Vilmantas Vitkauskas, as well as representatives of the shareholder: the Head of Group's Commercial Activities Vidmantas Salietis and the Head of Group's Regulated Activities Mantas Mikalajūnas.
- After replacement of a two-tier management model with a one-tier management model Heads Committee has been formed and started its activities and it is composed of the following persons who have worked in the Board: CEO of the Company Rimgaudas Kalvaitis, the Director of Production Darius Kucinas and the Director of Finance and Administration Andrius Valivonis.

1.3 Performance highlights

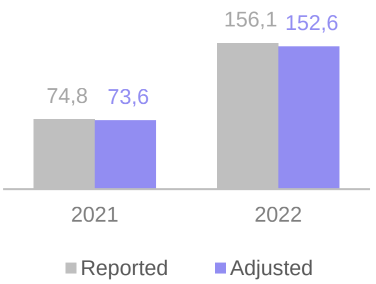
Financial performance

EBITDA, Adjusted EBITDA APM[1]
EUR mln.



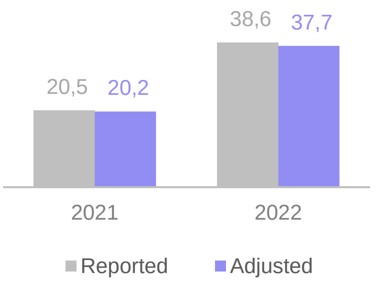
In 2022, the adjusted EBITDA increased by 90% and amounted to EUR 197.3 million. In 2022, the increase of adjusted EBITDA was mostly affected by increased generation volumes in Kaunas HPP, effective use of Kruonis PSHP in the market, better performance of derivative financial instruments and change in electricity prices in the market.

Net profit, Adjusted net profit AVR
EUR mln.



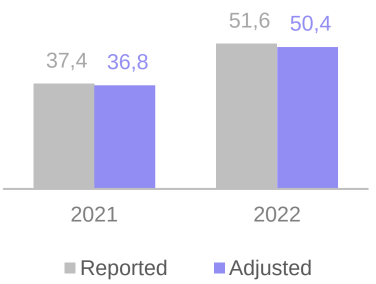
The net profit in 2022 amounted to EUR 152.6 million and was higher than in 2021 due to the higher adjusted EBITDA. Corporate income tax expenses increased in line with growth of the profit before tax.

ROE (12-month), Adjusted ROE (12-month) AVR
%



In 2022, the adjusted return on equity (adjusted ROE) increased up to 37.7% compared to 20.2% in 2021 due to higher adjusted profit.

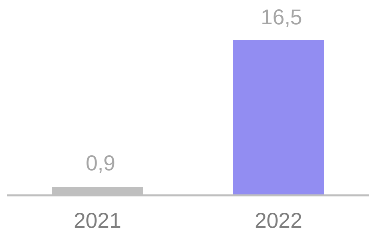
ROCE (12-month), Adjusted ROCE (12-month) AVR
%



In 2022, the adjusted return on capital employed (adjusted ROCE) increased up to 50.4% compared to 36.8% due to the higher EBIT driven by the efficient use of power plants in the market and other factors listed under the adjusted EBITDA.

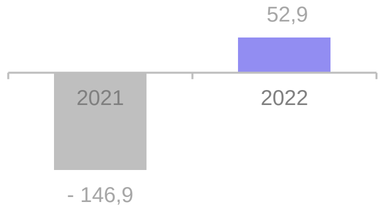
[1] APM Alternative Performance Measure - adjusted figures used in this report refer to measures used for internal performance management. As such, they are not defined or specified under International Financial Reporting Standards (IFRS), nor do they comply with IFRS requirements. Definitions of alternative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

Investment AVR
EUR mln.



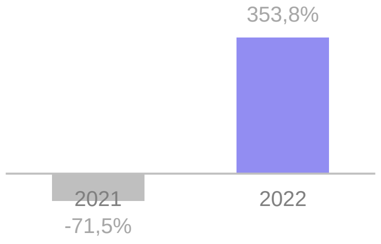
In 2022, investments amounted to EUR 16.5 million.
The largest investments in 2022were for modernisation of the Combined Cycle Unit and 7th and 8th unit of Elektrėnai Power Plant (total amount of EUR 15.0 million including the advance payment for the planned repair of CCU amounting to EUR 13.2 million).

Net debt AVR
EUR mln.



As of 31 December 2022, net debt amounted to EUR 52.9 million. Net debt was higher due to short-term loans that were not available in 2021 and a significant decrease in disposable funds. The decrease in disposable funds was mainly influenced
by dividends paid and gas reserves purchased under
an additional agreement with TSO.

FFO (12-month) / Net debt AVR
%



FFO (12-month)/Net debt indicator reached 353.8% due to an increase in net debt.

Business overview

2.1 Business profile

Ignitis Gamyba manages and develops the largest electricity generation capacities in Lithuania: Kruonis PSHP, CCU and the reserve power plant Elektrėnai Complex and Kaunas HPP.

The Company's principal activity is generation of electricity and provision of ancillary services (TSO).

In 2022, the Company provided the following ancillary services:

- balancing capacity services that include the following:
  - frequency restoration reserve service to be used in case of imbalances in the system due to imbalances between generation and consumption and in case of the disconnection of a major network or generation element. The frequency restoration reserve is activated within 15 minutes and balancing electricity can be supplied continuously on demand for up to 12 hours to compensate for any shortfall due to a system emergency. This additional balancing capacity service is provided by using two units of Kruonis PSHP (Green Generation) with a capacity of 369 MW. Today, these capacities are also used in the Baltic balancing electrical market, through their activation, to balance the imbalance between generation and consumption across the Baltic control block;
  - tertiary active power reserve which replaces the frequency restoration reserve because the resource in water reservoir of Kruonis PSHP (Green Generation) is limited and in case marginal system imbalance or an emergency continues for more than 12 hours, a replacement reserve is required. This reserve is activated within 12 hours and can be used continuously for an unlimited period of time. In 2022, the tertiary active power reserve has been ensured in the 7th and 8th energy units of Elektrėnai Complex (Flexible Generation) but from 2023 this service is no longer available;
- voltage control service, not related to frequency regulation and balancing, is provided by the Kruonis PSHP (Green Generation) power plant units, operating in synchronous compensator mode and regulating reactive power and voltage. The service is activated when the TSO lacks the capacity of voltage management facilities on the transmission network to ensure power quality, i.e. when the voltage is not maintained within the specified limits at certain points on the transmission network;
- ancillary service for accident prevention and recovery to restore the electricity system after a complete disconnection. In such cases, the diesel generators of Kruonis PSHP and Kaunas HPP (both Green Generation) are started and activate the capacity of Kruonis PSHP and Kaunas HPP. They maintain the voltage on the transmission grid and supply the electricity needed to restore electricity supply to Lithuanian consumers after an accident;
- isolated operation availability service not related to frequency regulation, designed to ensure that the capacity providing the service is available in the event of isolated operation of the Lithuanian electricity system. The service would be activated by the TSO if, for unforeseen reasons, the Lithuanian electricity system must operate in isolated emergency mode without communication with other neighbouring systems.

The electricity generated by the Company's power plants is traded on the Nord Pool electricity exchange and on the wholesale market through bilateral agreements. Electricity trading is carried out in the day-ahead, intra-day, balancing and imbalance buy/sell segments of the electricity market.

The Company's significant contribution to the reliability of the Lithuanian electricity system by providing ancillary services to TSO. The Company's generation facilities and capacity are used to provide ancillary services unrelated to frequency regulation (i.e. voltage regulation of the voltage in a loss state, restart of the power system after a total accident, isolated operation of the power system) and balancing services (electricity balancing and balancing capacity services, i.e. frequency restoration reserves), which are related to the frequency regulation of the.

Currently, the balancing capacity trading model is a national one, with TSO ordering balancing capacity on the local market from Lithuanian electricity producers. According to the Baltic control block concept, updated in 2021, the Baltic TSOs intend to establish a common balancing capacity market by the end of 2024, with harmonised principles not only for balancing capacity supply but also for the exchange of balancing capacity between the countries, and for the allocation of capacity on market principles.

The current balancing energy trading model is regional and covers only the Baltic States, but the changes to the balancing market foreseen when the Baltic TSOs join the European frequency restoration reserve balancing energy exchange platform Manually Activated Reserve Initiative (MARI) (the period of accession is expected to be from the beginning of 2024 to the second half of 2024) and after the launch of automatic frequency restoration reserve services, which will have to comply with the requirements of Platform for the International Coordination of Automated Frequency Restoration and Stable System Operation (PICASSO) by the end of 2024, will expand the region's ability to trade in balancing electricity and complete full integration into the single European Union market. In addition, a 15-minute trading, control and transaction model will be implemented, which will require additional trade management processes and an upgrade of the current trading and control systems in place at the power plants to comply with all the necessary criteria for the technical requirements for participation in the balancing market.

Active involvement of Ignitis Gamyba in the electricity market and the provision of a full range of ancillary services helps to ensure the security and reliability of the energy systems of the entire Baltic region and contributes to the historic energy transition – the synchronisation of the three Baltic States with the continental European power grid system. The projects resulting from this change, related to upgrading generation management systems and adapting them to provide additional services related to frequency regulation, will not only give the Company a competitive advantage in the region, but will also ensure the continuity of its operations in the long term. The technical preparedness of the generation capacity of the power plants, in line with the requirements of European legislation, is essential for the participation in the isolated operation tests organised by the Baltic operators. The use of the Company's generation capacity in the provision of ancillary services, test readiness and reliability are also a key prerequisite for Lithuania's timely and high-quality synchronisation with the Continental European Grid (CET).

Ensuring the availability and reliability of generation capacity, which is a prerequisite not only for the efficient operation of electricity generation and services, but also for contributing to the security of supply of Lithuania's electricity system, will continue to be the most important task of Ignitis Gamyba, both in the short- and long-term perspective.

The development of regional grid expansion projects and the full integration of electricity market segments in Europe are opening new opportunities for the Company to use its generation capacity to enhance security of supply in other countries. Following the capacity auction launched by the Polish operator to ensure security of supply, Ignitis Gamyba has successfully participated in and won the capacity auction and will make available on the market in 2027 at least 250 MW of capacity, which will generate revenue for the availability of capacity in the event of emergencies in the Polish electricity system.

Quality implementation of the Company's functions is not possible without a modern work culture based on the principles of continuous improvement, therefore Ignitis Gamyba gives great importance to increasing the efficiency of its operations, implementation of result-oriented and market-oriented management, development of specialists, and ensuring the improvement of the employees' experience.

The main customers of the Company are the following: TSO, National Energy Regulatory Council (when the Company represents the interests of electricity consumers in the provision of regulated services, NERC), Nord Pool exchange participants (service - trade in electricity generated), "Elektrėnų komunalinis ūkis" UAB and "Kietaviškių gausa" UAB (service - generation of heat energy).

The operation of the Company's power plants

In 2022, the Company generated electricity and thermal energy, provided the service of tertiary active power reserve in Elektrėnai Complex, frequency restoration service in Kruonis PSHP and other additional services.

Elektrėnai Complex

Capacity – 1,055 MW

The power plant provided tertiary active capacity reserve services and services ensuring isolated operation of the power system to ensure safe electricity supply and the reliability of the energy system. Unit 7 and 8 of the reserve power plant provided (519 MW) tertiary reserve service. The combined cycle unit (371 MW) together with the unit 8 (1 MW) provided services ensuring isolated operation of the power system and carried out commercial production of electricity.
Heat was produced in steam and biofuel boiler houses.

Kruonis Pumped Storage Hydroelectric Plant

Capacity – 900 MW

Kruonis PSHP's generation capacity was actively used in electricity trading activities and in the provision of frequency restoration reserve service to TSO.

The market share of power plant balancing electricity trading is the largest not only in Lithuania, but also in the entire Baltic region. Kruonis PSHP's capacity has been actively used in reactive power and voltage regulation in synchronous compensator mode.

The power plant is also an essential element in the disaster recovery plan and therefore provides the service of restarting the power system after a total disaster to the TSO.

Kaunas Hydroelectric Power Plant

Capacity – 101 MW

Kaunas HPP is one of the largest power plants in Lithuania which uses renewable energy sources. Depending on natural conditions, the plant produces green energy and provides system services. Kaunas HPP capacity actively participates in the balancing electricity market. Kaunas HPP is one of the power plants in the Lithuanian energy system that can start an autonomous operation in case of the total system failure and therefore provides the service of restarting the power system after a total disaster to the transmission system operator together with Kruonis PSHP.

Vilnius Third Combined Heat and Power Plant

Since 6 January 2022, the operation of Vilnius HPP-3 energy units has been decommissioned.

The Company sets availability goals for the power plants. Plants are considered available when they produce electricity or are fully prepared for production. In 2022, annual availability was as follows: 97.3% for CCU, 97,6% for the 7th unit, 99,3% for the 8th unit, 96.0% for Kruonis PSHP, and 94.3% for Kaunas HPP.

During the reporting period, there were no significant changes in the operation of the power plants managed by the Company.

The business environment is also described in the annual report of Ignitis Group, which you can find here.

Key performance indicators of power plants

In 2022, the amount of electricity generated and sold in the Company's power plants decreased by 38% compared to 2021 (see Picture 1). The total of 1.09 TWh of electricity was produced in the Company's power plants in 2022, in 2021 – 1.76 TWh.

Sales indicators of **Kaunas HPP** increased by 24% and during 2022, this power plant sold electricity of 0.36 TWh, while sales during the same period in 2021 amounted to 0.29 TWh.
During 2022, Kaunas HPP transmitted and purchased 0.02 TWh and 0.001 TWh balancing electricity, respectively (the service is required for balancing the surplus/deficit of electricity in the energy system). During 2021, 0.02 TWh and 0.002 TWh respectively.

Kruonis PSHP transmitted 29 % less electricity in 2022 – 0.46 TWh (in 2021, 0.65 TWh).

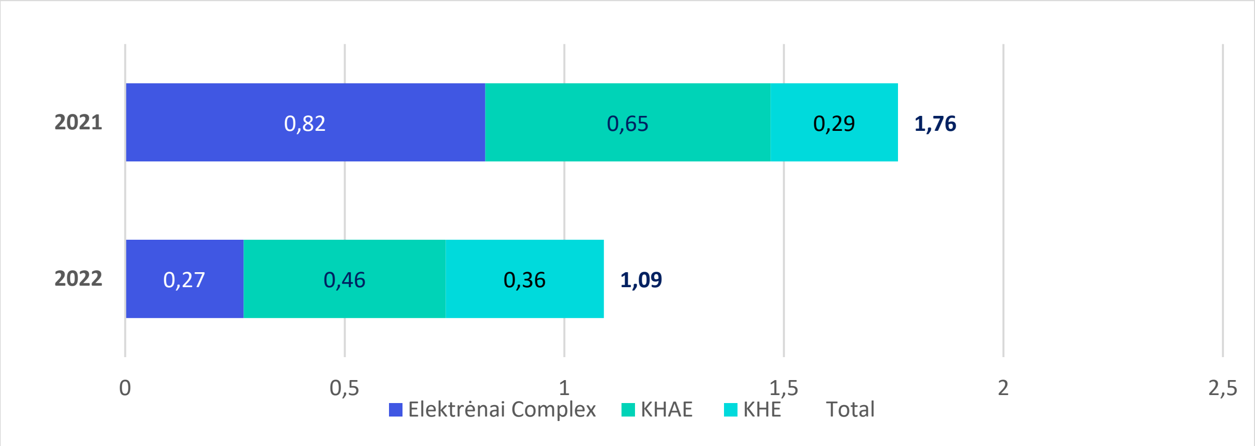
During 2022, Kruonis PSHP transmitted and purchased 0.09 TWh and 0.06 TWh balancing electricity, respectively (the service is required for balancing the surplus/deficit of electricity in the energy system). During 2021, 0.06 TWh and 0.05 TWh respectively.

In 2022, capacities of Kruonis PSHP is also used to provide a frequency restoration reserve service with an average volume of 381 MW/h, i.e. available capacity of the hydro-units, maintained by the manufacturer and activated within a 15-minute period at the instruction of the transmission system operator. The capacity was activated 204 times during 2022. The capacity was activated 225 times during 2021. During 2022, the Company transmitted about 0.02 TWh of frequency restoration reserve, in 2021 – 0.02 TWh.

During 2022, **Elektrėnai Complex** transmitted 0.27 TWh, i.e. 3 times less than during 2021 (0.82 TWh). During 2022, Elektrėnai Complex transmitted and purchased 0.03 TWh and 0.004 TWh balancing electricity, respectively (the service is required for balancing the surplus/deficit of electricity in the energy system). During 2021, 0.006 TWh and 0.012 TWh respectively.

Picture 1

Electricity produced at power plants controlled by the Company and electricity sold (TWh)



2.2 Business environment

Analysis of external environmental indicators

In assessing the impact of the external environment, the Company considers political, economic, social and technological factors.

The planned synchronization of the Lithuania's electricity system with the grid of Continental Europe has the potential to open new markets to the Company while increasing competition. At the same time, expanding renewable energy production (RES) creates challenges and opportunities for conventional power generation.

The Company's activities may be adversely affected by the increasing and intensifying competition in the commercial power generation market, increased competition between ancillary service providers, increasing competition in labour market and potential political and regulatory decisions that limit or distort development and service provision opportunities.

The significant Company's contribution to the implementation of the National Energy Independence Strategy is among the positive external factors. The development of new production capacities and the implemented innovations increase the Company's competitiveness.

Overview of economic situation

Changes in the general domestic product have the biggest impact on the increase in demand for energy and competitive environment, in which the Company operates.

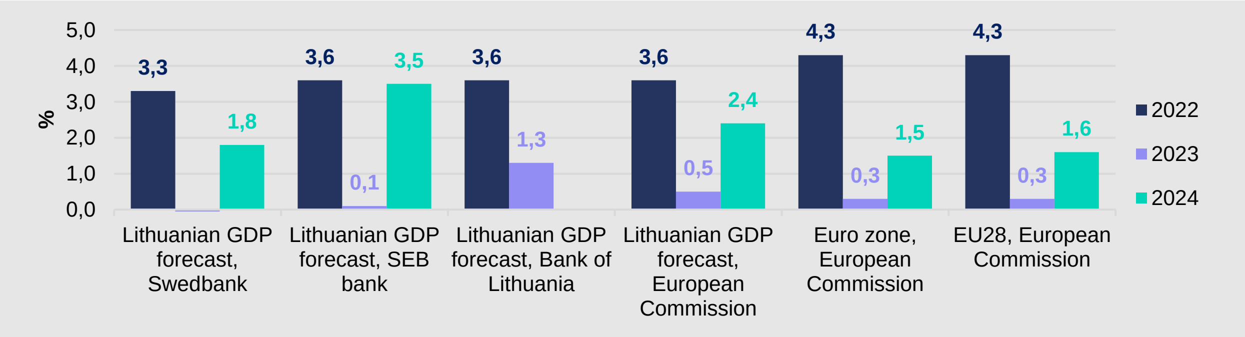
According to the forecast[1] announced by the European Commission in November 2022, the overall increase in the gross domestic product of the European Union (EU) in 2023 will be at 0.3% and at 1.6% in 2024. In 2023, the growth rate of the euro zone should be at 0.3% and 1.6% in 2023 and 2024, respectively. The projection[2] of the European Commission is that the growth in the economy of Lithuania will reach up to 0.5% and 2.4 in 2023 and 2024, respectively.

Prospects of the Lithuania's economy growth published by the banks operating in Lithuania project the recession of the Lithuanian economy. According to the forecasts[3] presented by the analysts of SEB bank in January 2023, the growth of GDP will be at 0.1% in 2023 and 3.5% in 2024. The review provided by the analysts of Swedbank in October shows[4] that GDP will change negatively and will amount to (0.3) % in 2023 and 1.8% in 2024. The forecasts of the Bank of Lithuania of December 2022 show[5] that GDP of Lithuania will go up by 1.3% in 2023 and no data is provided for 2024.

As the energy consumption is closely connected with growth of the gross domestic product, changes in economic growth rates in Lithuania and neighbouring countries may have an impact on the Company's performance as well.

Picture 2

Gross Domestic Product Growth Forecasts for the European Union, Euro Zone and Lithuania in 2022–2024, %



[1] Source: European Economic Forecast. Autumn 2022 (europa.eu)
[2] Source: European Economic Forecast. Autumn 2022 (europa.eu)
[3] Source: https://www.seb.lt/infobankas/lietuvos-makroekonomikos-apzvalga/lietuvos-makroekonomikos-apzvalga-nr-81
[4] Source: https://blog.swedbank.lt/verslas-pranesimai-spaudai/swedbank-ekonomikos-apzvalga-atvesimas-bet-ne-krize
[5] Source: https://www.lb.lt/lt/apzvalgos-ir-leidiniai/category.39/series.168

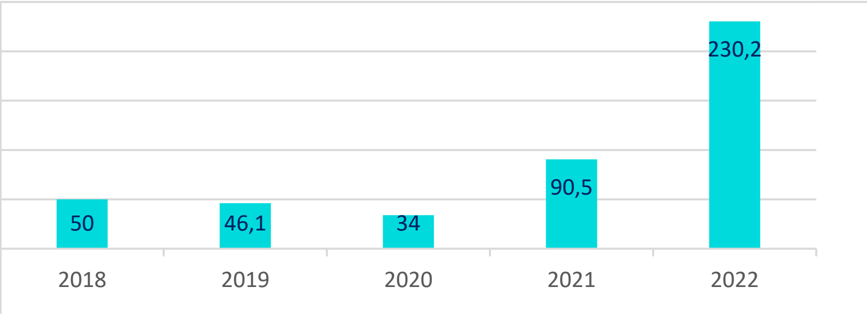
Overview of the situation on the wholesale electricity market

In 2022, electricity prices went up sharply in all of the bidding areas of the Nord Pool Nordic power exchange. Compared to 2021, the average system price was higher by approx. 118% (2020 – 62.31 EUR/MWh, 2022 – 135.86 EUR/MWh), in the fourth price area of Sweden, with which Lithuania is connected through the NordBalt power link, the increase in price was approx. 89% (2021 – 80.52 EUR/MWh, 2022 – 152.10 EUR/MWh), in Finland – approx. 113% (2021 – 72.34 EUR/MWh, 2022 – 154.04 EUR/MWh), in the Baltic States (Lithuania, Latvia, Estonia) – approx. 144% (2021 – 88.65 EUR/MWh, 20212– 216.65 EUR/MWh).

Compared to 2021, the average wholesale price of electricity in Lithuania was higher by approx. 155%, whereas in Latvia the increase in prices was even higher, i.e. approx. 156%. and a little lower in Estonia, i.e. approx. 122%. The average wholesale price of electricity in Lithuania in 2022 was 230.23 EUR/MWh, in Latvia – 226.91 EUR/MWh and in Estonia – 192.82 EUR/MWh. In 2022, the average difference in hourly prices between Lithuania and zone four of Sweden was almost 7 times higher (in 2021 – approx. 9.94 EUR/MWh, in 2022 – approx. 78.13 EUR/MWh.

Picture 3

Electricity prices in the Lithuanian price area *(source: Nord Pool)*



The record prices of 2022 resulted mostly from the increase in prices of energy resources used for electricity generation. If to compare with 2021, the price of gas increased by almost 220%, and the increase in price of emission allowances was 51%. During 2022, as compared with 2021, the volume of electricity generated by wind power plants in the region of Scandinavia increased by 27%, Poland – 23%, in the Baltic States – by 8%. In Scandinavia, which is characterized by high generation of hydro power plants, the generation of hydro power plants increased by 35%. Production of electricity from nuclear power plants in the Scandinavian region decreased insignificantly, approx. by 0.12%.

In 2022, the volume of electricity produced by Lithuania was higher by 9% as compared to 2021. In 2021, production volumes also changed in other Baltic States: in Latvia decreased by approx. 19%, in Estonia – increased by approx. 21%. Lithuania remained the country with the deficit of electricity, producing 37.7% of electricity demanded by the country in 2022 (34% in 2021). In Latvia the domestic production covered approx. 66.1% of the country’s demand in 2022 (approx. 76.1% in 2021), and in Estonia the domestic generation of electricity in 2022 satisfied 86.9% of the country’s demand (approx. 69.5% in 2021). According to Nord Pool, in 2022 the electricity consumption in Lithuania decreased by approx. 1.7% if compared with 2021 (except for the demand of Kruonis PSHP). In Latvia the demand decreased by approx. 6.9%, in Estonia decreased by approx. 3.2%.

The main nuances of commercial electricity flows of Lithuania in 2021: 22.30% (2.48 TWh) of electricity was imported from third countries, 45.55% (5.07 TWh) from Scandinavia via Nord Balt connection, 23.69% (2.64 TWh) was imported across the border with Latvia and 8.46% (0.94 TWh) via the LitPol Link connection with Poland. While export to Poland accounted for 74.22% (1.73 TWh), zone four of Sweden – 1.67% (0.04 TWh) and Latvia – 14.55% (0.34 TWh) as well as third countries – 9.56% (0.22 TWh). The total import from Lithuania was lower by 3.89% (0.45 TWh) in 2022, as compared with 2021, and the export of electricity was lower by 2.56% (0.06 TWh).

2.3 Strategy

Strategy of Ignitis Group

The Company is part of the Ignitis Group and performs its activities with the aim to ensure implementation of the strategy of Ignitis Group updated in 2020 which is applicable to all companies of the group.

Sustainability is at the core of the Strategy. Group is accelerating changes that will contribute to the 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, Group focuses on four key strategic priorities. First, it creates a sustainable future. Environmental, social, and governance (ESG) criteria are an integral part of the strategic goals with a strong commitment to a more sustainable future. Group aligns its business targets with the United Nations' Sustainable Development Goals, and it is committed to reducing net carbon dioxide (CO2) emissions to zero by 2050. The Group also thrives to align its businesses with science-based targets to a 1.5°C compliant business model. Second, it ensures resilience and flexibility of the energy system, as well as enables energy transition and evolution. Third, it expands renewables to meet regional energy commitments. It targets to reach 4 GW of the installed green generation capacity by 2030. Fourth, it takes advantage of the growth opportunities and develops innovative solutions to make life easier and energy smart.

The Group focuses on the 'home' markets – the Baltic countries, Poland, and Finland. It also explores new opportunities in countries on the substantial energy transition path.

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

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

The Company's strategy

In 2022, the Company acted in line with the Group's updated strategy for 2020, operating in the flexible generation and green generation segments.

Flexible generation provides the basis for achieving the Group's growth objectives, balancing the growth of renewable generation and ensuring the necessary level of adequacy of the Lithuanian energy system. The power generation facilities in this business segment include Elektrėnai Complex, comprising the 7th and 8th units, and the CCU. Ancillary services are provided to contribute to the flexibility and high reliability of Lithuania's energy system, as well as the generation of electricity.

The green generation segment includes Kaunas HPP and Kruonis PSHP operated by Ignitis Gamyba, which generate electricity and provide ancillary services. The Company intends to contribute to the further development of the Group's green power generation by utilising its existing hydro capacity and by developing and marketing remote solar power projects.

Ignitis Gamyba contributes to the security and reliability of the energy systems in the Baltic and Nordic region as a whole and contributes to a historic energy transition - the synchronisation of the three Baltic States with the CET system. The Company is preparing to provide new ancillary services after the synchronisation of the Baltic States with the CET system. The ancillary services currently provided to ensure the stability and security of the energy system are described in the Sustainability/Social Responsibility Report section.

In 2022, the Company focused on preparations for the construction of the new unit of Kruonis PSHP, the repair of the 1st hydro unit of Kruonis PSHP, the major repair of the 8th unit of Elektrėnai Complex and the digital transformation. In 2023, new projects are being launched to contribute to the synchronisation with the CET and to expand the range of available services.

The implementation of clean-up projects remains important for the Company, with old and inefficient equipment being phased out, the dismantling of unused chimneys being completed in 2022, and ways being sought to efficiently utilise TE-3 assets in the future. Strong emphasis is being placed on staff development and ensuring the rotation of key positions.

Our values

RESPONSIBILITY	PARTNERSHIP	OPENNESS	GROWTH
Care. Do. For the Earth. Starting with myself.	Diverse. Strong. Together.	See. Understand. Share. Open to the world.	Curious. Bold. Every day.

Performance against objectives and action plans

The company contributes to the Group's strategy and objectives. The Group's specific objective for the Company is 'No.1 position in the ancillary services market in Lithuania', which has been achieved.

The Company's objectives are reflected in the variable remuneration objectives of the Company's executives. These objectives and their achievement are set out in the section People and Remuneration.

The Company develops and updates its strategy and plans its activities to implement it in line with the Group's strategy. The Company reviews its long-term financial plans and annual budget on an annual basis and prepares its long-term financial plans and annual budget based on its strategy, strategic and operational plans, which are prepared for a period of 4 years. The Company regularly reviews the strategy, assesses the status of the implementation of the strategic objectives, and reports regularly to the Group on the implementation of the strategic initiatives and the performance of the business. In the event of changes in circumstances that alter the Company's structure, areas of activity or have a material impact on the forecast performance, strategic direction and strategic objectives, the business plans are updated.

Picture 4

Mission, vision and strategic directions

MISSION

Be a reliable and flexible provider of electricity market services

VISION

Become a leader in flexibility and reliability services in the Baltic electricity market

STRATEGIC DIRECTIONS	
	Operational reliability and availability of equipment
	Provision of all ancillary services
	Sustainable growth

The Company's strategic directions and indicators

Company's strategic trends	Strategic directions in detail	Strategic indicators
Reliability and availability of equipment	- We adapt old conventional energy generation capacity to provide ancillary services, or, where this is not possible, decommission and dismantle it. - We aim to develop additional capacity where necessary to balance the growth of generation from renewable energy sources and to ensure the necessary level of adequacy of the Lithuanian energy system. - We prepare existing production capacity for post-synchronisation operation.	- Implementation of the strategic guidelines for pre-synchronisation projects.
Provision of all ancillary services	- Through these services, we aim to contribute to the synchronisation of the Baltic States with the Continental European Electricity Grid System. - Every year, we set ambitious targets for the availability of equipment to ensure the flexibility and high reliability of Lithuania's energy system, contributing to the security of this system by providing additional services.	- Using capacity to provide ancillary services. - Implementation of the strategic guidelines for projects to prepare for the provision of services after synchronisation with Continental European grids. - Achievement of the planned level of availability (measured by the deviation from the planned annual availability).
Sustainable growth	- We build our organisation through a transparent and effective governance model. - We care about employee experience, personal development, attraction, retention and turnover. The diversity of knowledge and expertise of our employees puts us in a unique position to ensure the security and reliability of the national energy system. - We implement efficiency-enhancing and value-creating solutions in all areas of our business. - We consistently reduce our environmental impact.	- Adjusted EBITDA. - Number of fatal accidents at work. - High employee engagement. - Good governance index of state-owned companies - CO_2 emissions.

Investments and their overview

The Company's technically and economically sound investment policy is based on long-term strategic planning, identifying the Company's development directions and the investments required to replace or modernise its technological facilities.

The Company's ongoing and planned major investments and projects in relation to its strategic directions:

Reliability and availability of facilities

- installation of the fifth unit of Kruonis PSHP;
- major repairs of the 8th unit of Elektrėnai Complex;
- major repairs of the units of Kruonis PSHP.

Provision of all ancillary services

- Preparing for the new ancillary services market;
- digital transformation programme (optimisation of the Asset Management System, implementation of the Automatic Generation Management System).

Sustainable growth

- Analysis of the future use of the TE-3 complex; implementation of the greenhouse gas emissions reduction action plan;
- staff shift, retention and attraction programme.

In 2022, the Company completed important projects, such as Installation of the Solar Power Plant in Obeniai Territory, Updating the Management System Software of CCU. The project Dismantling of Chimneys 1 and 2 of Elektrėnai Complex was completed in January 2022.

Below is an overview of the progress of the Company's major projects in 2022:

Installation of the fifth unit of Kruonis PSHP

The first work on the project started in 2020 and two studies were carried out between 2020 and 2021 to assess the most technologically attractive alternatives and to carry out a socio-economic assessment of these alternatives. In May 2020, the results were obtained, allowing the Company to select the best technological solution for the unit, in line with today's market conditions and the changing needs in the context of the synchronisation of the electricity system with the CET. In 2022, a positive screening conclusion for the Environmental Impact Assessment (EIA) was obtained, and therefore a full EIA was not carried out. The procurement process for the contract works as well as the International Federation of Consulting Engineers (FIDIC) procurement procedures for engineering services were launched and negotiations with the bidders for these tenders were conducted. Both contracts are expected to be signed in the first half of 2023. The project timeframe and final price will be known after the completion of the procurement procedures and the signature of the contract with the contractor.

Major repairs of the 8th unit of Elektrėnai Complex

Unit 8 was commissioned in 1972 and has worked more than 162,000 hours from the start of operation to the end of 2020 and is therefore reaching the end of its operational life. To ensure that the unit will be able to provide the isolated system availability service, major repair project has been initiated. Procurement of contract works and spare parts, manufacture and supply of parts, and preparatory works for the major repairs were carried out in 2022. The full repair work is planned for 2023.

Major repairs of the units of Kruonis PSHP

Major repairs of the first unit of the Kruonis PSHP has been in progress in 2022. This unit was in operation for 30 years since the start of operations, and the decision to overhaul the unit was taken to ensure continued operation of the plant. Identical major repairs were carried out on unit II in 2018-2019. The major repairs of the units of Kruonis PSHP are a continuation of a consistent plan to prepare for synchronisation with the CET. The objective of this plan is to carry out major repairs of all 4 units of Kruonis PSHP, which will allow for at least a 15-year extension of their reliable service life. The procurement procedures for the project were carried out in Q1-Q2 2021 and the contract for the works was signed in September with the successful tenderer. The production of parts for the repair of unit I of Kruonis PSHP was carried out between 2022 and 2023 and the repair work itself is scheduled for completion in early 2024.

Preparing for the new ancillary services market

The synchronisation with the CET will change the additional services purchased by the transmission system operator, allowing additional services to be offered on the Baltic market. In view of this, the Company has launched projects to prepare for synchronisation with the CET. Projects are being initiated to prepare for 15-minute trading, as well as for the trading of ancillary services through European market platforms.

An analysis of the feasibility of aggregation facilities for ancillary services has been carried out, using real imbalance data for 2021 and identifying the potential for the use of aggregation in balancing electricity trading. This analysis will be continued in 2024 once the regulatory environment and the ancillary services market are defined. A test of the coordinated control of a 1 MW battery and the 4th hydro-unit of Kaunas HPP with frequency maintenance reserve was also carried out.

Once the Lithuanian electricity system is synchronised with the CET, the transmission system operator will purchase additional services related to frequency regulation. In view of this, the Company has carried out a synergy study between the unit of Kaunas HPP and the 1 MW storage system/aggregator for virtual power management in 2022, which evaluated the possibility of combining the hydropower and storage systems to provide a frequency management reserve.

In 2023, a project will be initiated to prepare and smooth the transition from a 1-hour trading period to a 15-minute trading period and to allow the trading of balancing electricity through European market platforms. The preparation for the provision of additional services related to frequency management, in accordance with the established technical and organisational requirements, is an important area of the Company's activity, ensuring a sustainable business continuity that will allow the most efficient use of the available flexible generation potential.

Digital transformation programme

This programme includes the optimisation of the Asset Management System, which includes improvements in response to recommendations, refinement of data, preparation of an analytical framework and definition of thresholds for monitoring indicators.

The initiation of the Automatic Generation Management project, which combines the interconnection of all the Company's control systems for common power management, will not only allow the automation of the generation processes, but also to meet the technical requirements for the qualification of the equipment and to prepare adequately for the provision of ancillary services after the synchronisation with CET. The implementation of the Automatic Generation Management system was initiated in the first quarter of 2022 as part of the digital transformation programme, and the justification of the project, including the technical and organisational requirements, was subsequently prepared, and a project plan and schedule were developed. Preparation of the procurement documents and selection of the contractor started.

Preparing TE-3 for potential realisation

The loss-making operation of the TE-3 units, which are not operating on the market, has been decommissioned as of 6 January 2022. This decision was taken after having analysed and assessed various scenarios for the possible use of the TE-3 facilities and after having been satisfied that the decommissioning of the TE-3 units will not have a significant impact on the stability, safety, reliability and adequacy of the operation of the electricity system. Following the decommissioning of the TE-3 units, a project was initiated to assess the prospects of TE-3, the optimal future use of the assets.

Implementation of the action plan to reduce greenhouse gas (GHG) emissions

A dedicated project has been initiated to reduce CO2 and other GHG emissions to the Group's target levels. The GHG concept was presented to the organisation, the calculations explained, and questions answered. A project plan was developed with consultants and presented to the Company. The GHG plan measures and responsible persons were approved and monitoring of the implementation of the measures started.

Staff shift, retention and attraction programme

The objective of the programme is to provide for additional measures to attract and retain staff and to have a ready shift of staff. The programme is implemented based on an annual plan of measures, including dissemination of information to pupils and students, attraction of trainees, training of staff, additional staff motivation measures, the establishment of a list of core posts and the preparation of a shift for them, and other measures.

Results

3.1 Annual results

Key financial indicators

		2022	2021
Revenue	EUR million	535.6	295.8
EBITDA APM	EUR million	201.5	105.3
Adjusted EBITDA APM	EUR million	197.3	103.9
Adjusted EBITDA margin APM	%	36.8%	35.1%
EBIT APM	EUR million	184.4	88.2
Adjusted EBIT APM	EUR million	180.3	86.8
Net profit	EUR million	156.1	74.8
Adjusted net profit APM	EUR million	152.6	73.6
Investments APM	EUR million	16.5	0.9
FFO APM	EUR million	187.1	105.0
FCF APM	EUR million	(102.7)	112.8
ROE APM	%	38.6%	20.5%
Adjusted ROE APM	%	37.7%	20.2%
ROCE APM	%	51.6%	37.4%
Adjusted ROCE APM	%	50.4%	36.8%
ROA AVR	%	21.5%	11.1%
Adjusted ROA APM	%	21.0%	10.9%
		31/12/2022	31/12/2021
Total assets	EUR million	744.8	707.2
Equity	EUR million	467.4	342.2
Net debt APM	EUR million	52.9	-146.9
Net working capital APM	EUR million	297.6	24.3
Working capital ratio APM	%	-44.4%	-91.8%
Net debt / EBITDA (12 months) APM	In times	0.26	(1.40)
Net debt / Adjusted EBITDA (12 months) APM	In times	0.27	(1.41)
FFO (12 months) / Net debt APM	%	353.8%	(71.5%)
Common liquidity ratio APM	In times	3.10	1.70
Asset turnover APM	In times	0.74	0.44

Key performance indicators

		2022	2021
Electricity produced (net)			
Elektrėnai Complex	TWh	0.27	0.82
Kruonis PSHP	TWh	0.46	0.65
Kaunas HPP	TWh	0.36	0.29

Revenue

The Company's revenue amounted to EUR 535.6 million in 2022. The increase in income compared to 2021 was mainly due to the increase in electricity market prices, as well as higher income from ancillary services.

Majority of the revenue is the income from electricity trading and power reserve services, other ancillary services, as well as from the sale of heat energy.

Revenue by type, EUR, million

	2022	2021	Δ	Δ,%
Revenue from the sale of generated electricity	392.7	243.4	149.3	*61.3%*
Income from capacity reserve ensuring services	33.0	20.4	12.6	*61.8%*
services ensuring isolated operation of the electricity	99.7	26.0	73.7	*283.5%*
Revenue from supply of thermal energy	5.9	2.9	3.0	*103.4%*
Other revenue	4.3	3.1	1.2	*38.7%*
Revenue	**535.6**	**295.8**	**239.8**	***81.1%***

Expenses

In January–December 2022, the Company incurred the costs of EUR 351.1 million, which were almost twice as high as in the same period of 2021.

Expenses, EUR, million

	2022	2021	Δ	Δ,%
Purchases of electricity, gas and other services	**243.6**	**155.8**	**87.8**	***56.4%***
Purchases of electricity and related services	133.0	68.7	64.3	*93.6%*
Cost of purchasing gas and biofuels for production	108.6	81.4	27.2	*33.4%*
Emission allowances used	2.0	5.7	(3.7)	*(64.9%)*
OPEX AVR	**24.4**	**24.0**	**0.4**	***1.7%***
Wages and salaries and related expenses	12.2	10.6	1.6	*15.1%*
Repair and maintenance expenses	4.9	6.5	(1.6)	*(24.6%)*
Other	7.3	6.9	0.4	*5.8%*
Other expenses	**83.1**	**27.8**	**55.3**	***198.9%***
Depreciation and amortisation	17.0	17.0	0.0	*0.0%*
Derivative financial instruments	66.2	10.6	55.6	*524.5%*
Impairment charges and write-downs on property, plant and equipment, inventories and other amounts	(0.1)	0.2	(0.3)	*(150.0%)*
Total expenses	**351.1**	**207.6**	**143.5**	***69.1%***

Purchases of electricity, gas and other services

Majority of the Company's costs (EUR 243.6 million or 69.4%) in January-December 2022 was related to the purchase of electricity and related services, as well as the purchase of fuel for electricity generation. Such costs accounted for 75.0% of costs, or EUR 155.8 million in January–December 2021.

Purchases of electricity, natural gas and other services grew by 56,4% in January-December 2022, compared to January-December 2021. The growth resulted from the increase in purchases of electricity (EUR 119.1 million in 2022, EUR 63.0 million in 2021) mainly due to increased market prices and increased price of natural gas.

OPEX

In January-December 2022, the OPEX of the Company amounted to EUR 24.4 million and increased by 1.7% (+ EUR 0.4 million). The change was due to higher wage and other costs, which increased by EUR 1.6 million and EUR 0.4 million, respectively. The increase in wage costs was due to higher salaries, more overtime bonuses, night work and rest days (that were higher due to testing in the 8th unit of Elektr4nai Complex, CCU and Kruonis PSHP). Other expenses in 2022 were driven by an increase in asset management and administration costs due to the increase in the cost of services and the increase in fuel prices. Repair and maintenance costs were 1.6 million or 24.6 % lower due to lower CCU maintenance taxes under LTSA (Long term service agreement), the decrease of which was conditioned by the lower hourly work of the CCU. In January-December 2022, the expenses of arrangement and dismantling projects were also lower.

Other

Depreciation and amortization costs of the Company in January – December 2022 as well as in January – December 2021 amounted to EUR 17.0 million.

EBITDA

In January-December 2022, the adjusted EBITDA amounted to EUR 197.3 million. Adjusted EBITDA margin was 36.8% (January-December 2021 – 35.1%).

The growth of the adjusted EBITDA in 2022 was mainly influenced by increased generation volume in Kaunas HPP, efficient use of Kruonis PSHP in the market, improved performance of derivative financial instruments and changes of electricity price in the market.

EBITDA adjustments

Adjustments were made in January-December 2022 and January-December 2021 for the difference in regulated services between the revenue accounted for in previous periods and the revenue received for the respective periods in subsequent periods. These adjustments amounted to EUR 4.2 million in January-December 2022 and EUR 1.4 million in January-December 2021.

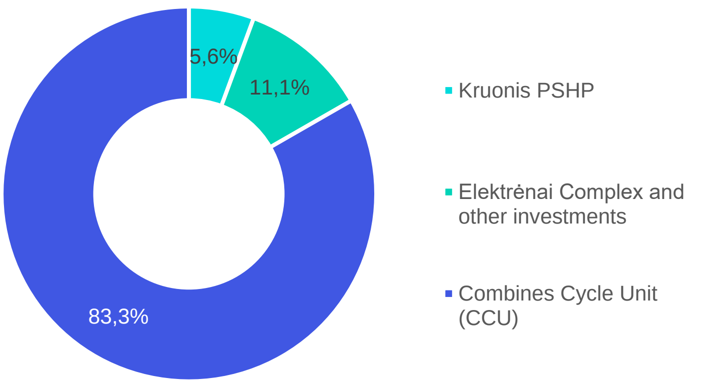
Net profit

In January-December 2022, the adjusted net profit amounted to EUR 152.6 million. The positive impact of the adjusted EBITDA (+ EUR 93.4 million) was partly offset by higher income tax (- EUR 14.4 million). The increase in income tax was mainly due to the increased profit before taxes.

Investments

In January-December 2022, investments amounted to EUR 16.5 million and were EUR 15.6 million higher than in January-December 2021. In January-December 2022, the largest investments were intended for the modernisation of the Combined Cycle Unit (CCU) and the 7th and 8th units of Elektrėnai power plant – these investments amounted to EUR 13.8 million (including an advance of EUR 13.2 million for planned repairs) and EUR 1.3 million (including an advance of EUR 0.5 million for major repairs of the 8th unit) respectively.

Investments in 2022, %



Balance sheet

Assets

As of 31 December 2022, total assets reached EUR 744.8 million (a growth of 9.3 % per annum). The growth was mainly due to the purchase of natural gas reserves.

Equity

As of 31 December 2022, equity amounted to EUR 467.4 million and increased by 36.6 % per annum, mainly due to higher retained earnings.

Liabilities

Total liabilities on 31 December 2022 amounted to EUR 277.4 million and were 24.0% lower than on 31 December 2021. The decrease in current liabilities is due to the absence of dividend payable liabilities (whereas dividends payable on 31 December 2021 amounted to EUR 100.4 million) and the replacement of contracts of derivative financial instruments (DFI) by bilateral contracts (DFI liabilities on 31 December 2021 amounted to EUR 7.4 million), as well as the change in the policy for the calculation of the financial hedging transactions. Meanwhile, short-term liabilities were increased by a short-term loan from Group companies with a balance of EUR 61.3 million on 31 December 2022. Long-term liabilities decreased by 9.0% due to a reduction in long-term loans and grants.

Balance sheet, EUR million

	31/12/2022	31/12/2021	Δ	Δ,%
Non-current assets	416.4	414.5	1.9	*0.5%*
Current assets	328.4	292.7	35.7	*12.2%*
TOTAL ASSETS	**744.8**	**707.2**	**37.6**	*5.3%*
Equity	467.4	342.2	125.2	*36.6%*
Total liabilities	277.4	365.0	(87.6)	*(24.0%)*
Non-current liabilities	172.1	189.1	(17.0)	*(9.0%)*
Current liabilities	105.3	175.9	(70.6)	*(40.1%)*
TOTAL EQUITY AND LIABILITIES	**744.8**	**707.2**	**37.6**	*5.3%*
Asset turnover APM	*0.74*	*0.44*	*0.3 p. p.*	*68.2%*
ROA APM	*21.5%*	*11.1%*	*n/a*	*10.4 p. p.*
Common liquidity ratio APM	*3.10*	*1.70*	*1.4 p. p.*	*82.4%*
Working capital/Revenue (12 months) APM	*55.6%*	*8.2%*	*n/a*	*47.4 p. p.*

Financing

Net debt

As of 31 December 2022, net debt amounted to EUR 52.9 million, i.e., an increase of EUR 199.8 million compared to 31 December 2021. Net debt was higher due to the emergence of short-term loans in January-December 2022, which were not present in January-December 2021, and a decrease in disposable funds. The main contributors to the increase in net debt were the purchase of natural gas related to the additional agreement with the TSO to the contract for the provision of isolated electricity system operation services for 2022 signed on 31 December 2021, as well as the purchase of natural gas for the commercial production in CCU in January and February 2023 under the contract on derivative financial instruments. Dividends paid also contributed to net debt.

FFO (12-month)/Net debt indicator increased from -71.5 % to 353.8 % due to an increase in net debt.

Net debt, EUR million

	31/12/2022	31/12/2021	Δ	Δ,%
Total non-current financial liabilities	**13.8**	**18.0**	***(4.2)***	***(23.3%)***
Non-current loans	8.1	12.5	*(4.4)*	*(35.2%)*
Bonds	0.0	0.0	*0.0*	*n/a*
Interest payable (including accrued)	0.0	0.0	*0.0*	*n/a*
Lease liabilities (IFRS 16)	5.7	5.5	*0.2*	*3.6%*
Total current financial liabilities	**65.9**	**4.5**	***61.4***	***1 364.4%***
The current year portion of long-term loans	4.4	4.4	*0.0*	*0.0%*
Short-term loans	61.4	0.0	*61.4*	*n/a*
Interest payable (including accrued)	0.0	0.0	*0.0*	*n/a*
Lease liabilities (IFRS 16)	0.1	0.1	*0.0*	*0.0%*
Financial debt APM	**79.7**	**22.5**	***57.2***	***254.2%***
Cash, cash equivalents and cash in escrow account	**26.8**	**169.4**	***(142.6)***	***(84.2%)***
Cash and cash equivalents	26.8	169.4	*(142.6)*	*(84.2%)*
Cash in escrow account	0.0	0.0	*0.0*	
Net debt APM	**52.9**	**(146.9)**	***199.8***	***(136.0%)***
Net debt/Adjusted EBITDA (12-month) APM	0.27	(1.41)	*1.7*	*(119.1%)*
Net debt/EBITDA (12-month) APM	0.26	(1.40)	*1.7*	*(118.6%)*
FFO (12-month) / Net debt APM	353.8%	-71.5%	*n/a*	*425.3 p. p.*
Financial debt/Equity APM	0.17	0.07	*0.1*	*142.9%*
Equity level APM	0.63	0.48	*0.2*	*31.3%*

Dividends

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

- 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;
- governance bodies of the subsidiaries may propose to distribute profit for the payment of dividends for the financial year or a period shorter than the financial year if a company incurred loss during the reporting period but has retained earnings accrued from 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;
- governance bodies of the subsidiaries may propose to set a lower share of profits than it is set out in sub-paragraph 1 for the payment of dividends for companies or they may propose not to pay dividends for the reporting period if at least one of the following conditions is met:
  - a subsidiary implements green generation investment projects in accordance with the strategy of Ignitis Group;
  - a subsidiary's ability to allocate dividends is limited by the covenants set out in the financing agreements;
  - 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;
  - 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;
  - a subsidiary is insolvent, or would become insolvent upon payment of dividends;
  - 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 twelve months);
  - a subsidiary has received a written consent passed by the Head of Treasury service and the Head of Finance and Treasury Service of the parent company to apply sub-paragraph 3 in cases which are not anticipated in sub-paragraphs 3.1 - 3.6.

Dividends paid out in the first half, EUR million

	2022	2021	Δ	Δ,%
The amount of dividends paid out	**144.5**	**18.8**	***125.7***	***668.6 %***

Key performance indicators

		2022	2021	Δ	Δ,%
Electricity generation (net)					
Elektrėnai Complex	TWh	0.27	0.82	(0.55)	*(67.1%)*
Kruonis HPSP	TWh	0.46	0.65	(0.19)	*(29.2%)*
Kaunas HPP	TWh	0.36	0.29	0.07	*24.1%*

In 2022, production volumes of the Elektrėnai Complex and Kruonis PSHP decreased compared to the same period in 2021. While in 2022, Kaunas HPP produced 24.0% more electricity compared to 2021.

3.2 Three-year annual summary

Key financial indicators

		2022	2021	2020
Revenue	EUR million	535.6	295.8	174.5
EBITDA APM	EUR million	201.5	105.3	67.7
Adjusted EBITDA APM	EUR million	197.3	103.9	67.9
Adjusted EBITDA margin APM	%	36.8%	35.1%	38.9%
EBIT APM	EUR million	184.4	88.2	50.0
Adjusted EBIT APM	EUR million	180.3	86.8	50.2
Net profit	EUR million	156.1	74.8	42.4
Adjusted net profit APM	EUR million	152.6	73.6	42.6
Investments APM	EUR million	16.5	0.9	1.1
FFO APM	EUR million	187.1	105.0	67.6
FCF APM	EUR million	(102.7)	112.8	62.1
ROE APM	%	38.6%	20.5%	10.6%
Adjusted ROE APM	%	37.7%	20.2%	10.7%
ROCE APM	%	51.6%	37.4%	15.2%
Adjusted ROCE APM	%	50.4%	36.8%	15.2%
ROA AVR	%	21.5%	11.1%	6.4%
Adjusted ROA APM	%	21.0%	10.9%	6.4%
		31/12/2022	31/12/2021	31/12/2020
Total assets	EUR million	744.8	707.2	642.2
Equity	EUR million	467.4	342.2	387.0
Net debt APM	EUR million	52.9	-146.9	-116.8
Net working capital APM	EUR million	297.6	24.3	32.9
Working capital ratio APM	%	-44.4%	-91.8%	-81.1%
Net debt / EBITDA (12 months) APM	In times	0.26	(1.40)	(1.64)
Net debt / Adjusted EBITDA (12 months) APM	In times	0.27	(1.41)	(1.64)
FFO (12 months) / Net debt APM	%	353.8%	(71.5%)	(60.9%)
Common liquidity ratio APM	%	3.10	1.70	4.70
Asset turnover APM	In times	0.74	0.44	0.26

Key performance indicators

		2022	2021	2020
Electricity produced (net)				
Elektrėnai Complex	TWh	0.27	0.82	1.20
Kruonis PSHP	TWh	0.46	0.65	0.72
Kaunas HPP	TWh	0.36	0.29	0.23

Governance report

4.1 Governance framework

The Company belongs to one of the largest energy groups in the Baltic States - AB “Ignitis Grupė”, which owns 100% of the Company's shares. During the reporting period, the Company had no subsidiaries. At the end of the reporting period, the Company jointly owned UAB “Ignitis” grupės paslaugų centras”. The Company share in UAB “Ignitis grupės paslaugų centras” makes 21.45%.

The Governance Model of the Company

Picture 5

Governance structure of the Company (as at 31 December 2022)

According to the Articles of Association of the Company, which were valid as at 31 December 2022, the management bodies of the Company were the following: the General Meeting of Shareholders; the collegial supervisory body - the Supervisory Board[1]; the collegial management body - the Management Board, and the sole management body - the Chief Executive Officer.

Shareholders, their rights and functions

The General Meeting of Shareholders is the supreme governing body of the Company. The competence of the General Meeting of Shareholders, the procedure for convening and taking decision is determined by the laws, other legal acts and the Company‘s Articles of Association.

In accordance with the Articles of Association of the Company, the competence of the General Meeting of Shareholders of the Company is no different from that provided for in the Law of the Republic of Lithuania on public limited liability companies but provides for additional competence of the General Meeting of Shareholders is decision-making on the conclusion of contracts with members of the Supervisory Board of the Company and the Chairman of the Supervisory Board regarding the activities of the Supervisory Board and the protection of confidential information, and their terms and conditions and on approval or disapproval of the Company's annual report and interim report adopted with a view to making a decision on allocation of dividends for the period shorter than the financial year.

100 % of the shares of the Company are held by the sole shareholder - Ignitis Group; therefore, in accordance with Paragraph 7 of Article 29 of the Law on Companies, where all shares in the company are held by a single person, his written decisions shall be equivalent to the decisions of the general meeting of shareholders.

During the reporting period, the sole shareholder of the Company adopted the following decisions:

On 29 April 2022:

- regarding consideration of the annual report of Ignitis Gamyba for 2021;
- regarding approval of audited annual financial statements of AB "Ignitis gamyba" for 2021;
- regarding appropriation of profit (loss) of AB "Ignitis gamyba" for 2021;
- regarding cancellation of the Supervisory Board of AB "Ignitis gamyba";
- regarding election of the members of the Supervisory Board of AB "Ignitis gamyba".

On 16 August 2022:

- regarding approval of the new version of the Articles of Association of AB "Ignitis gamyba".

On 29 September 2022:

- regarding remuneration of the members of the Supervisory Board of AB "Ignitis gamyba".

4.2 Supervisory Board

Overview

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

The Supervisory Board of the Company shall be elected by the General Meeting of Shareholders for a term of four years in accordance with the Articles of Association of the Company, the Supervisory Board shall consist of 5 members, of which at least one third should be formed from independent members. In addition, in accordance with the Law on the Protection of Objects Important for National Security of the Republic of Lithuania, the Supervisory Board of the Company must include at least one civil servant. The Supervisory Board shall elect the Chairman of the Supervisory Board from among its members.

The composition of the Supervisory Board of the Company changed during the reporting period. On 29 April 2022, by the decision of the sole shareholder, three out of five members of the new Supervisory Board of the Company - independent members Edvardas Jatautas and Mindaugas Šeštokas, and civil servant Vilmantas Vitkauskas - were elected for a 4-years term of office.

Information on selection criteria of the Supervisory Board members

The Ignitis Group of Companies has an Equal Opportunities Policy, which regulates the principles of implementation and enforcement of equal opportunities and the means of implementation of these principles in the companies of the Ignitis Group of Companies. The principles of equal opportunities set out in this policy apply not only to the selection of all employees without exception, but also to the selection of members of the management and supervisory bodies of the companies.

The selection of the members of the Supervisory Board is initiated and conducted by Ignitis Group in accordance with the Description of Selection of the Candidates for the Collegial Supervisory or Management Body of a State or Municipal Company, a State-Owned or Municipally-Owned Parent Company or its Subsidiary approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015. According to the latter resolution, members of Supervisory Board shall have diverse competences. All members must have at least one of the following competences: finance (financial management, financial analysis or audit), strategic planning and management, knowledge of the industry, in which the parent company operates (i.e., the energy sector), other competences (i.e., law, management, human resources). The decision on the election of a Supervisory Board member is adopted by the General Meeting of Shareholders.

Therefore, during the period under review, at the end of the term of office of the Supervisory Board of the Company, a public tender was launched for the selection of independent members of the Supervisory Board of the Company as well as a procedure for the selection of a civil servant. Before submitting the selected candidates to the General Meeting of Shareholders of the Company, the law enforcement (control) authorities were contacted to provide the available information about the candidates. Candidates for the positions of the members of the Supervisory Board of the Company were also assessed by the Supervisory Board of the parent company Ignitis Group, the committee for the nomination and remuneration of the Supervisory Board and the Management Board.

If a member of the Supervisory Board is revoked, resigns or for other reasons, the shareholders of the Company also cease to hold office, who hold shares providing them with at least 1/10 of all votes, oppose the election of individual members of the Supervisory Board, the Supervisory Board shall lose its powers and the entire Supervisory Board must be elected. Where individual members of the Council are elected, they shall be elected only until the end of the term of office of the operating Supervisory Board.

Competences of the Supervisory Board

Main functions of the Supervisory Board of the Company and the responsibilities under which the annual activities of the Supervisory Board are planned also include the following competences:

- to consider and approve the Company's business strategy, to analyse and evaluate information on the implementation of the Company's business strategy, and to present this information to the ordinary General Meeting of Shareholders;
- to elect and recall members of the Management Board;
- to supervise the activities of the Management Board and the CEO;
- to submit proposals and comments to the General Meeting of Shareholders on the Company's set of financial statements, appropriation of profit or loss, and the Company's annual report as well as on activities of the Board and the CEO;
- proposals and comments to the General Meeting of Shareholders with regard to the decision on draft appropriation of profit for the period shorter than the financial year, the set of the prepared interim financial statements and the prepared interim report;
- to propose to the Management Board and the Chief Executive Officer of the Company to revoke their decisions, which are contrary to laws and regulations, these Articles of Association or decisions of the General Meeting of Shareholders;
- to resolve other issues related to supervision of the activities of the Company's governing bodies assigned to the competence of the Supervisory Board in the Articles of Association of the Company, as well as in the resolutions of the General Meeting of Shareholders.

Activities during the reporting period

During the reporting period, overall, 20 meetings of the Supervisory Board of the Company were held, and all of them were attended by all members of the Supervisory Board of the Company. The table below provides an overview of the attendance at meetings.

Overview of attendance of meetings by the members of the Supervisory Board[1]

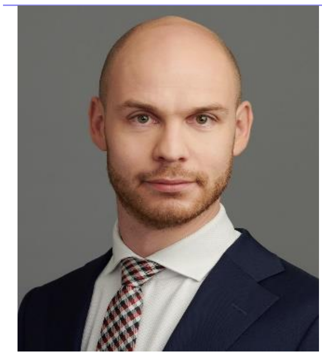
Name, surname	Attendance
Vidmantas Salietis (end of term as of 29-04-2022)	14 / 14
Živilė Skibarkienė (end of term as of 29-04-2022)	14 / 14
Edvardas Jatautas[2]	20 / 20
Mindaugas Šeštokas[3]	6 / 6
Vilmantas Vitkauskas[4]	6 / 6

Activities of the Supervisory Board during the reporting period covered the following key areas:

- Election of board members, determination of remuneration for activities in the Board of the Company
- Assessment and provision of an opinion on the Company's related party transactions
- Evaluation of the decisions made by the Board of the Company in connection with the approval of the operational planning documents of the Company and the submission of opinion
- Periodic monitoring and evaluation of the Company's performance;
- Assessment of the achievement of the Company's interim performance targets (indicators);
- Feedback provision to the General Meeting of Shareholders on the Company's annual set of financial statements, the Company's draft appropriation of profits (loss), the Company's annual report;
- Election of the Chairman of the Company's Supervisory Board, approval of the rules of procedure;
- Submission of an opinion to the Management Board of the Company on the initiation of the discontinuation of the Company's activities related to the supply and production of heat, which include the Abromiškės and Šarkinės boiler houses.

[1] *The figures indicate how many meetings the members have attended out of total meetings during the reporting period.*
[2] *On 29 April 2022, Edvardas Jatautas was re-elected for the new term of office, whereas the term of office of Vidmantas Salietis and Živilė Skibarkienė expired, therefore, the difference in participation is visible.*
[3] On 29 April 2022, *Mindaugas Šeštokas was elected as a new member of the Supervisory Council,* therefore, the difference in participation is visible.
[4] On 29 April 2022, *Vidmantas Vitkauskas was elected as a new member of the Supervisory Council,* therefore, the difference in participation is visible.

Members of the Supervisory Board

	Description	Experience	Education	Other currently held positions
	**Edvardas Jatautas** Independent member Start and end of term of office: from 29-04-2022 to 14-02-2023	E. Jotautas, who has accumulated 20 years of management practice, is currently leading his own companies established in the USA and the Baltic States, which specialise in business process optimisation, system integration and business consulting. The clients of companies include the U.S. Federal Law Enforcement Training Centre, the U.S. Senate, telecommunications, finance, and logistics companies. Since 2013, he has been a member of the Baltic Institute of Corporate Governance (BICG). .	Vilnius Gediminas Technical University, Master's degree in Engineering Informatics; ISM University of Management and Economics, Master's degree in Management Program; Harvard Business School. .	• Addendum Group Inc., President. • UAB "Addendum Solutions", Director. • UAB "Addendum pro", CEO. • SIA Addendum LV, Member of the Board. • OU Addendum EE, Member of the Board.
	**Mindaugas Šeštokas** Independent member Start and end of term of office: from 29-04-2022 to 14-02-2023	M. Šeštokas, who has accumulated many years of experience in effective company management, has been working in the company UAB "Kitron" of the international group of companies "Kitron" for the last 14 years. He is also the vice president of this group of companies in Central and Eastern Europe. .	Vytautas Magnus University, Master's degree in Business Administration. .	UAB "Kitron" CEO.
	**Vilmantas Vitkauskas** Member Start and end of term of office: from 29-04-2022 to 14-02-2023	V. Vitkauskas has more than 23 years of experience in the civil service, NATO and the National Defence System. For many years, he held various management positions in the structures of NATO and the National Defence System; was a national security adviser to the President of the Republic of Lithuania. .	Vytautas Magnus University, Bachelor's degree in Political Science; Lithuanian University of Law, Master's degree in Law. .	Head of the Threat Management and Crisis Prevention Team of the Government Chancellery. .
	**Vidmantas Salietis** Member, Chairman of the Supervisory Board. Start and end of term of office: from 03-09-2021 to 28-04-2022	Vidmantas Salietis, who has 10 years of top management experience, joined the Group in 2011, having gained management experience in the energy sector. In 2018, Vidmantas became a member of the Group's Management Board, as well as Chairman of the Supervisory Board of Ignitis Gamyba and member of the Management Board of Ignitis Renewables. Prior to that, he worked as Head of Energy Supply and Head of electricity wholesale department of Ignitis Gamyba. He has also held positions as a member and Chairman of the Electronic Payments Agency and as a member of the Board of Production Optimisation.	Stockholm School of Economics in Riga (SSE Riga), Bachelor's degree in Economics and Business Administration. .	•AB "Ignitis grupė", Member of the Management Board. •UAB "Ignitis", Member and Chairman of the Supervisory Board; •UAB "Ignitis" Renewables, Member of the Management Board.

	Description	Experience	Education	Other currently held positions
	**Živilė Skibarkienė** Member Start and end of term of office: from 26-03-2018 to 28-04-2022	Živilė, who has 5 years of top management experience, joined Ignitis Group in 2018. Živilė gained executive experience while working in financial sector. She previously was the Head of Šiaulių Bankas Legal and Administration Division. In Finasta Bank she was Managing Director and member of the Management Board. She worked as Compliance Manager at DNB bank (now Luminor).	Mykolas Romeris University, Faculty of Law, Doctoral degree in Social Sciences Field of Law; Vilnius University, Faculty of Law, Master's degree in Law; Oxford University, Saïd Business School, Executive Programme.	•AB "Ignitis grupė", Member of the Management Board, •Elektroninių mokėjimų agentūra, member and Chairperson of the Management Board, •UAB "Ignitis grupės paslaugų centras", member and Chairperson of the Management Board.

4.3 Management Board

Overview

The Management Board of the Company is a collegial management body of the Company. The scope of competence and the procedure for making the decisions, election of members and their recall from office is prescribed by law, other legal acts, the Company's Articles of Association, and the Work Regulations of the Management Board.

The Management Board consisting of three members is elected by the Supervisory Board for the term of office of four years and is recalled by the Supervisory Board in line with the procedure prescribed by law and the Company's Articles of Association. The Management Board reports to the Supervisory Board and the General Meeting of Shareholders. The Management Board elects its Chairman from among its members.

Information on selection criteria of the Management Board members

The person who nominates candidates for the position of a member of the Management Board is required to submit to the Supervisory Board a written statement about the qualification of each nominated candidate, his/her experience in managing positions, and fitness for the position of a member of the Management Board. The following members may not be elected to the Management Board: a person occupying the position of a member of the supervisory body, management body or administration in an energy company, engaged in electricity or gas transmission operations; a member of the Supervisory Board of the Company; an auditor or employee of audit company; and any person who is not entitled to occupy such position on other grounds established by legal acts.

If the Management Board is recalled, it resigns or ceases to perform its duties for any other reason prior to expiry of its term of office, the new Management Board will be elected for the new term of office. Where individual members of the Management Board are elected, they shall be elected only until the end of the term of office of the operating Management Board.

Candidates for the positions of the members of the Management Board of the Company are also assessed by the Supervisory Board of the parent company Ignitis grupė, the committee for the nomination and remuneration of the Supervisory Board and the Management Board.

During the reporting period, after the end of the term of office of the Management Board of the Company, by the decision of the Supervisory Board of the Company of 1 April 2022, the Management Board members Rimgaudas Kalvaitis, Andrius Valivonis, Darius Kucinas were re-elected to the Management Board of the Company until a new Management Board is elected by public selection.

Competences of the Management Board

The main functions and responsibilities of the Management Board, based on which their annual activity is planned, include the following decision-making competences regarding:

- The Company acting as a founder or a member of a legal person;
- Any transfer or restriction of the Company's shareholdings or the rights attaching thereto to other persons;
- Establishment of branches or representative offices of the Company and termination of their activities;
- Emission of bonds;
- Transfer, pledge, change of legal status, other encumbrance or disposal of the Company's energy facilities (as separate property complexes or as a substantial part thereof), located in the territory of the Elektrėnai Municipality, Kaunas Hydroelectric Power Plant, Kruonis Pumped Storage Plant, Vilnius Third Combined Heat and other energy objects;
- Signing certain agreements for the value of more than EUR 3 million;
- Other matters provided for in the Articles of Association of the Company.

In the cases provided for in the Company's Articles of Association, the Management Board shall obtain the feedback of the Supervisory Board and the approval of the General Meeting of Shareholders prior to adopting decisions.

Considering the opinion of the Supervisory Board, the Management Board shall elect and recall the Company's Chief Executive Officer, determine his/her remuneration and other terms and conditions of his/her contract of employment, approve his/her job descriptions, and give him/her incentives and penalties.

Activities during the reporting period

Overall, 51 meetings of the Management Board were held during the reporting period. The table below provides an overview of the attendance at meetings.

Overview of attendance of meeting by the Management Board members[5]

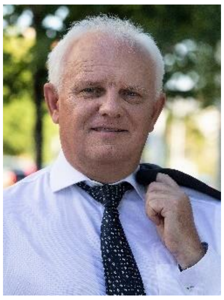
Name, surname	Attendance
Rimgaudas Kalvaitis	51 / 51
Andrius Valivonis	50 / 51
Darius Kucinas	50 / 51

Activities of the Board of the Company during the reporting period covered the following key areas:

- Evaluation of the most significant transactions planned by the Company, approval of their conclusion and approval of essential terms of transactions;
- assessment of the organisation of the company's activities and making related decisions;
- Assessment and approval of the Company's business planning documents, taking into account the opinion of the Company's Supervisory Board;
- Convening of the ordinary General Meeting of Shareholders of the Company;
- Approval and submission of the Company's annual report to the Supervisory Board and the General Meeting of Shareholders;
- Assessment and provision of feedback to the Supervisory Board and the General Meeting of Shareholders on the Company's draft annual financial statements and draft appropriation of profit (loss);
- Evaluation and approval of the updated business plan for expansion project of Kruonis Pumped Storage Plant, including the installation of hydropower unit 5, considering the opinion of the Company's Supervisory Board;
- Determination of the fixed part of the remuneration of the Company's Chief Executive Officer, considering the opinion of the Company's Supervisory Board;
- Assessment and approval of the achievement of the Company's performance targets (indicators) for 2021, the Company's CEO's performance targets for 2021 and the payment of variable remuneration for performance results of 2021, considering the opinion of the Supervisory Board;
- Consideration and approval of the management and organisational structure of the Company, the list of staff positions and the maximum number of positions.

[5] *The figures indicate how many meetings the members have attended out of total meetings during the reporting period.*

Members of the Management Board

	Description	Experience	Education	Other currently held positions
	**Rimgaudas Kalvaitis** Chairman Start and end of the term of office: from 01-04-2022 to 14-02-2023	More than 25 years of top-level management experience. R. Kalvaitis gained leadership experience in the telecommunications, information and communication technologies and innovation sectors. He has held various management positions at Ericsson Lietuva, a member of one of the leading companies offering innovative solutions in the fields of information and communication technologies - Ericsson. He subsequently led telecommunications company TeleTower, held managerial positions at Global BOD Group and was the head of the Technology Competence Centre. R. Kalvaitis was an independent member of the Supervisory Board of Lietuvos energijos gamyba; was accumulating experience on the boards of Ericsson Lietuva, TeleTower, Lietuvos radijo ir televizione centras and Global BOD Group. .	Master's degree in Physics, Vilnius University.	AB "Ignitis Gamyba", Head of the Company
	**Darius Kucinas** Member Start and end of the term of office: from 01-04-2022 to 14-02-2023	Since 1995 he worked at the Kaunas Algirdas Brazauskas Hydroelectric Power Plant, initially as shift supervisor and later as head of the Electrotechnical Service. In 2012, he started managing the service of the Combined Cycle Unit belonging to Ignitis Gamyba. Since October 2013, he is the Director of the Production Department of Ignitis Gamyba.	Bachelor's degree in Electrical Energy Engineering, Kaunas University of Technology .	AB "Ignitis Gamyba", Director of Power Generation Department
	**Andrius Valivonis** Member Start and end of the term of office: from 01-04-2022 to 14-02-2023	A. Valivonis, having 14 years of experience in the field of finance, of which 9 years in the energy sector, joined Ignitis Gamyba in 2013. He gained management experience from working as head of various divisions of the company. Since 29 December 2020, he is the Director of Finance and Administration of AB Ignitis Gamyba and a member of the Board. .	Master's degree in Economic Analysis and Planning, Vilnius University; Oxford University, Saïd Business School, Executive Programme.	AB "Ignitis Gamyba", Director of Finance and Administration

CEO of the Company

Overview

Chief Executive Officer is the sole management 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 established by laws, other legal acts and the Articles of Association of the Company.

The CEO of the Company is elected and removed from office by the Management Board of the Company, considering the opinion of the Supervisory Board of the Company. The competence of the CEO of the Company, the procedure for election and revocation and the number of terms of office is determined by the Law on Companies, its implementing legal acts and the Articles of Association of the Company. It should be noted that the CEO of the Company as a subsidiary of a state-owned enterprise is also subject to the special characteristics of recruitment provided for in the

Law on Companies, according to which the term of office of the CEO is limited to a period of five years. The law stipulates that the same person may be elected as the head of the company for no more than two consecutive terms of office.

The remuneration of the CEO of the Company is determined in accordance with the remuneration policy of the group of companies of Ignitis grupė and the internal legal acts implementing it.

From March 27, 2019 until 2024 March 26 the manager of the company is Rimgaudas Kalvaitis. Information about the head of the company is provided above.

Remuneration of the CEO in 2022, EUR (before tax)

Name, surname	FBS	STI	PBM	Total
Rimgaudas Kalvaitis	101.504	17.644	21.645	140.793

Remuneration of the CEO in 2022, EUR (before tax)

Name, surname	FBS	STI	PBM	Total
Rimgaudas Kalvaitis	90.852	16.527	21.780	129.159

4.4 Governance model as of 14 February 2023

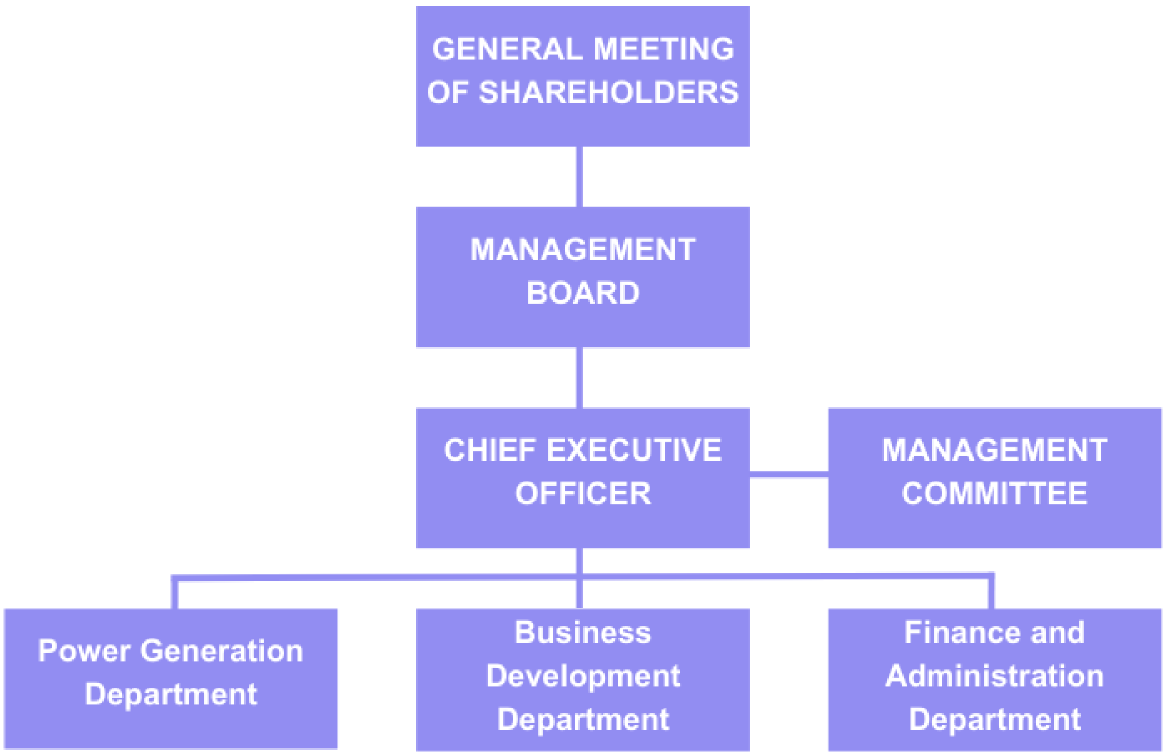
The Company belongs to one of the largest energy groups in the Baltic States - AB "Ignitis Grupė", which owns 100% of the Company's shares. During the reporting period, the Company had no subsidiaries. At the end of the reporting period, the Company jointly owned UAB "Ignitis grupės paslaugų centras". The Company share in UAB "Ignitis grupės paslaugų centras" makes 21.45%.

The Governance Model of the Company

In accordance with the Company's Articles of Association, which entered into force on 14 February 2023, the Company's bodies are the General Meeting of Shareholders, the Management Board as the collegial management body, and the Chief Executive Officer of the Company as the sole management body. In order to ensure the effective management of the Company, the Chief Executive Officer of the Company, with the approval of the Management Board of the Parent Company, has set up a Management Committee of the Company with effect from 15 February 2023, which is tasked with examining and providing the Chief Executive Officer with an opinion on the areas and matters provided for in the Articles of Association and other regulations governing the activities of the Management Committee.

Picture 6

Governance structure of the Company (as of 14 February 2023)



Shareholders, their rights and functions

The General Meeting of Shareholders is the supreme governing body of the Company. The competence of the General Meeting of Shareholders, the procedure for convening and taking decision is determined by the laws, other legal acts and the Company‘s Articles of Association.

Pursuant to the Articles of Association of the Company, the competence of the General Meeting of Shareholders of the Company does not differ from the competence provided for in the Law on Companies of the Republic of Lithuania, but it provides for an additional competence of the Company's General Meeting of Shareholders to take decisions on the Company's business strategy, on the Company's becoming a founder or participant of other legal entities, on the establishment and termination of the Company's branches and representative offices, as well as on the approval and amendment of their regulations, the approval of the candidates for the governing bodies of the Company's branches and representative offices, the approval of the election and removal of their directors, the conclusion of contracts (for the performance on the Management Board and contracts for the protection of confidential information) with the members of the Management Board of the Company and the Chairman of the Management Board and the terms and conditions of their performance, and the approval or disapproval of the Company's annual report and the interim report drawn up for the purpose of deciding on the allocation of dividends for a period shorter than the financial year.

100 % of the shares of the Company are held by the sole shareholder – AB ‘Ignitis Grupė’; therefore, in accordance with Paragraph 7 of Article 29 of the Law on Companies, where all shares in the company are held by a single person, his written decisions shall be equivalent to the decisions of the general meeting of shareholders.

After the reporting period, the sole shareholder of the Company adopted the following decisions:

on 7 February 2023:

- regarding the approval of the new wording of the Articles of Association of AB “Ignitis gamyba” and delegation of powers;
- regarding election of the Management Board of AB “Ignitis gamyba”;
- regarding the date of expiry of the term of office of the current Supervisory Board and Management Board of AB “Ignitis gamyba”.

Overview

The Management Board of the Company is a collegial management body of the Company. The competence and the procedure for making the decisions, election of members and their recall from office is prescribed by law, other legal acts, the Company’s Articles of Association, and the Work Regulations of the Management Board.

The Company's Management Board, consisting of five members, is elected and dismissed by the General Meeting of Shareholders for a term of four years, in accordance with the procedures set out in the Company's Articles of Association and the law. The Board shall be accountable to the General Meeting of Shareholders. The Management Board shall elect the Chairman of the Board from among its members.

Information on selection criteria of the Management Board members

The person who nominates candidates for the position of a member of the Management Board is required to submit to the General Meeting of Shareholders a written statement about the qualification of each nominated candidate, his/her experience in managing positions, and fitness for the position of a member of the Management Board. The following members may not be elected to the Management Board: a person occupying the position of a member of the supervisory body, management body or administration, engaged in electricity or gas transmission operations; an auditor or employee of audit company; and any person who is not entitled to occupy such position on other grounds established by legal acts.

If the Management Board is recalled, it resigns or ceases to perform its duties for any other reason prior to expiry of its term of office, the new Management Board will be elected for the new term of office. Where individual members of the Management Board are elected, they shall be elected only until the end of the term of office of the operating Management Board.

Candidates for the positions of the members of the Management Board of the Company are also assessed by the Supervisory Board of the parent company AB ‘Ignitis Grupė’, the committee for the nomination and remuneration of the Supervisory Board and the Management Board.

After the reporting period, following the registration of the new version of the Company's Articles of Association on 14 February 2023, the newly elected Management Board of the Company, consisting of Edvardas Jatautas, Mindaugas Šeštokas, Vidmantas Salietis, Mantas Mikalajūnas, Vilmantas Vitkauskas, commenced its term of office.

Competences of the Management Board

The main functions and responsibilities of the Management Board, based on which their annual activity is planned, include the following decision-making competences regarding:

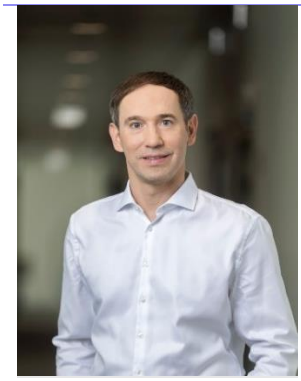
- the Company acting as a founder or a member of a legal person;
- the establishment and termination of branches and representative offices of the Company and the approval and amendment of their regulations;
- the approval of the nomination of candidates for the governing bodies of the Company's branches and representative offices and approval of the election and revocation of their directors;
- any transfer or encumbrance of the Company's shares or the rights conferred by them to other persons;
- the participation and voting at the general meetings of shareholders of the entities, in which the Company is a shareholder, and appointment of a person for implementation of the management Board‘s decision at a particular general meeting of shareholders, in which the Company is a shareholder;
- entering certain contracts, initiating legal disputes and/or entering into amicable agreements, in accordance with the transaction procedures established by the parent company;
- Transfer, pledge, change of legal status, other encumbrance or disposal of the Company's energy facilities (as separate property complexes or as a substantial part thereof), located in the territory of the Elektrėnai Municipality, Kaunas Hydroelectric Power Plant, Kruonis Pumped Storage Plant, Vilnius Third Combined Heat and other energy objects;
- Adoption of other decisions as provided for in the Company's Articles of Association.

In the cases provided for in the Company's Articles of Association, the Management Board shall obtain approval of the General Meeting of Shareholders prior to adopting decisions.

The Management Board shall elect and recall the Company's Chief Executive Officer, determine his/her remuneration and other terms and conditions of his/her contract of employment, and give him/her incentives and impose penalties.

Members of the Management Board

	Description	Experience	Education	Other currently held positions
	**Edvardas Jatautas** Independent member Start and end of term of office: from 14-02-2023 to 14-02-2027	E. Jotautas, who has accumulated 20 years of management practice, is currently leading his own companies established in the USA and the Baltic States, which specialise in business process optimisation, system integration and business consulting. The clients of companies include the U.S. Federal Law Enforcement Training Centre, the U.S. Senate, telecommunications, finance, and logistics companies. Since 2013, he has been a member of the Baltic Institute of Corporate Governance (BICG). .	Vilnius Gediminas Technical University, Master's degree in Engineering Informatics; ISM University of Management and Economics, Master's degree in Management Program; Harvard Business School.	• Addendum Group Inc., President. • UAB “Addendum Solutions”, Director. • UAB “Addendum pro”, CEO. • SIA Addendum LV, Member of the Board. • OU Addendum EE, Member of the Board.

	Description	Experience	Education	Other currently held positions
	**Mindaugas Šeštokas** Independent member Start and end of term of office: from 14-02-2023 to 14-02-2027	M. Šeštokas, who has accumulated many years of experience in effective company management, has been working in the company UAB "Kitron" of the international group of companies "Kitron" for the last 14 years. He is also the vice president of this group of companies in Central and Eastern Europe. .	Vytautas Magnus University, Master's degree in Business Administration. .	UAB "Kitron" CEO.
	**Vilmantas Vitkauskas** Member Start and end of term of office: from 14-02-2023 to 14-02-2027	V. Vitkauskas has more than 23 years of experience in the civil service, NATO and the National Defence System. For many years, he held various management positions in the structures of NATO and the National Defence System; was a national security adviser to the President of the Republic of Lithuania. .	Vytautas Magnus University, Bachelor's degree in Political Science; Lithuanian University of Law, Master's degree in Law. .	Head of the Threat Management and Crisis Prevention Team of the Government Chancellery.
	**Vidmantas Salietis** Member Start and end of term of office: from 14-02-2023 to 14-02-2027	Vidmantas Salietis, who has 10 years of top management experience, joined the Group in 2011, having gained management experience in the energy sector. In 2018, Vidmantas became a member of the Group's Management Board, as well as Chairman of the Supervisory Board of Ignitis Gamyba and member of the Management Board of Ignitis Renewables. Prior to that, he worked as Head of Energy Supply and Head of electricity wholesale department of Ignitis Gamyba. He has also held positions as a member and Chairman of the Electronic Payments Agency and as a member of the Board of Production Optimisation.	Stockholm School of Economics in Riga (SSE Riga), Bachelor's degree in Economics and Business Administration.	•AB "Ignitis grupė", Member of the Management Board. •UAB "Ignitis", Member and Chairman of the Supervisory Board; •UAB "Ignitis Renewables", Member of the Management Board.
	**Mantas Mikalajūnas** Member Start and end of term of office: from 14-02-2023 to 14-02-2027	Mantas Mikalajūnas, who has almost 20 years of management experience in various companies in the energy sector, started his career at Lietuvos dujos. Later, he spent one and a half years as a trainee in an energy group in Germany. After returning to Lithuania, he worked in strategic positions at Lietuvos Dujos, where he was a member of the management team responsible for relations with investors, state authorities and the regulator, and for the integration of Lietuvos Dujos into Lietuvos Energija (now Ignitis Group). Prior to his current position as Head of the Group's Regulated Activities, Mantas was Head of Business Development at Ignitis Group and Managing Director of Lietuvos dujų tiekimas (later Lietuvos energijos tiekimas)	Master's degree in Business Administration and Management, 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.

Management Committee of the Company

As of 15 February 2023, the Management Committee of the Company has been established by decision of the Chief Executive Officer of the Company. The competence, convening and decision-making procedures of the Management Committee shall be determined by the Company's Articles of Association and other legal acts governing the Management Committee.

The members of the Management Committee are the employees of the Company whose functions include serving on the Management Committee. The composition, operational guidelines and terms of remuneration of the Management Committee shall be determined in accordance with the procedures laid down by the parent company, subject to the approval of the Management Board of the parent company.

Members of the Management Committee

	Description	Experience	Education	Other currently held positions
	**Rimgaudas Kalvaitis** Chairman of the Management Committee	More than 25 years of top-level management experience. R. Kalvaitis gained leadership experience in the telecommunications, information and communication technologies and innovation sectors. He has held various management positions at Ericsson Lietuva, a member of one of the leading companies offering innovative solutions in the fields of information and communication technologies - Ericsson. He subsequently led telecommunications company TeleTower, held managerial positions at Global BOD Group and was the head of the Technology Competence Centre. R. Kalvaitis was an independent member of the Supervisory Board of Lietuvos energijos gamyba; was accumulating experience on the boards of Ericsson Lietuva, TeleTower, Lietuvos radijo ir televizione centras and Global BOD Group. .	Master's degree in Physics, Vilnius University.	AB “Ignitis gamyba”, Head of the Company
	**Darius Kucinas** Member	Since 1995 he worked at the Kaunas Algirdas Brazauskas Hydroelectric Power Plant, initially as shift supervisor and later as head of the Electrotechnical Service. In 2012, he started managing the service of the Combined Cycle Unit belonging to Ignitis Gamyba. Since October 2013, he is the Director of Power generation of Ignitis Gamyba.	Bachelor’s degree in Electrical Energy Engineering, Kaunas University of Technology .	AB “Ignitis gamyba”, Director of Power Generation Department
	**Andrius Valivonis** Member	A. Valivonis, having 14 years of experience in the field of finance, of which 9 years in the energy sector, joined AB Ignitis Gamyba in 2013. He gained management experience from working as head of various divisions of the company. Since 29 December 2020, he is the Director of Finance and Administration of AB Ignitis Gamyba. .	Master’s degree in Economic Analysis and Planning, Vilnius University; Oxford University, Saïd Business School, Executive Programme.	AB “Ignitis gamyba”, Director of Finance and Administration

CEO of the Company

Overview

The Chief Executive Officer is the sole management 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 established by laws, other legal acts and the Articles of Association of the Company.

The CEO of the Company is elected and removed from office by the Management Board of the Company. The competence of the CEO of the Company, the procedure for election and revocation and the number of terms of office is determined by the Law on Companies, its implementing legal acts and the Articles of Association of the Company. It should be noted that the CEO of the Company as a subsidiary of a state-owned enterprise is also subject to the special characteristics of recruitment provided for in the Law on Companies, according to which the term of office of the CEO is limited to a period of five years. The law stipulates that the same person may be elected as the head of the company for no more than two consecutive terms of office.

The remuneration of the CEO of the Company is determined in accordance with the remuneration policy of the group of companies of Ignitis Group and the internal legal acts implementing it.

From March 27, 2019 until 2024 March 26 the manager of the company is Rimgaudas Kalvaitis. Information about the head of the company is provided above.

4.5 People and remuneration

People and culture

Overview

Ignitis Group, 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 Group 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 Group 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 Group 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 capable of professionally developing 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.

The Group's remuneration structure is based on two key documents: the Remuneration Policy and the Remuneration Guidelines. The Remuneration Policy sets out the basic principles and essential provisions of the remuneration governance and structure, while the Remuneration Guidelines are a supporting document that details the provisions of the Remuneration Policy (e.g. target setting and measurement, determination and payment of variable remuneration). Both documents are integrated and applicable to all Group companies.

The remuneration policy is adopted in accordance with the provisions of the Labour Code of the Republic of Lithuania, the Code of Corporate Governance of Nasdaq Vilnius Listed Companies and the Law on Companies of the Republic of Lithuania. The Parent Company must submit any amendments to the Remuneration Policy to the General Meeting of Shareholders for approval. Prior to this, the Remuneration and Nomination Committee of the parent company shall provide comments and suggestions on changes to the Remuneration Policy. This issue is also subject to discussion with employee representatives of the parent company and Group companies and other stakeholders. The latest version of the Remuneration Policy is available on our website. The Remuneration Guidelines are approved by the Management Board of the parent company.

Employees, their diversity and representation

As of 31 December 2022, there were 367 employees in the Company (as at 31 December 2021 - 359 employees).

Both in the Company and in the entire Ignitis Group, job opportunities do not depend on an employee's gender. The Company ensures equal opportunities and diversity for employees and does not tolerate direct or indirect discrimination in all their areas of activity. As of 31 December 2022, men accounted for 86% of all employees, women – 14%. Male specialists accounted for 79%, and females – 21%. Distribution of mid-level executives: men - 90%, women – 10%.

The Company provides job opportunities to people of various age. As at 31 December 2022, most employees of the Company belonged to the age group of 37-56 years (54%), and the lowest number of employees belonged to the age group of 17-24 years (3%). 63% of the employees of the Company have a higher education, 2 employees have a phd degree.

The Company promotes and maintains social dialogue with representatives of employees. The employees are represented by the Trade Union of Electricity Production Workers, the Trade Union 'Solidarumas', the Kruonis PSP Production Technical Trade Union and the Kaunas HPP Trade Union of Workers.

Remuneration of members of collegial bodies

Overview

The principles of remuneration of the members of the collegial bodies are set out in the Guidelines on Corporate Governance of the State-Owned Energy Group of Enterprises. Considering the recommendations of the Governance Coordination Centre and best practices in the market, the principle of remuneration of members of collegial bodies of the parent company and AB “Ignitis grupė” companies was changed in 2022. Remuneration is now also paid to civil servants who are members of collegial bodies. In addition, the remuneration levels of other members have also been changed. This principle came into effect following the approval of the changes to the Remuneration Policy by the General Meeting of Shareholders of AB ‘Ignitis Grupė’ on 29 September 2022. We believe that this change will increase both the transparency and clarity of remuneration and will help us to attract civil servants in the future.

Basic principles of the remuneration of collegial bodies:

- in accordance with the Guidelines on Corporate Governance of State-Owned Energy Group of Enterprises, the maximum remuneration per month for service on the Supervisory Board of the Company (for those who are entitled to such remuneration) may not exceed one-fourth of the average monthly salary paid to the CEO of the Company;
- The monthly remuneration of a member of the Company's Supervisory Board shall be determined by the General Meeting of Shareholders of the Company;
- the remuneration for participation in the collegial body is fixed and does not depend on the performance of the parent company or AB ‘Ignitis Grupė’ entities.

Remuneration for the activities of the Company’s collegial bodies is paid to:

- independent members of the Supervisory Board;
- civil servants serving as members of the Company's collegiate bodies;
- members of the Management Board.

More information on the remuneration of collegial bodies is available in the Remuneration Policy.

Remuneration paid to the members of the Supervisory Board

The Company's Articles of Association state that members of the Supervisory Board may be subject to contracts for their activities on the Supervisory Board, which set out their rights, duties and responsibilities. The terms and conditions of the contracts with the Supervisory Board members, including the determination of the remuneration of the Supervisory Board members, shall be approved by the Company's General Meeting of Shareholders in accordance with the Remuneration Policy. During the reporting period, Edvardas Jatautas, an independent member of the Supervisory Board, was paid EUR 1,555 for his activities as a member of the Supervisory Board, Mindaugas Šestokas, an independent member, was paid EUR 1,122, and Vilmantas Vitkauskas, a civil servant, was paid an average monthly remuneration of EUR 288 (pre-tax), with effect from 1 October 2022 until the end of the reporting period.

Remuneration Policy

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

Key principles of the Group‘s Remuneration Policy

Internal fairness	The same or equivalent (equal value-adding) work is paid the same remuneration throughout the organisation.
External competitiveness	Employees are paid a competitive salary in relation to the labour market of the country in which they work. .
Clarity	It must be clear to every employee how his or her pay is determined and how the level of pay depends on the employee's performance, competences and qualifications.
Transparency	The aim is that employees were always informed that remuneration within the Group is set on the basis of objective and transparent criteria.
Flexibility	We are flexible to retain strategic importance to the organisation and employees in critical positions in line with the principles listed above.

Overall, the remuneration structure of Ignitis Group consists of two components: the fixed base salary (FBS) and the short-term incentive (percentage of FBS). Dependent on employees' position, short-term incentives (STI) 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 Group. 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.

Remuneration of the Company's employees

The Company's wage bill was EUR 12.2 million in 2022 and EUR 10.6 million in 2021.

Information on remuneration is available on the Company's website (link).

Average monthly salary of the company's employees, EUR (before taxes)

Position category	2022			2021		
	Number of employees	Average salary (without STI)	Average STI	Number of employees	Average salary	Average STI
Head of the Company	1	8,459	1,470	1	7,785	1,416
Top-level managers	3	6,584	1,125	3	5,940	976
Mid-level managers	30	3,936	347	29	3,678	332
Experts, specialists	225	2,446	204	209	2,245	199
Qualified workers	108	1,721	172	117	1,495	147
Total	**367**	**2,411**	**218**	**359**	**2,177**	**204**

Remuneration of the members of the Management Board and the CEO of the Company

The Remuneration Policy aims to attract and retain competent Management Board members. In order to attract high calibre professionals to senior positions, we aim to maintain remuneration close to the market median in the country where the Group operates. The remuneration structure of the members of the Management Board is in line with the remuneration structure of the rest of the Group's employees (except for the assigned Company car). Remuneration includes FBS, STI and is detailed in the table below.

During the reporting period, the Chairman of the Management Board Rimgaudas Kalvaitis was paid EUR 1,804 for his activities as a member of the Management Board, and the members of the Management Board Darius Kucinas and Andrius Valivonis were paid an average monthly remuneration of EUR 1,300 (before tax).

Remuneration structure for the CEO and the Management Board of the Company

Element	Purpose	Description and performance measures
Fixed base salary (FBS)	Remuneration for the functions performed is based on the person's skills, knowledge and experience.	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 determined during the annual remuneration review.
Remuneration for the Management Board members' activities (PBM	Remuneration for activities carried out by a member of the Management Board.	The PBM is a fixed monthly payment, the size of which is determined by the Remuneration Policy.
Short-term incentive (STI)	To promote the achievement 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 proportion of the remuneration paid to managers may amount to up to 20% of annual FBS.
Health insurance, 3rd pillar pension fund or life insurance	Apply best market practices and retain existing managers	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 Management Board of the parent company additionally includes the Company's car. .

Remuneration of the members of the Management Board in 2021, EUR (before taxes)

Name, surname (position)	FBS	STI	PBM	Total
Rimgaudas Kalvaitis, Chairman of the Management Board	21,780	-	-	21 780
Darius Kucinas, a member of the Management Board	15,786	-	-	15 786

Andrius Valivonis, a member of the Management Board	15,600	-	-	15 600

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

Name, surname (position)	FBS	STI	PBM	Total
Rimgaudas Kalvaitis, Chairman of the Management Board	21,645	-	-	21,645
Darius Kucinas, a member of the Management Board	15,600	-	-	15,600
Andrius Valivonis, a member of the Management Board	15,600	-	-	15,600

More information on remuneration establishment principles of Ignitis Group is available in the Annual report of Ignitis Group for 2022.

Variable remuneration targets for Company‘s executives

The Company was able to fully meet six of the seven 2022 targets for variable remuneration of the Company's executives: in 2022, operating profitability is above target, operating costs were successfully managed and were below target, quality of service was ensured, accidents were avoided and employee experience targets were met (improving eNPS (Employee Net Promoter Score)). The objective of managing the Company's portfolio of strategic projects was partially achieved. The weighting of the criteria has been recalculated by removing the Strategic Project Portfolio Management objective related to the overhaul of the KHAE 1 hydro unit, as the overhaul has been postponed to 2023 due to the delay in the production of spare parts in Ukraine due to hostilities.

In 2023, the Company will strive to meet shareholders' expectations and focus on quality of service (ensuring reliable operation of power plants and boiler houses), stable finances based on the Company‘s profitable operations and cost control. The implementation of strategic projects and roadmaps is important to ensure the Company's development and adaptation to future market changes. In the area of sustainability, the safety of employees remains a key concern, which will be measured by the TRIR (Total recordable incident rate), with the aim of ensuring inclusive recruitment.

Objectives for 2022

Variable remuneration targets for executives	Adjusted weight[12]	Indicators	Implementation
Cost control	21%	OPEX (controlled)	100%
Operational profitability	21%	EBITDA	100%
Strategic project portfolio management	21%	Implementation of the Strategic Guidelines: 1) KHAE 5 Hydroelectric Project (13%) 2) Overhaul of EC Unit 8 (8%) 3) Overhaul of KHAE 1 hydro unit (0%)	97%
Quality of services	21%	Average annual availability of KHAE, KHE, EC combined cycle unit, units 7 and 8, and the complex of thermal generating units (ratio of the calendar year time interval to the time when the power plant units are "available")	100%
Accident-free operations	11%	Number of accidents	100%
Experience of employees	5%	Improvement in the Employee Experience Index eNPS	100%
Implementation by weighting			**99%**

Objectives for 2023

Variable remuneration targets for executives	Weight	Indicators
Services and quality	25%	Availability of production facilities [13] (25%)
Strategic projects and their milestones	30%	Installation of KHAE 5 hydropower plant: on time and within approved scope (20%) Overhaul of EC Unit 8: on time and within approved scope (5%) Overhaul of KHAE 1 hydropower unit: on time and within approved scope (5%)
Financial objectives	30%	OPEX (controlled[14]) (15%) Adjusted EBITDA (15%)
Sustainability objectives	15%	Increasing safety at work [15] (10%) Ensuring inclusive selections [16] (5%)

[12] *Weight adjusted due to the postponement of the overhaul of the KHAE 1 hydropower unit*
[13] *Elektrėnai complex (B-7, B-8, KCB), KHAE, KHE, biomass and steam boiler houses*
[14] *Controlled OPEX is calculated net of LTSA (Long Term Service Agreement) costs*
[15] *Zero deaths at work (workers and contractors), with a TRIR of ≤ 3.5 for workers and ≤ 30 for contractors. TRIR (Total Recordable Injury Rate) - number of accidents per million hours worked.*
[16] *Aiming for gender balance in the selection process for top management positions: ensuring a minimum of 33% of the under-represented gender on shortlists.*

4.6 Risks and their management

Risk management model

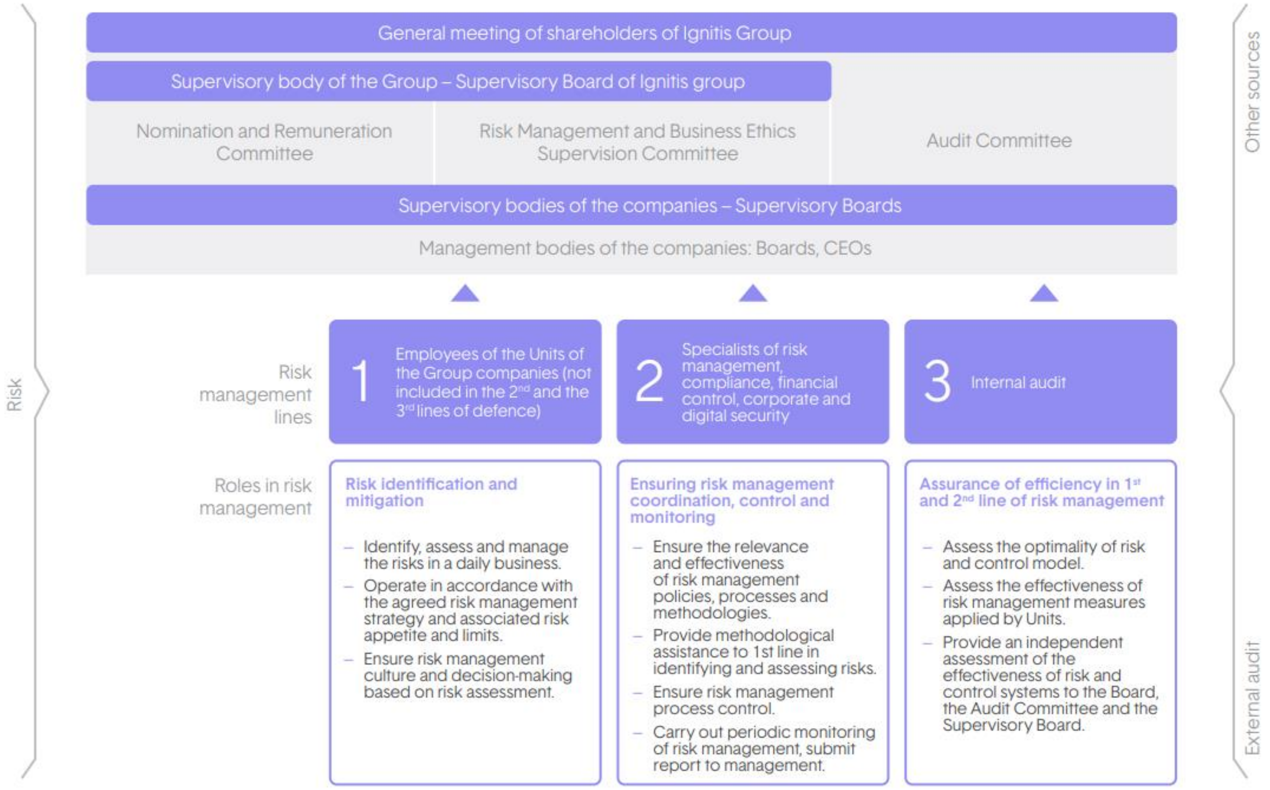
Overview

In connection with the business activities, the Company is exposed to both internal and external risks that might affect our performance. 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 risk management framework (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.

In order to ensure that risk management information and decisions are relevant to and reflect the changes in the Company, a risk management process is initiated which covers the entire Company. In order to ensure control, we monitor risks each quarter, risk management measures and key risk indicators and prepare internal reports to the management and supervisory bodies of the Company.

Below is more detailed information on the Group's and the Company's risk management model and the Company's top risks for 2023. Also this year, given the growing importance of ESG (Environmental, Social Responsibility and Governance) topics, we have highlighted the risks related to the ESG areas.

Three Lines risk management framework



Key risk management objectives:

eliminate or minimise the impact of risks on the Company's objectives for different periods	to ensure an uninterrupted operation of the Company's core activities in the short and long term perspectives	to ensure a timely provision of information of the highest possible accuracy to decision-makers, shareholders and other stakeholders
to protect the Company's reputation and ensure reliability	to protect the interests of shareholders, employees, customers, stakeholders and the public	to ensure the stability (including financial) and sustainability of the Company's activities

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 Group 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 started.

1. **Identification stage.** At the beginning of each annual planning process, the Group's business risk management team issues risk management planning guidelines, which contain the most relevant information on various sources of risks and their potential impact on Group and Company activities. In the last quarter of the year, the Company reviews and revises its annual and strategic objectives, including assessing whether additional risks related to these changes have arisen and amending existing risks or recording new risks as appropriate. We also review existing risks and identify new ones (if any) after each quarter of the year. The Company continuously assesses the potential impact on the achievement of the Company's objectives of various sources of risk, such as: climate change, regulatory changes, geopolitical and economic situations, trends in raw materials/services/labour markets, cultural and social issues.

Risks can materialise and are recognised:

- at the Group company level (including the Company) – risks arising in the main activities;
- at the function level – risks arising in provision of internal services;
- at the Group level – risks arising in more than one Group company or function.

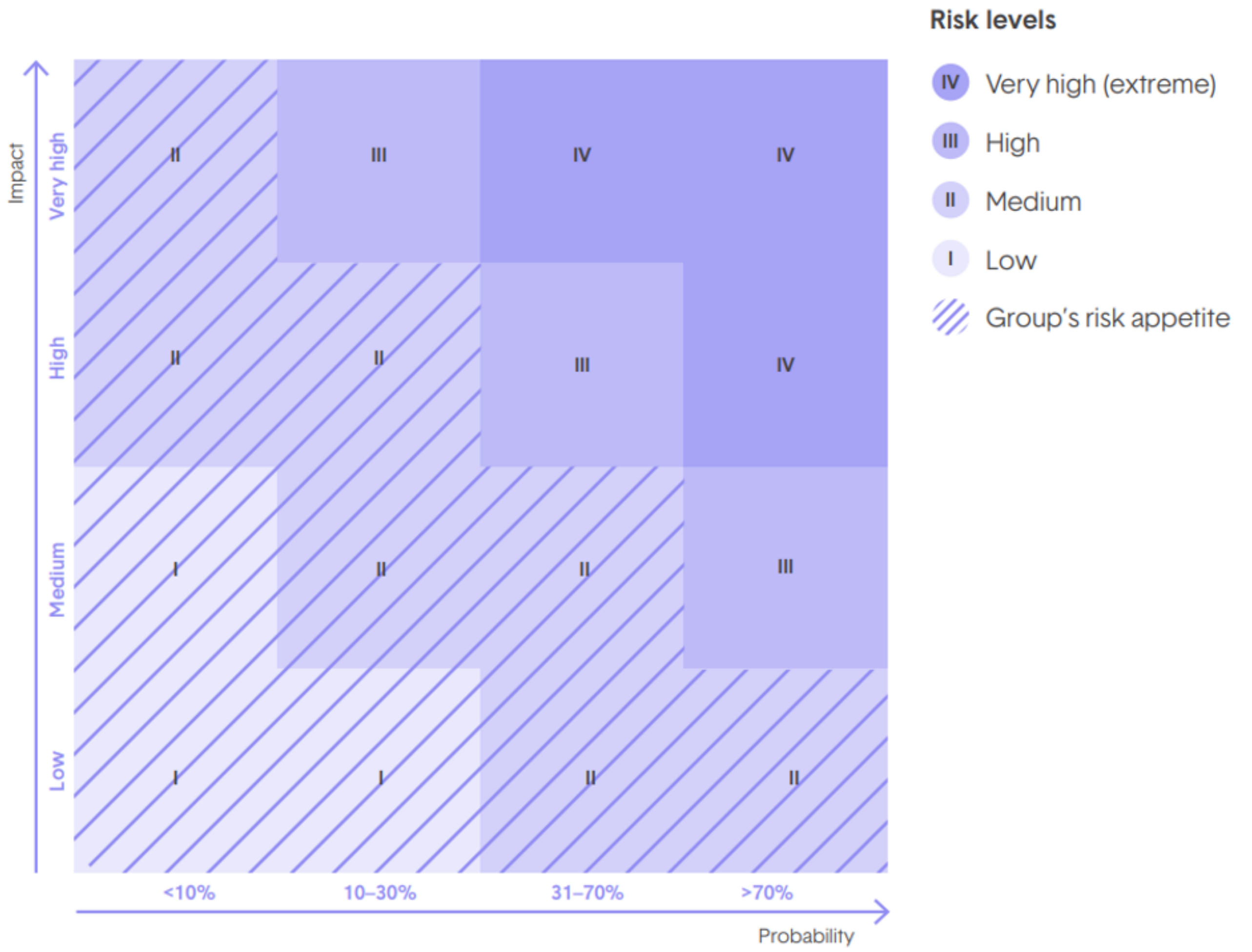
In addition, based on the potential impact of risks on the Group's objectives, all risks are assessed based on the periods of when they could potentially materialise and are categorized as follows:

- short-term risks (relevant for a period of 0–1 year), which may affect the Company's annual objectives;
- medium-term risks (relevant for a period of 1–4 years), which relate to the implementation of strategic goals defined in the Company's 4-year strategic plans;
- long-term risks (relevant for a period of ≥ 5 years), which can affect the implementation of the Group's and the Company's strategy.

2. **Assessment stage** is where risk levels are determined. Risk levels are defined from low to very high and are being calculated by multiplying probability of the risk occurrence and the potential impact (financial, reputational, compliance, people, health, and safety. The evaluation is carried out considering existing risk management measures. See risk assessment matrix below.

Picture 7

Risk assessment matrix



In assessing the potential exposure to risk, it is important to determine whether the risk exceeds the Group's (including the Company's) risk appetite. Risks that exceed the Group's (including the Company's) risk appetite, i.e. all types of risks at the high and very high levels (except for external risks, which are only very high), must be managed. The table below sets out the assessment of the financial materiality of risks.

Risk financial materiality assessment

Impact level	Financial impact on the Company's adjusted EBITDA
Low	x ≤ 1%
Medium	1 % < x ≤ 2%
High	2 % < x ≤ 5%
Very high	x > 5%

Each new risk is assessed and assigned to the Group's strategic direction (to which could have biggest impact), then its category and relevant characteristics are identified.

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

Types of risk

Strategic risks	Operational risks	Financial[17] 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 Company. This category includes the risks such as the credit risk, liquidity risk, insufficient capital risk, interest rate risk, currency exchange risk, risk related to fluctuation of shares and market prices, etc.	Risks that materialise due to changes in market conditions, regulatory, and legislation changes, natural resources, natural disasters, etc.

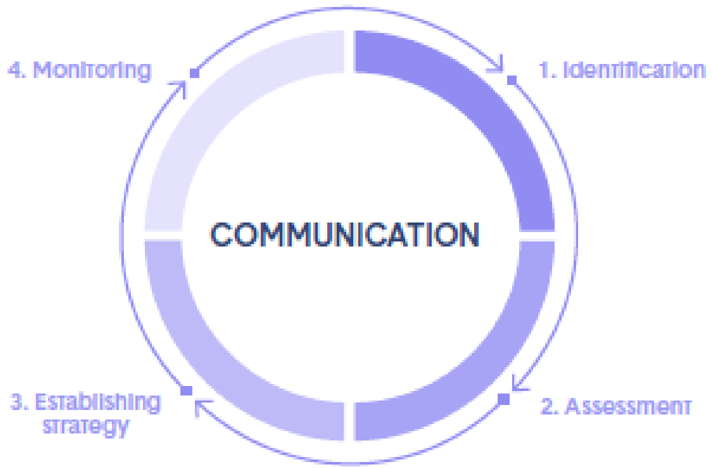
If a risk also meets the established criteria for ESG risks, it is also classified as an ESG risk type (for more information, see "ESG risks").

Key Risk Indicators (KRIs) - qualitative and quantitative indicators based on the type of risk and the timeframe over which the risk could occur. This stage of the risk assessment also includes the setting of thresholds for the KRIs, which allow monitoring of changes in the risk trend during the monitoring phase.

3. **Establishing strategy** - choosing one of the risk management strategies (accept, reduce, avoid or transfer). All risks exceeding the Company's risk appetite must be managed in order to reduce their level to a level acceptable to the Company. A risk management plan is then created to implement a risk level mitigation strategy. The plan implementation control is carried out in the monitoring stage.

4. **Monitoring stage** - quarterly monitoring of risks, risk management measures and key risk indicators and reporting to management. This stage may also include a reassessment of the level of risk, the recording of new risks and the removal of risks that are no longer relevant.

Risk management process



[17] Financial risks of the Ignitis Group (market, currency, interest rate, credit, liquidity), which do not exceed the Group's risk appetite and KRI tolerance thresholds, in accordance with the IFRS requirements are disclosed in section 'Financial statements.

Key risks and their control

Risk management in 2022

Overview

Overview of risk management during Q3 and Q4 of 2022

- The risk of insecurity of Lithuania's electricity system has been reassessed and the level of this risk has been increased, considering the significance of this risk at the national and regional level, particularly in the context of the continuing Russian war in Ukraine;
- Also, the ongoing Russian war in Ukraine continues to have a negative impact on the supply of parts required for the overhaul of the Company's KHAE 1 hydro-aggregator, which has resulted in the project running behind schedule;
- Winning of the Polish auction of 250 MW of power mechanisms in 2027, which expands the use of the Company's generation capacity abroad and contributes to the management of the risk of market and regulatory changes;
- From 2023, the TSO shall no longer order the tertiary active power reserve service, which was provided by the Company in 2022 and earlier periods;
- Continued monitoring of an intense volume of external scans, with Distributed Denial of Service (DDoS) attacks targeting the Group's IT infrastructure;
- The upgrade of the CCB management system has been completed, which contributes to enhancing the Company's digital security.

The overview of key risks management for Q1 and 2 of 2022 is presented in the Company's Interim Report for the first half of 2022, in the section "Risks and their management" - "Principal risks and their controls“.

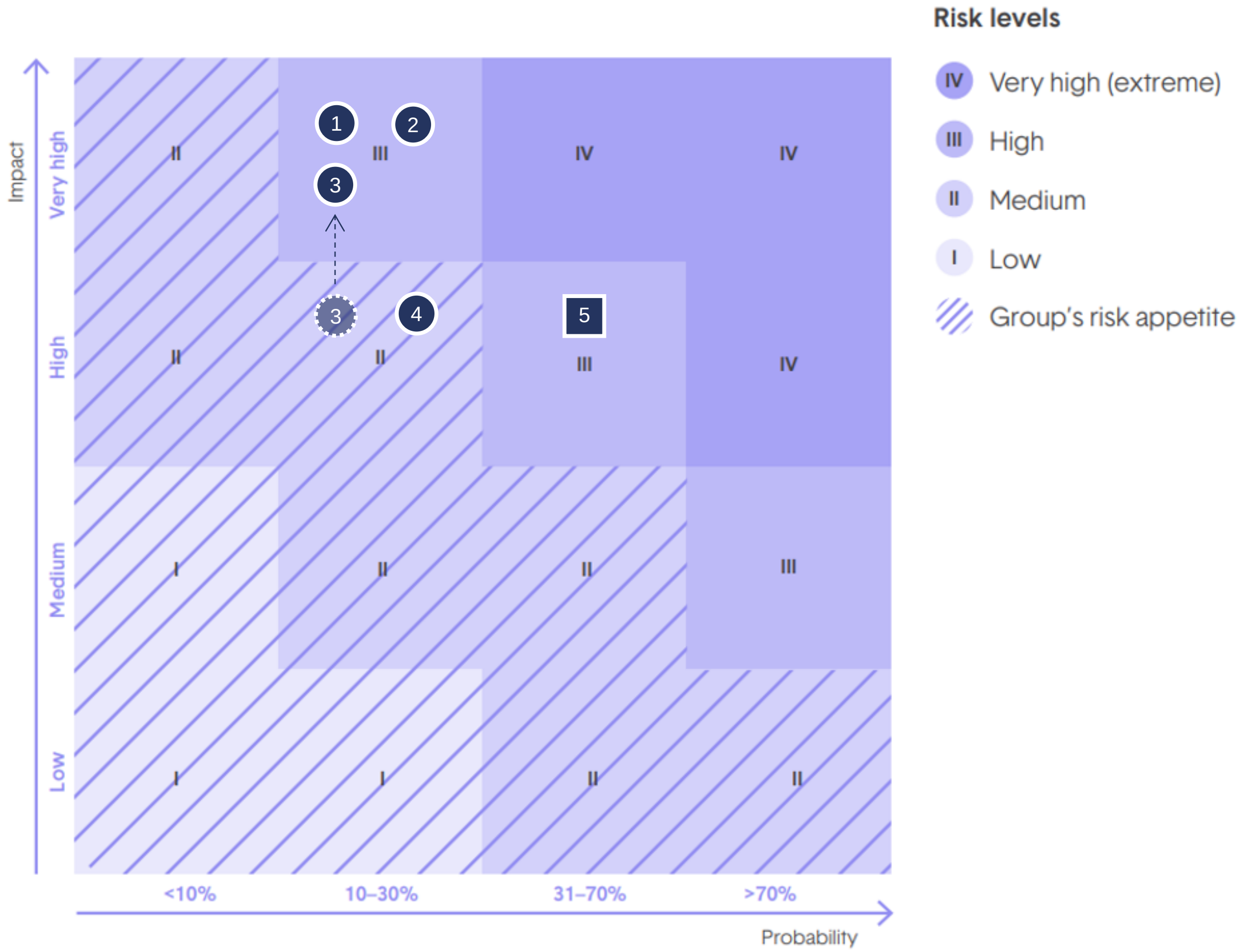
Risk management in 2023

Overview

Following our annual risk reassessment, we have identified the main risks for the Company in 2023, which are presented in the risk map below.

Picture 8

Heat map of the Company's key risks



1. Risk of market and regulatory change
2. Risk of recovery of non-notified State aid
3. Risk of insecurity in Lithuania's electricity system
4. Risk of occupational health & safety accidents
5. Risk of cyber-attack (Group)

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. Below we disclose the Company's key ESG risks according to their type (additional information on the typology of these and other key risks of the Company, risk management directions and other relevant information are available in section 'Key risks of the Company and plan for managing key risks').

ESG risks meeting the criteria of social responsibility:

- 4 Risk of occupational health & safety accidents.

ESG risks meeting the criteria of governance:

- 5 Risk of cyber-attack.

The risks of corruption, non-compliance, failure to ensure business continuity and to implement greenhouse gas emission mitigation goals are not in the Group's key risks register. All of these risks are medium or low level because of applied effective risk management measures. However, the Ignitis Group (including the Company), being aware of the importance of these risks for the achievement of the sustainability objectives, pays particular attention to the management of these risks. More information on some of them can be found in the 'Sustainability Report' and 'Financial Statements' sections of this report, as well as in the "Annual Report of Ignitis Group for 2022" under the section "Risks and risk management report" – "Other significant ESG risks and their management directions".

Key risks of the Company and their management plan

Risk of market and regulatory change		
Main sources of risk Upcoming synchronisation with continental European power grids and related market developments: – Changes in the need for and regulation of the ordering of reserve and other ancillary services for TSOs (frequency restoration reserve, isolated operation of the electricity system); – Developments in power and balancing markets. **KRI** Periodic reporting of risk signals to	**Period** From the year 2024 **Impact on strategic direction** Flexible generation **Main potential impact** - Finance **Risk level** High	**Main risk management directions** - Preparing for synchronisation with continental European power grids and implementation of related projects; - Phasing out idle production capacity; - Targeted cost reductions for regulated activities; - Process review and optimisation; - Active engagement with the regulator; - Centralised coordination of regulatory issues within Ignitis Group.

Management

Risk type | External

ESG risk type | Not related

2 Risk of recovery of non-notified state aid

Main sources of risk
State aid granted to the Company not notified with the European Commission (EC).

KRI
Periodic reporting of risk signals to Management

Risk type | External

ESG risk type | Not related

Period | Long term

Impact on strategic direction
- Finance

Main potential impact
- Finance
- Reputation

Risk level
High

Main risk management directions
- Continuous cooperation and provision of information to the institutions (EC and Ministry of Energy of the Republic of Lithuania)
- Centralised coordination of regulatory issues in Ignitis Group.

3 Risk of insecurity of Lithuania's electricity system

Main sources of risk

- Frequent short-term CCP launches in Day-ahead Trading;
- Limited resources and infrequent activation of services in Blocks 7 and 8, which can lead to loss of staff qualifications and skills;
- Frequent and short-term starts and stops of KHAE hydro-aggregators during the course of a balancing service;
- Lengthy preparation and training process for newcomers;
- Failure to implement projects important for the security of the power system on time;
- Inherent disruptions in the power generation sector, such as wear and tear, outages.

KRI
- Availability.
- Reliability of launch.

Risk type | Operational

ESG risk type | Not related

Period | Long term

Impact on strategic direction
-Flexible generation

Main potential impact
- Reputation
- Finance

Risk level
High

Main risk management directions
- Developing and regularly updating an attraction, retention and rotation programme;
- Upgrading qualifications;
- Ensuring and maintaining continuity of knowledge and skills of operational staff, training, certification, rotation between different facilities;
- Periodic testing of blocks;
- Periodic and timely maintenance;
- Launch efficiency;
- Commercial production of CCBs;
- Plant upgrades, major repairs;
- Establishing, updating and testing business continuity plans;
- Integrated asset management system for energy installations;
- Coordination of critical situations (such as COVID), both within the Company and centrally at Ignitis Group level.

4 Risk of occupational health & safety accidents

Main sources of risk
- Upcoming fieldwork in the Company's priority projects;
- Inadequate risk assessment of workplaces;
- Lack of practical skills and knowledge;
- Non-compliance with safety requirements;
- Overlapping work areas;

Period | Long term

Impact on strategic direction
Sustainability

Main potential impact
- Health and safety

Risk level
Medium

Main risk management directions
- Maintenance of ISO 45001:2018 Occupational Health and Safety Management System;
- Instructing staff in accordance with approved occupational health and safety instructions according to job functions;
- Mandatory staff training;
- Control of work in progress

- Temporary worksites for specific works, difficult working conditions, unfamiliarity with the site.

KRI
- Employees health and safety violations.
- Contractors' health and safety violations.
- Suspension of work due to health and safety violations.
- Workplaces with irregularities.
- Accidents.
- TRIR (employees and contractors).

Risk type | Operational

ESG risk type | Social responsibility

(unscheduled site inspections of employees and contractors in all areas;
- Training for contractors' employees responsible for safety;
- Monitoring TRIR data of contractors;
- Updated Occupational Safety and Health Policy;
- An occupational safety and health programme called "Is It Safe?", implemented by Ignitis Group (including the Company);
- Improving the quality of briefings;
- A mobile app to conveniently record occupational safety and health violations for all employees;
- Occupational risk assessments.

5 Risk of cyber- attack (Group)

Main sources of risk
- Cyber-attacks;
- Social engineering, data theft;
- Delayed or inadequate remediation of publicly known system vulnerabilities.

KRI
- Critical vulnerabilities.
- Average time to fix critical vulnerabilities.

Risk type | Operational

ESG risk type | Governance

Period | Long term

Impact on strategic direction
Organisation

Main potential impact
- Compliance.
- Reputation.

Risk level
High

Main risk management directions
- Preparation of periodic reports on IT vulnerabilities and submission to those responsible for addressing them;
- Elimination of vulnerabilities;
- Restricting critical systems in the internal network;
- Internal audit;
- Cooperation with external partners;
- Developing digital security competences by becoming an accredited member of the Computer Emergency Response Team (CERT);
- Participation in cybersecurity exercises with external partners;
- 24/7 cyber security monitoring.

As the world encountered with a new geopolitical crisis at the end of February 2022 - Russia's invasion of Ukraine - and as this challenge is affecting business and people globally, more information on the impact of this challenge is presented in the Annual Report of Ignitis Group for 2022 under the section "Risks and risk management report" – 'Key risks and their control', in which, for the sake of transparency, as far as is reasonably practicable, the potential impact of the matter on the Ignitis Group, including on the Company is presented separately.

In previous reports, we have also highlighted risks related to the COVID-19 pandemic, but in management's assessment, these risks no longer have a material impact on the Group's (including the Company's) operations, and therefore we do not provide detailed information on them. Nevertheless, the impact of the post-pandemic environment on the Group's (including the Company's) operations will continue to be monitored.

Sustainability

5.1 Sustainability (Corporate Social Responsibility) Report

The sustainability performance and results of the Group as a whole, including its subsidiary Ignitis Gamyba, are summarised in the consolidated Annual Report 2022 of AB 'Ignitis Grupė', of which the Sustainability (Corporate Social Responsibility) Report of the Group as a whole is an integrated part. This report is available on www.ignitisgrupe.lt under 'For Investors' and 'Sustainability'. We note that the terms 'coherence' 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 2021, is prepared in accordance with the Global Reporting Initiative (GRI) Standard Core Model (GRI Core). Disclosures are made based on materiality and reflect the progress of the Group in implementing 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 sustainability / social responsibility reports as set out in Lithuanian legal acts.

In this context, the Company does not prepare a separate report on this topic; yet it provides below a summary of its sustainability activities and links to the relevant sections of the Sustainability Report of the Group including the disclosure requirements applicable to the Group companies under the EU Taxonomy Regulation.

Sustainability in the Group and the company Ignitis Gamyba

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 the Group strives 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 the annually updated strategic plan of the Group is available here.

The guiding principles of sustainability that we follow in our day-to-day activities at the Company and across the entire Group are defined in the Sustainability Policy of the Group, which, among other matters, underlines 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 applicable to the Company as well.

Driving the region's energy transformation towards an energy-smart world, we are focusing on our Environmental, Social and Governance (ESG) performance and accountability. Sustainability Management Plan and policies of the Group which are also applicable to the Company 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 sustainability strategic directions, policies and activities of the organisation. Detailed description of the management of sustainable activities within the Group is available in the Group's Sustainability Report 2022 and in the Sustainability section on the website of the Group. 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 to reduce net GHG emissions to zero 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 based on ESG ratings provided by independent, leading ESG rating agencies.

Sustainability goals of the Group are published in the Sustainability section on the Group's website www.ignitisgrupe.lt and on the Company's website.

Indicators

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

ESG key indicators monitored

Sustainable direction	Indicator	Unit of measure	2021	2022
Reducing climate impacts	GHG emissions	million t CO_2 equiv.	0.824	0.565
	Scope 1	million t CO_2 equiv.	0.307	0.109
	Scope 2	million t CO_2 equiv.	0.339	0.307
	Scope 3	million t CO_2 equiv.	0.121	0.074
	Other emissions (of biological origin)	million t CO_2 equiv.	0.057	0.075
	Energy savings delivered to customers, proportion of total energy delivered (education)	%	1.8	5.6
	Business travel CO2 emissions	t CO_2 equiv.	315	349
Protection of natural resources	Sorting availability, proportion of all administrative premises	%	100	100
	Proportion of recycled / reused production waste	%	100	100
	Proportion of green procurements within the total public procurements	%	-	96.68
	Environmental breaches detected during external inspections, non-compliances with the requirements of IPPC	number	0	0
Future-fit employees	Fatal accidents (total)	number	0	0
	Employees	number	0	0
	Contractors	number	0	0
	TRIR (employees)	times	3.24	0
	eNPS (indicator of employee satisfaction)	%	53.5	55.9
	Proportion of women in engineering and IT positions	%	N/D	14.13
	Proportion of women in management positions	%	10	0
	Proportion of employees having participated in voluntary initiatives at least once	%	N/D	1.4
Reliable organisation	Intolerance of corruption among employees	%	N/D	93.58
	Proportion of employees who has taken and passed a knowledge test on the Code of Ethics and anti-corruption	%	N/D	98.37

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.

Therefore, in planning such activities of ours as investment plans, we analyse stakeholder expectations on the basis of international principles (AA1000 standard) and by engagement of stakeholders, as it is recommended by such recognised sustainability standards as the Global Reporting Initiative (GRI). In surveys conducted in spring 2021, stakeholders were asked which aspects of environmental, social responsibility and governance (ESG) the Company should focus on and how they perceive current performance in relation to each ESG aspect.

In the course of stakeholder engagement, 4 main stakeholder groups were identified and interviewed:

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

This grouping was chosen to more accurately reflect the specificity of the expectations of each group, while at the same time assessing the similarity of respondents' expectations within each group. Responses from 121 respondents were received which equivalents to a response rate of 28% As recommended by the above sustainability standards, 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 the Company, which led to the identification of priority themes that are in line both with stakeholders' expectations and the established operational objectives of the Company. The outcome of the materiality assessment provides for the basis for further embedding sustainable development in the activities of the Company in a way that makes it possible to take into account the overall impact of the Company on its stakeholders and align the expectations expressed by the stakeholders with the strategic objectives.

Key facts on ESO materiality assessment:

- We interviewed 121 stakeholder representatives;
- We identified 17 thematic aspects of the ESG that are most relevant to the Company 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 the Company clarified the links between stakeholders' expectations and the operational strategy.

Picture 9

Materiality assessment matrix of Ignitis Gamyba

ESG risks and their management

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

An overview of key effects of sustainability and implemented initiatives / measures of Ignitis Gamyba for 2022

Environmental area

The main environmental impacts of the Company:

- climate change impact and GHG emissions - reduction of greenhouse gases (CO2, etc.) generated by activities, production of electricity from renewable energy resources;
- energy efficiency for society and customers - promoting consumer energy efficiency;
- sustainable solutions and services for customers – environmentally friendly and smart solutions for customers;
- impacts on biodiversity and ecosystems - protection of biodiversity, flora and fauna;
- impact on soil, water and air quality - maintaining soil, water and air quality, preventing environmental pollution;
- more sustainable self-consumption of energy - using green energy for self-consumption; reducing self-consumption of energy;
- promoting the implementation of circular economy principles, resource efficiency and waste management - using secondary raw materials in the activities, recycling raw materials and reducing operational waste.

Reducing impacts on climate change

Climate change is one of the greatest human challenges of this century, and it requires action by everyone - governments, business, non-governmental organisations and society. Although energy is the engine of the economy, its production 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. This limit should not be exceeded to avoid catastrophic natural phenomena and adverse impacts on health and wealth, according to the scientists.

In order to achieve our GHG emission reduction targets, we will focus on operational emissions and will seek to engage our partners, suppliers and customers in this process. The main emissions from Ignitis Gamyba come from the use of natural gas and biomass to produce energy, and from the consumption of electricity at the Kruonis PSHP, where water is lifted from the Kaunas Lagoon into an artificial upper basin. The planned emission reduction measures include reducing electricity production from gas, replacing part of gas with Green hydrogen or green gas, purchasing green electricity certificates, obtaining green gas certification, overhaul repairing of energy units, installing the 5th unit, replacing transformer stations, installing a heat pump, repairing generators of KPSHP and KHPP, modernising the electricity sector, upgrading transformers in the units 7 and 8 of EC, and repairing a turbine in the unit 8.

In 2022, emissions were significantly lower in the units 7 and 8 of EC and in the combined-cycle unit, which are operated in accordance with the requirements of the IPPC permits issued by the Environmental Protection Agency, than the limit values established by permits.

For more information on the Group's objectives and planned emission reduction measures, please refer to the section "Climate Impact Mitigation" of the Sustainability Report integrated into the Group's Annual Report 2022 (the report is available here).

Energy efficiency for society and customers

In December 2020, together with other Group companies, the Company signed an agreement with the Ministry of Energy, committing to educate and advise consumers on energy efficiency improvements to help them reduce their energy consumption and associated costs. Saving of up to 5.6% was achieved in 2022.

Solutions and services to customers

Ignitis Gamyba has developed one of the largest remote solar power plants in Lithuania. The area of the Obenių Solar Park covers more than 9 hectares, and the capacity thereof reaches 7.4 MW. Over the year 2022, 2nd stage of the expansion of the Obenių Solar Park has been successfully completed. It is expected that more than 1,500 producing consumers will be able to use solar energy. The total capacity of the 7.4 MW solar plant is expected to generate at least 172 GWh of electricity over its lifetime. The solar park will reduce greenhouse gas emissions by almost 28 million tonnes of CO_2.

Impacts on biodiversity, ecosystems and soil, water and air quality

Environmental issues at the Group level are coordinated in accordance with the Environmental Policy of the Group, which establishes general environmental provisions and principles. The policy sets out the objectives for the maintenance and modernisation of the facilities under management, with a view to protecting the landscape and biodiversity, and to respecting the principle of the integrity of protected areas and species and habitats of high ecological value. Where this cannot be avoided for objective reasons, all feasible measures shall be implemented to reduce and compensate for the impact. This policy also underpins waste management in Group companies.

The Company is guided by the Environmental Protection Standard, the purpose of which is to define the implementation of the environmental protection requirements of the legislation of the Republic of Lithuania, ISO 14001:2015 and the provisions and principles of the environmental protection policy of the Group. The aim is to reduce the overall environmental impact of the Company in the most effective way and to ensure compliance. Assessment of the environmental management system used by the Company and its compliance with the requirements of the ISO 14001 standard was carried out in 2022. It has been identified during an internal audit that the Company's environmental management system is in compliance with the requirements of the ISO 14001 standard in term of the key aspects, it is being implemented and monitored. During 2022, 4 external environmental inspections were carried out, no infringements were found.

Water is especially important natural resource for the Company's activities as it is used for EC installation cooling, electricity production, and provision of services essential to the energy system in KHPP and KHSHP. In the course of the Group's activities, approximately 99% of water is used precisely in these two power plants. Water resources are managed responsibly:

- the quality of the water used for EC cooling and returned to the environment after completion of the cooling process is investigated in order to ensure that the water quality has not degraded in the facilities. During the cooling process, the temperature is raised to about 8 °C and the water is returned to the Elektrėnai Lagoon in an open channel. The chemical and biological properties of the cooling water remain unchanged due to low temperature of water preheating;
- water efficiency is being increased (e. g. in the course of renovation, KHPP turbines have been replaced with more efficient ones which use 94% of the flowing water (used to be 91%), and the impact on ecosystems is being reduced (the research shows that the risk posed to fish minimal);
- Compliance of water level fluctuations in the Kaunas Lagoon with the environmental requirements is ensured, whose hourly indicators are available on the website of Ignitis Gamyba. Other surface-water data are also published on this website;
- the Integrated Pollution Prevention and Control (IPPC) permit obliges EC to ensure sufficient water flow in the Strėva River (flowing into the Kaunas Lagoon) by releasing a certain amount of water from the Elektrėnai Lagoon through the sluice.
- Specific environmentally friendly oil is used in the KHPP installations.

The operation of a hydroelectric power plant or other installations affecting water bodies changes the level, chemical and physical properties of the water body, which can affect aquatic and terrestrial animals. For example, the Kaunas Lagoon contains the Natura 2000 ecological network site, where silver gulls breed. As water levels rise, bird nests closest to the water may be flooded, and as water levels fall, nests on small islands may be accessible to predators. Changes in water levels can also disrupt fish spawning and movement patterns. To manage this potential risk, the guidelines for the use and maintenance of the Kaunas HPP dam set out restrictions on changes in water level. Water levels are continuously monitored, power generation is carried out within the permissible change in the water level in the Kaunas Lagoon and the environmentally necessary water level in the lower Nemunas basin is maintained. In 2022, the water level in the upper reaches of the Elektrėnai Pond varied between 94.65 m and 95.03 m and was within the permissible limits of the level fluctuations set out in the rules for the use and maintenance of the Elektrėnai Pond. The Integrated Pollution Prevention and Control (IPPC) permit for EC obliges it to ensure sufficient water flow in the Strėva River (flowing into the Kaunas Lagoon) by discharging a certain amount of water from the Elektrėnai Pond through the sluice.

In order to ensure the quality of water, we carry out monitoring programmes of groundwater (CHP 3, EC), discharged wastewater, drinking water (underground) maintenance programme (EC), which are coordinated with the Environmental Protection Agency. In order to avoid environmental pollution, wastewater from the territory of EC is sent directly to wastewater treatment facilities. In 2021, a comparative assessment of the best available production methods was carried out, according to which the IPPC permit was revised. The former industrial wastewater disposal site on the Obeniai land plot has been cleaned up after the termination of operations – studies show that the water quality is improving there. Now a solar park has been installed in the area.

The 2nd stage of fuel storage structure improvement was completed in 2021: The unused fuel oil infrastructure of EC managed by Ignitis Gamyba was cleaned up - the unused fuel oil and related infrastructure was cleaned and dismantled. The fuel storage structure improvement project has significantly reduced the risk of fuel oil spills as well as soil and groundwater contamination. In 2023, the 3rd stage of the clean-up plan will be prepared, and technological solutions will be sought which will enable to clean up the remains of untreated fuel oil in the large fuel oil tanks.

For more information on biodiversity impact management measures and other environmental initiatives of Ignitis Gamyba, please see the section on "Protection of Natural Resources" in the Sustainability Report integrated into the Group's Annual Report 2022 (the report is available here).

Self-consumption of energy

Ignitis Gamyba promotes energy efficiency, contributes to employee education and introduces measures to improve energy efficiency. In 2021, Ignitis Gamyba carried out an internal energy audit, the implementation of the recommendations of which will contribute to the achievement of energy efficiency and GHG emission reduction targets. Promoting responsible energy consumption among employees, particularly in the light of the energy crisis, training of employees on energy efficiency and energy efficiency measures was carried out in 2022. These and other energy efficiency initiatives of the Company and the Group as a whole are described in more detail in the section "Protection of Natural Resources" of the Sustainability Report integrated into the Group's Annual Report 2022 (the report is available here).

Implementation of circular economy principles, resource efficiency and waste management

Waste management in each Group company is based on the Group’s Environmental Policy. In order to contribute to the protection of the environment and the reduction of pollution in Lithuania, all waste generated by the Company’s activities is sorted, separating out secondary raw materials, hazardous waste, accounted for in the GPAIS (the Unified Product Packaging and Waste Information System) and transferred to licensed waste handlers under contract. The same is required of partners and contractors as well. Contractors are constantly introduced to efficient waste management procedures, informed about waste storage locations, waste removal routes, etc. Contractors are required to provide information on the final locations of treated waste. Fines or other sanctions may be imposed on them for violation of the terms of the contract or other legal acts.

Dismantling of 250- and 150-metre-high chimneys No 1 and No 2 of EC managed by Ignitis Gamyba was successfully completed in 2022. Hazardous and non-hazardous waste generated during the demolition works was transferred to waste management companies; applying the circular economy promotion initiatives, uncontaminated concrete suitable for secondary use was crushed, chippings were made thereof and sold for use in construction.

4,523 t of non-hazardous waste (1,677 t thereof is iron and steel) and 154 t of hazardous waste were generated in the Company in 2022 (2,764 t (1,104 t) and 176 t in 2021, accordingly). Not all the waste generated during the chimney demolition was included in these amounts as the major portion of the waste had been managed by contractors. All the generated waste is recycled, composted or used for energy production and none is deposited in landfills.

Staff and society/communities area

The main impacts of the Company on staff and society (communities):

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

Health and safety of employees and contractors

Ignitis Gamyba adheres to general provisions and principles of occupational safety and health as well as provisions of the Occupational Safety and Health Policy of the Group which defines the basic guidelines for their implementation. The Company pays great attention to the prevention of accidents and ensuring safety and health, which is why the Company has implemented the ISO 45001:2018 occupational safety and health standard, the audit whereof was performed in 2022. No significant non-compliances were identified. In 2022, occupational risk assessment was carried out as well; unacceptable noise and vibration risks were identified in the Company, which are tackled by reducing working hours or acquiring new equipment, as well as the risk of poor lighting which was immediately addressed.

Workplaces and the quality of work organisation of the Company's employees and contractors are regularly inspected, and complex inspections are carried out. New and innovative measures are constantly being introduced to strengthen the safety culture, increasing the involvement of employees and managers in occupational safety (analysis of recorded violations, proposals for preventive measures, assignment of persons responsible for their implementation, strengthening of the system of prevention of drunkenness, which includes not only inspection of employees, but also education on healthy lifestyles. Taking into account the requirements of legal acts and seeking to increase involvement of employees into formation of the safe workplace culture, the Occupational Safety and Health (OSH) Committee has been established in the Company, which prepares advisory and various preventive measures to improve implementation of OSH principles. The total recordable injury rate per million hours worked (TRIR) at Ignitis Gamyba was 0 (there were no accidents at work) in 2022 and 3.22 in 2021.

Detailed information on measures and initiatives implemented within the Group companies, including the Company, to ensure occupational health and safety of employees and contractors can be found in the “Future-fit Employees and Communities” section of the Sustainability Report integrated in the Group’s Annual Report 2022 (The report is available here).

Health and safety performance indicators of employees of the Company (2022)

Work incidents and accidents (minor, serious or fatal)	The Company had no accidents at work in 2022. There were no incidents of staff due to poor well-being.
OHS violations by contractors' employees in the Company's facilities, their nature and accidents	47 contractors' workplaces were inspected, 11 infringements were found, works were stopped due to serious OHS infringements for 4 times. Nature of infringements: Failure to wear personal protective equipment, non-compliance with the rules of fire safety and occupational safety and health, improper documentation of works. There were no accidents to contractors' workers.

Employee well-being and co-operation with employees, ensuring employee competence

As one of the largest employers in Lithuania, the Group develops and strives to maintain an organisational culture that fosters a long-term employer-employee partnership based on the values of the Group and the Code of Ethics, mutual understanding and the opportunity to work together to create an energetically intelligent future. We operate and achieve our goals in a way that is not only respectful of the environment, but also of the well-being of our employees: for us, this is a prerequisite for sustainable operations. That is why the Group is constantly developing, researching and testing different measures that can contribute to the well-being of employees. The Company is one of the Group's largest companies, with 367 employees at the end of 2022; thus, all these principles are implemented in the Company scrupulously.

Ignitis Gamyba respects the rights of employees and opposes child labour and discrimination of any kind, both in the recruitment of new workers and among existing ones. The Company has trade unions and a collective agreement in force. The Employee Satisfaction Index (eNPS) at the Company increased in 2022 from 53.5% to 55.9%, compared to 2021. Improving 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, the Company enables its employees to grow and develop, and to expand their professional, general and managerial competences.

Detailed information on how the Group's companies, including Ignitis Gamyba, ensure the well-being and representation of employees, as well as information on the application of the Remuneration Policy and employee training and competence-building initiatives is provided in the section “Future-fit Employees and Communities” of the Sustainability Report, integrated into the Group’s Annual Report 2022 (the report is available here).

Influence on and relations with local communities, involvement in social activities

The Group strives to maintain good relations with the communities where it operates. It is implemented on the basis of the Community Relations and Engagement Guidelines, according to which the Group companies engage and manage their relationships with the communities, and the measures for the implementation of these principles across the Group, which reinforce the culture and practice of responsible and sustainable business, are set out.

The Group provides an opportunity to visit power plants and see how electricity is generated, learn about the history, operations, technology and main facilities of exceptional power plants. We mostly invite students of engineering and energy studies as well as pupils, who are thinking about their future careers, to these excursions. The most popular facility to visit is KPSHP.

For more information, please refer to the “Future-fit Employees” section in the Sustainability Report integrated in the Group’s Annual Report 2022 (the report is available here).

Human rights area

The main impacts of Ignitis Gamyba in the area 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. Therefore, as established in the Equal Opportunities and Diversity Policy of the Group, the Company and other Group companies are intolerant to discrimination, promote a work environment that reflects the diversity of society, and implement the principles of respect for diversity in its 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, 86% of Ignitis Gamyba workforce were males and 12% were females. This distribution remains stable due to the specific nature of the Company’s activities, with women being less likely to opt for technological jobs and related professions. For more information on the work and achievements on diversity, equality and human rights in the Group companies, please refer to the section "Future-fit Employees and Communities" in the Sustainability Report integrated into the Group's Annual Report 2022 (the report is available here).

Breakdown of actual employees per positions, 2022	Men	Women	Total
Trainees	0	0	0
Workers	107	1	108
Experts / Specialists	178	47	225
Mid-level executives	27	3	30
Top-level managers	3	0	3
Key executives	1	0	1

Governance and anti-corruption area

The main impacts of the Company in the area governance and anti-corruption:

- ethical business, anti-corruption and transparency - transparent corporate governance, anti-corruption, fair and ethical market conduct;
- stability and security of the energy system - ensuring the security and continuity of the energy system;
- access to energy - affordability of electricity and heating;
- responsibility and sustainability in the company's supply chain - buying more environmentally friendly goods and services for your own use and reducing the negative impact of suppliers on the natural and social environment.

Energy system stability and security

Lithuania is largely dependent on energy imports, so local energy generation capacities are very important for the country's energy security. The Company controls facilities in the flexible production segment. Ancillary services provided by these facilities ensure the stability and reliability of the energy system, help to prevent and respond to emergency events in the system, and maintain the required power reserve in compliance with the established requirements for the quality and reliability of electricity supply.

Services necessary to ensure the reliability of the Lithuanian electricity system and the quality of electricity

EC, KPSHP and KHPP, which are managed by the Company, provide ancillary services to the TSO that are necessary to ensure the reliability of the Lithuanian electricity system and the quality of electricity.

The ancillary services provided by the Company, which are ordered, controlled and used by the TSO, ensure a reliable, uninterrupted and high-quality supply of electricity to network users and guarantee that emergency situations will be managed and the N-1 criterion will be ensured in all cases, i.e., if the largest element of the network or generation is disconnected, the supply of electricity to consumers will not be limited and they will not experience an emergency, while the emergency situation will be managed by activating ancillary services.

The Company participates in the project of synchronising the Baltic states with the grid of Continental Europe, which aims to increase Lithuania's ability to independently manage its electricity system. Connection to Continental Europe networks and operation in synchronous mode with Poland, Germany and other Continental Europe’s countries is planned.

Group companies, which are required to develop emergency management plans and establish Emergency Operations Centres according to the criteria set out, have updated them and organised table and functional exercises. 3 exercises have been organised in the Company during 2022.

Future plans:

- On 30 December 2022, the Company (Flexible Generation) concluded an agreement with the Lithuanian electricity TSO on the provision of services for the availability of electricity generation facilities in 2023. The purpose of the provided services is to ensure the availability of electricity production facilities and the stable operation of the Lithuanian Electric Power System (EPS) during the isolated regime of the EPS and to avoid consumer load shedding in case of other emergency situations of the EPS of Lithuania. The Company will provide the facility availability service in 2023 in the following capacity: 260 MW capacity – unit 7 of the EC (0 MW in 2022), 260 MW capacity – unit 8 of the EC (1 MW in 2022) and 371 MW capacity – CCGT of the EC (371 MW in 2022).

- Importance of installing unit 5 at KPSHP. The planned hydro-unit 5 of the KPSHP (Green Generation) will expand the possibilities of using electric power when working in both generator and pump mode, will allow the power plant to participate in the common balancing market of the Baltic States more effectively and will ensure greater competitiveness by providing ancillary system services. In addition, the new hydro-unit will help balance the energy generated using renewable energy sources, which are rapidly developing in

Lithuania. It will become especially relevant after the synchronisation with the networks of Continental Europe, when the necessary frequency control services will need to be ensured.

Ethical business, anti-corruption and transparency

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

Responsibility and sustainability in the company's supply chain

The Company is a contracting entity. The procurement function of the Group companies is performed by UAB "Ignitis grupės paslaugų centras" (GPC). GPC carries out procurement procedures and provides planning and execution services for the procurement of goods, services or works. Procurement is centralised, and procurement processes are standardised and concentrated on a single online platform. In order to ensure a transparent procurement process and an open dialogue, the GPC invites suppliers to information meetings, during which high-value procurements planned by contracting authorities are presented.

Detailed information on achievements in ensuring the reliability of the energy system, the application of transparency and anti-corruption principles, the security of personal data, responsible procurement and the involvement of suppliers can be found in the "Robust Organisation" section of the Sustainability Report integrated into the Group's Annual Report 2022 (the report is available here).

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

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 AB „Ignitis gamyba“ management on 31 March 2023:

Rimgaudas Kalvaitis	**Edgaras Mechoncevas**	**Renata Zakažauskienė**
General Manager	Head of Finance and Regulation Division, acting under Decision No SP-68 of 12 July 2022 of the CEO of AB „Ignitis gamyba“	Accounting expert of UAB „Ignitis grupės paslaugų centras", acting under Decision No 23_GSC_SP_0010 of 17 February 2023

Statement of profit or loss

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Revenue from contracts with customers	6	534,819	295,201
Other income		733	587
Total revenue and other income		**535,552**	**295,788**
Purchases of electricity, natural gas and other services	7	(241,629)	(150,112)
Salaries and related expenses		(12,167)	(10,610)
Depreciation and amortisation		(17,017)	(17,033)
Repair and maintenance expenses		(4,888)	(6,543)
Use of emission allowances		(1,956)	(5,694)
Other expenses	8	(73,454)	(17,633)
Total expenses		**(351,111)**	**(207,625)**
Operating profit		**184,441**	**88,163**
Finance income		265	343
Finance expenses	9	(1,208)	(828)
Finance activity, net		**(943)**	**(485)**
Result of associated entities	13	**185**	**283**
Profit before tax		**183,683**	**87,961**
Current income tax income (expenses)/benefit	10	(27,541)	(14,737)
Deferred tax income (expenses)/benefit	10	(36)	1,592
Net profit for the year		**156,106**	**74,816**

Statement of comprehensive income

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Net profit for the year		**156,106**	**74,816**
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)			
Change in actuarial assumptions		224	(398)
Items that will not be reclassified to profit or loss in subsequent periods, total		**224**	**(398)**
Items that may be reclassified to profit or loss in subsequent periods			
Cash flow hedges – effective portion of change in fair value		12,917	-
Items that may be reclassified to profit or loss in subsequent periods, total		**12,917**	**-**
Total other comprehensive income (expenses) for the year		**13,141**	**(398)**
Total comprehensive income (loss) for the year		**169,247**	**74,418**

Statement of financial position

31 December 2022

EUR thousand	Notes	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Intangible assets		1	15
Property, plant and equipment	11	380,152	402,542
Right-of-use assets	12	5,638	5,422
Prepayments for non-current assets		14,081	347
Investment property		3,302	3,043
Investments in associated companies	13	3,019	2,990
Non-current receivables	14	10,180	118
Total non-current assets		**416,373**	**414,477**
Current assets			
Inventories	15	166,989	24,043
Prepayments		84,708	5,554
Trade receivables	16	30,960	20,369
Other receivables	17	3,792	8,394
Other current assets	26	15,196	-
Loans granted		-	64,933
Cash and cash equivalents	18	26,779	169,421
Total current assets		**328,424**	**292,714**
TOTAL ASSETS		**744,797**	**707,191**
EQUITY AND LIABILITIES			
Equity			
Issued capital	19	187,921	187,921
Share premium	19	89,975	89,975
Legal reserve	20.1	19,609	19,609
Revaluation reserve	20.2	590	603
Hedging reserve	20.3	12,917	-
Retained earnings		156,346	44,067
Total equity		**467,358**	**342,175**
Liabilities			
Non-current liabilities			
Non-current loans	21	8,066	12,483
Non-current lease liabilities		5,692	5,461
Grants and subsidies	23	134,435	142,470
Deferred tax liabilities	10	19,885	19,738
Provisions	24	3,752	8,580
Other non-current amounts payable and liabilities		302	390,
Total non-current liabilities		**172,132**	**189,122**
Current liabilities			
Loans	21	65,835	4,417
Lease liabilities		81	124
Trade payables		8,872	31,973
Prepayments received		118	92
Income tax payable		19,860	6,599
Provisions	24	5,290	21,168
Other current amounts payable and liabilities	25	5,251	111,521
Total current liabilities		**105,307**	**175,894**
Total liabilities		**277,439**	**365,016**
TOTAL EQUITY AND LIABILITIES		**744,797**	**707,191**

Statement of changes in equity

For the year ended 31 December 2022

EUR thousand	Notes	Issued capital	Share premium	Legal reserve reserve	Revaluation reserve	Hedging reserve	Retained earnings (deficit)	Total
Balance as at 1 January 2021		**187,921**	**89,975**	**17,519**	**618**	-	**90,942**	**386,975**
Net profit for the year		-	-	-	-	-	74,816	**74,816**
Other comprehensive income (expenses)								
Result of change in actuarial assumptions		-	-	-	-	-	(398)	**(398)**
Total comprehensive income (expenses) for the year		**-**	**-**	**-**	**-**	**-**	**74,418**	**74,418**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of tax)		-	-	-	(15)	-	15	**-**
Transfer to reserves and changes in reserves		-	-	2,090	-	-	(2,090)	**-**
Dividends	19.3	-	-	-	-	-	(119,232)	**(119,232)**
Share-based payments		-	-	-	-	-	14	**14**
Balance as at 31 December 2021		**187,921**	**89,975**	**19,609**	**603**	-	**44,067**	**342,175**
Balance as at 1 January 2022		**187,921**	**89,975**	**19,609**	**603**	**-**	**44,067**	**342,175**
Net profit for the year		-	-	-	-	-	156,106	**156,106**
Other comprehensive income (expenses)								
Result of change in actuarial assumptions		-	-	-	-	-	224	**224**
Cash flow hedges – effective portion of change in fair value		-	-	-	-	12,917	-	**12,917**
Total other comprehensive income (expenses) for the year		**-**	**-**	**-**	**-**	**12,917**	**224**	**13,141**
Total comprehensive income (expenses) for the year		**-**	**-**	**-**	**-**	**12,917**	**156,330**	**169,247**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of tax)		-	-	-	(13)	-	13	**-**
Dividends	19.3	-	-	-	-	-	(44,064)	**(44,064)**
Balance as at 31 December 2022		**187,921**	**89,975**	**19,609**	**590**	**12,917**	**156,346**	**467,358**

Statement of cash flows

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Cash flows from operating activities			
Net profit for the year		156,106	74,816
Adjustments to reconcile net profit to net cash flows:			
Depreciation and amortisation		25,052	25,302
Revaluation of investment property		(133)	(947)
Impairment/(reversal of impairment) of financial assets		(171)	(63)
Income tax expenses/(income)	10	27,577	13,145
Depreciation and amortisation of grants	23	(8,035)	(8,269)
Increase/(decrease) in provisions	24	(20,442)	285
Inventory write-down to net realisable value (reversal)		58	36
Portion of (profit) of associated entities	13	(185)	(283)
Loss (gain) on disposal/write-off of property, plant and equipment		216	1,063
Change in fair value of derivative financial instruments related to financial activities and result of closure	26	(7,444)	7,444
Share-based payment expenses		-	14
Interest income		(84)	(287)
Interest expenses	9	938	757
Other finance costs		89	15
Changes in working capital:			
(Increase) decrease in trade and other receivables		(15,706)	(7,985)
(Increase) decrease in inventories, advances and deferred expenses, other and non-current assets		(222,158)	6,132
Increase/(decrease) in trade payables, deferred revenue, prepayments received, other non-current and current amounts payable and liabilities		(22,447)	9,984
Income tax (paid) recovered		(16,236)	(9,195)
Net cash from/(used in) operating activities		**(103,005)**	**111,964**
Cash flows used in investing activities			
Acquisition of property, plant and equipment and intangible assets		(16,203)	(1,244)
Proceeds from sale of property, plant and equipment and intangible assets		16	4
Interest received		77	272
Dividends received		156	160
Group's cash-pool platform		64,918	(55,768)
Net cash flows from/(used in) investing activities		**48,964**	**(56,576)**
Cash flows from/(used in) financing activities			
Group's cash-pool platform, net	22	61,341	-
Repayments of loans	22	(4,417)	(4,417)
Lease payments	22	(126)	(146)
Interest paid	22	(873)	(768)
Dividends		(144,526)	(18,756)
Net cash flows from/(used in) financing activities		**(88,601)**	**(24,087)**
Increase/(decrease) in cash and cash equivalents		**(142,642)**	**31,301**
Cash and cash equivalents at the beginning of the period	18	169,421	138,120
Cash and cash equivalents at the end of the year	18	**26,779**	**169,421**

Explanatory notes

For the year ended 31 December 2022

1 General information

AB Ignitis gamyba is a public limited liability company registered in the Republic of Lithuania. The Company was registered on 20 July 2011 with the Register of Legal Entities managed by the public institution the Centre of Registers. The Company's registered office address is Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania. Company code 302648707, VAT code LT100006256115. The Company has been founded for an indefinite period. Reporting period is one year ended 31 December 2022.

Main activities of the Company include electricity generation and trading of electricity and additional services in electricity sector. In addition to these principal activities, the Company is free to be engaged in any other business activities not forbidden under the laws and stipulated in the Company's Articles of Association.The Company has permits of indefinite term to engage in electricity generation activities at the Reserve Power Plant and the Combined Cycle Unit (hereinafter collectively referred to as the Elektrėnai Complex), at Kaunas Hydro Power Plant and at Kruonis Pumped Storage Power Plant, as well as in electricity import and export activities. The Company also holds permits to expand electricity generation capacities at the Reserve Power Plant and Kruonis Pumped Storage Power Plant, and certificates entitling to engage in maintenance and operation of electric, thermal power, natural gas and oil facilities. On 29 July 2011, based on the decision of the National Energy Regulatory Council (hereinafter "the NERC"), AB Ignitis gamyba obtained the licence of an independent electricity supplier.

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"	648,002,629	100.00	648,002,629	100.00
Total	**648,002,629**	**100.00**	**648,002,629**	**100.00**

The Company's parent company is AB „Ignitis grupė" (company code 301844044, registered address Laisvės pr. 10, LT-4215 Vilnius, Lithuania), which owns 100% of shares of the Company as at 31 December 2022 and 2021. As at 31 December 2022, the shareholder structure of AB „Ignitis grupė" was as follows: the Ministry of Finance of the Republic of Lithuania (74.99%), and retail and institutional investors (25.01%). As at 31 December 2021: 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, the Company's associates were as follows:

Associate	Registered office	Company's ownership interest 31 December 2022	Company's ownership interest 31 December 2021	Main activities
UAB „Ignitis grupės paslaugų centras"	Laisvės pr. 10, LT-04215, Vilnius, Lithuania	21.45%	21.45%	Information technology services, public procurement, accounting and employment relations administration services

These financial statements were signed by the management of AB „Ignitis gamyba" 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 as approved by International Accounting Standards Board (hereinafter referred to as 'IASB') and adopted by the European Union (hereinafter referred to as 'IFRS').

The Company's financial statements as at and for the year ended 31 December 2022 (hereinafter referred to as 'financial statements') have been prepared on a going concern basis applying measurement based on historical cost, except for certain items of property, plant and equipment (see Note 3.8), investment property, and certain financial instruments measured at fair value.

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

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

2.2 Foreign currency

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

3 Summary of significant accounting policies

3.1 New standards, amendments to standards and interpretations

3.1.1 Changes in accounting policy and disclosures

Accounting policy applied in preparing these financial statements is in compliance with the accounting policy applied in preparing the Company's annual financial statements for the year ended 31 December 2021, except for new standards that became effective in 2022.

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

The following are new standards and/or amendments to the standards that have been approved by IASB and endorsed in European Union during the year ended as at 31 December 2022.

Standards or amendments that came into force during 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.

3.1.3 Standards issued but not yet effective and not early adopted

In preparation of these financial statements, the Company did not apply new IFRS issued by IASB, International Accounting Standards (hereinafter referred to as 'IAS'), amendments and interpretations, the effective date of which is later than 31 December 2022 and early adoption whereof 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 the European Union (hereinafter – 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 the EU.

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

Other standards

The following 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 contracts with customers are as follows: sale of electricity produced (Note 3.2.1), capacity reserve and services ensuring isolated operation of the power system (Notes 3.2.2 and 3.2.3) and supply of thermal energy (Note 3.2.4).

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 sale of produced electricity

The sales of electricity produced using own resources (Note 6, item "Revenue from sale of produced electricity") 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 selling prices are not regulated.

3.2.2 Revenue from capacity reserve services

The Company provides to electricity transmission network operator capacity reserve services (Note 6, item "Revenue from capacity reserve services"). Transmission service operator purchases the services from the Company under the bilateral agreement.

Capacity reserve services are one of system services in energy sector and are defined as those transmission operations that ensure a secure and reliable operation of energy system, the required capacity reserve and electricity transmission capability through transmission grids. Capacity reserve services include:
- secondary active power reserve service;
- tertiary active power reserve service;
- reactive power and voltage management services.

Capacity reserve services ensure the required power reserve and are understood as the potential of electricity generation which is used to maintain the set frequency, to ensure the balance of the electricity system and to generate electricity in the event of a decrease in production or an increase in consumption. Capacity reserve services are provided continuously throughout the period for which it is sold for. Revenue from capacity reserve services is recognised over time. The ceiling price, for which services can be sold for is set by NERC (except for reactive power and voltage management service) in euros for one Mw/h. Tertiary power reserve service is ordered by the transmission service operator through auction for one year period. Secondary power reserve service is ordered by the transmission service operator through daily auction. Transmission service operator pays for factually provided service quantity calculated in euros for one MW/h.

3.2.3 Revenue from services ensuring isolated operation of power system

The Company provides to electricity transmission network operator services ensuring isolated operation of the power system (Note 6, item "Revenue from services ensuring isolated operation of power system"). Transmission service operator purchases the services from the Company under the bilateral agreement.

Services ensuring isolated operation of the power system are one of system services in energy sector and are defined as a service designed to ensure rapid regulation of active power during the operation of the isolated power system and to avoid automatic disconnection of users when a single network element is disconnected. An isolated power operation is a power supply that is electrically isolated from the rest of the circuit that it is powering, when operating asynchronously with the main power system.

Revenue from services ensuring the isolated operation of the power system services is recognised over time. The price of these services which is paid by electricity transmission operator to the Company is set by NERC for one MW/h and the quantity is agreed in the contract as MW for the whole year. Transmission service operator pays for factually provided service quantity.

Services ensuring the isolated operation of power system are regulated by NERC (Note 3.2.5).

3.2.4 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.). Under contract with the customer, the single performance obligation that the seller commits to is the supply of thermal energy (Note 6, item "Revenue from supply of thermal 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.

In the contract with customer, the consideration paid to the Company comprises the fixed part and the variable part. The fixed part comprises the customer's payments for the actually supplied thermal energy. The variable part arises due to default interest (interest on late payment) to be paid by the customer to the seller in cases where the customer fails to timely reimburse for the services rendered.

The Company recognises revenue considering the volumes of thermal energy actually produced and supplied to the customer at the price calculated with reference to the methodology on the establishment of the heating price as approved by NERC.

3.2.5 Tariff regulation

The regulatory oversight for electricity sector services is exercised by NERC through the ceiling prices approved for the next periods. The level of tariffs depends on the projected costs and volume of services for the next period, the extent to which the previous period earnings are at variance with the regulated level, and other factors. Actual costs of regulated activities incurred by the Company during the year may be at variance with the projected costs that are considered during the approval of the tariffs, and the actual volume of services may be at variance with the projected one. Accordingly, actual earnings from regulated activities may be at variance with the regulated level, and the resulting difference will affect the future tariffs of services.

In case the Company no longer provides capacity reserve services, differences between the forecast and actual costs incurred by the Company in providing these services during the reporting period are assessed, obliging the Company to repay the difference to the transmission system operator, if actual costs incurred by the Company were lower than the revenues received from the transmission system operator, or by paying the difference to the Company, if the actual costs incurred by the Company were higher than the revenues received from the transmission system operator.

The Company recognises assets or liabilities of the regulated activities (Note 27) that are intended to eliminate the mismatches between the current year earnings and the regulated level, provided the difference will be recovered/refunded regardless of the provision of services in the future (Note 5.5). The difference between accrued revenue and actually paid amounts during a year is recognised as non-current amounts receivable (accrued revenue) or amounts payable (income to be repaid) under the item "Other receivables" or "Provisions". At the end of the next year, this amount is reclassified as a current amount receivable or payable under the item "Other receivables" or "Provisions".

3.2.6 Contract balances

3.2.6.1 Contract assets and contract liabilities

The timing of satisfaction of the Company's performance obligation and typical timing of payment is determined according to service report which is reviewed and approved by the customer. After approval the services are recognised as satisfactory rendered to the customer. During the reporting period the Company had no contract liability or contract assets.

3.2.6.2 Receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Note 3.13.1

3.3 Other income

3.3.1 Operating lease income

Lease income is recognised on a straight-line basis over the lease period.

3.4 Expense recognition

Expenses are recognised as profit or loss in the statement of profit or loss as incurred applying accrual basis of accounting.

3.5 Dividend distribution

Dividend distribution to the shareholders of the 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 Company.

3.6 Current and deferred tax

3.6.1 Current 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.

The prepaid income tax and recognised income tax liabilities are offset in the statement of financial position of the Company when they relate to the same taxation authority.

3.6.2 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.

3.6.3 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.

3.6.4 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 the statement of profit or loss under 'Deferred income tax expenses' caption.

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 (paid) recovered' in the cash flows from operating activities.

3.7 Intangible assets

3.7.1 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 years.

3.7.2 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 3 to 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.

The Company's intangible asset amortisation expenses are accounted for within depreciation and amortisation item in the statement of profit or loss.

3.8 Property, plant and equipment

Property, plant and equipment, which include the categories of assets of hydro power plant, pumped storage power plant, combined cycle unit and reserve power plant, are accounted for at cost less accumulated depreciation and impairment. 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.

Land, buildings, other property, plant and equipment and construction-in-progress are measured at revalued amounts, based on periodic valuations by external independent valuers or by the Company's management, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

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

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 profit or loss in the statement of profit or loss during the financial period in which they are incurred.

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

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

For accounting of borrowing costs - see Note 3.14.2.5.

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. Gains or losses on disposal of property, plant and equipment are determined as proceeds received on disposal less the carrying amount of assets disposed. When revalued assets are disposed, the corresponding portion of revaluation reserve is transferred to retained earnings.

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

Depreciation periods (number of years):

Category of property, plant and equipment	Useful lives (number of years)
Buildings	20–75
Assets of Hydro Power Plant, Pumped Storage Power Plant	
- hydrotechnical waterway structures and equipment	75
- pressure pipelines	50
- hydrotechnical turbines	25–40
- other equipment	8–15
Combined Cycle Unit and Reserve Power Plant	
- structures and infrastructure	10–75
- thermal and electricity equipment	10–50
- measuring devices and equipment	5–10
- electricity lines	20–40
- electricity generation equipment	20–50
- other equipment	4–40
Other property, plant and equipment	3–40

3.9 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.

3.9.1 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.

3.9.2 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 (number of years)
Land	2–85
Buildings	2–5
Vehicles	2–5

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the 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 right-of-use assets separately from property, plant and equipment in the statement of financial position.

3.10 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 profit or loss of the statement of profit or loss.

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 profit or loss of the statement of profit or loss.

3.11 Investment property

Investment property, which consists of the Company's buildings and structures, and equipment, is held to earn rentals or for capital appreciation. Investment property is recognised initially at acquisition cost, and is subsequently measured at fair value, which is determined by independent property valuers. Investment property is not depreciated, and gain or loss on change in the fair value of investment property is recognised in profit or loss of the statement of profit or loss for the reporting period.

Transfers to and from investment property are made only when there is an evidence of change in the purpose of use of assets. Certain immovable property may be occupied by the Company, with the remainder being held for rental yields or for capital appreciation. If part of immovable property occupied by the Company can be sold separately, the Company accounts for such property separately. The portion that is owner-occupied is accounted for under IAS 16 and the portion that is held to earn rentals is accounted for under IAS 40.

3.12 Investments in associates

Investments in associates, over which the Company has significant influence, are accounted for using the equity method. Under the equity method, investments are initially recognised at cost, and the carrying amount is increased or decreased based on the investor's share of the post-acquisition changes in the net assets of the acquiree.

The Company's share of the profit or loss of the investee after the acquisition date is recognised in profit or loss, and changes in other comprehensive income after the acquisition date are recognised in other comprehensive income, with corresponding adjustments to the carrying amount of the investment. When the Company's share of losses in an associate equals to or exceeds its interest in the associate, including all unsecured receivables, the Company does not further recognise losses, unless it has assumed obligations or made payments on behalf of the associate.

At each reporting date the Company reviews investments in associates to assess whether there is objective evidence that investments in associates may be impaired. If any such indication exists, the Company calculates an impairment charge equal to the difference between the recoverable amount and the carrying amount of the associate and recognises that amount in the statements of profit or loss of associates.

3.13 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.

3.13.1 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. Impairment losses are accounted for as other expenses (Note 8) in the statement of profit or loss.

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets and characteristics of cash flows from these assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. 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 is as follows:

3.13.1.1 Financial assets subsequently measured at FVOCI

The Company only has derivative financial instruments subsequently measured at FVOCI. Additional information is presented in Note 3.13.3.

3.13.1.2 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.

3.13.1.3 Financial assets at FVPL

Debt and equity instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at FVOCI are stated as financial assets to be measured at FVPL. The Company includes Derivatives in this category, see Note 3.13.3.

3.13.1.4 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 the statement of profit or loss 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).

3.13.1.5 Impairment of financial assets – expected credit losses

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

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

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

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

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

The Company assesses impairment of amounts receivable individually or collectively, as appropriate.

Valuation of ECLs for receivables (other than trade receivables):

- For other receivables from related parties, ECLs are assessed on an individual basis.
- For other receivables, prepayments and accrued income, ECLs are assessed on an individual basis.

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.

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

1. upon granting of a loan, the Company recognises expected credit losses for the twelve-month period. Loan interest income is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses;
2. upon establishing that the credit risk related to the borrower has significantly increased, the Company accounts for the lifetime expected credit losses of the loan agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Loan interest income is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses;
3. where the Company establishes that the recovery of the loan is doubtful, the Company classifies this loan as credit-impaired financial assets (doubtful loans and receivables). Loan interest income is calculated on the carrying amount of financial assets adjusted by the amount of expected credit losses.

In stage 2, an assessment of the significant deterioration in the borrower's financial situation is performed by comparing the financial situation as at the time of the assessment and the financial situation as at the time of issuing the loan.

The latest point at which the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 90 days. In case of other evidence available, the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 90 days past due presumption.

The expected credit losses (ECL) on cash and cash equivalents are calculated by taking into account the credit ratings of the financial institutions holding the cash deposits and other relevant criteria (such as liquidity, capital adequacy supervision). In management's assessment, the ECL of cash and cash equivalents is generally not material.

3.13.1.6 Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
(a) significant financial difficulty of the borrower;
(b) a breach of contract, such as a default or past due event for more than 90 days;
(c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties;
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

3.13.1.7 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.

3.13.2 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.

3.13.2.1 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, 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.

3.13.2.2 Subsequent measurement

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

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

3.13.2.3 Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred principally for the purpose of repurchasing them in the near term. This category also includes derivatives entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company includes Derivatives in this category, see Note 3.13.3.

3.13.2.4 Financial liabilities at amortised cost

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

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

3.13.2.5 Presentation and borrowing costs

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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. All other borrowing costs are expensed as incurred. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

3.13.2.6 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.

3.13.3 Derivative financial instruments and hedge accounting

The Company enters into derivative financial instruments transactions related to the prices of gas purchase and sale of electricity.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- there is ‘an economic relationship’ between the hedged item and the hedging instrument;
- the effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

3.13.3.1 Presentation

Fair value of derivative financial instruments is presented in the statement of financial position as ‘Other non-current assets’, ‘Other current assets’ (Note 26),’“Other non-current amounts payable and liabilities’ and ‘Other current amount payables and liabilities’ (Note 25).

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 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).

Changes in fair value and result of settled derivatives for hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

3.13.3.2 Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in the statement of comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of comprehensive income in other income or expenses (accounting method is similar to derivatives that do not meet the hedge criteria – Note 3.13.3.1). The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

When cash flow hedges are realised, gain or losses are transferred from equity and recognised in the statement of profit or loss as ‘Purchases of electricity, natural gas and other services’.

3.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method, except for natural gas and liquefied natural gas, the cost of which is determined using the weighted average costing method (see below). 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.

The weighted average price is calculated as the weighted average of the stock at the beginning of the month and the purchases during the month.

3.15 Emission allowances

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

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

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

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

3.15.1 Inventories

EU emission allowances are inventories that are dedicated by the state or are acquired by the Company. EU emission allowances acquired by the Company are recognised at cost. EU emission allowances dedicated by the state are recognised in the accounts at nominal (zero) value.

The Company accounts for purchased and received free-of-charge emission allowances separately, write-down to net realisable value is calculated if the market price becomes lower than the acquisition price.

3.15.2 Provision for emission allowances used

As the Company makes emissions, a liability arises to pay for these emissions to the state using emission allowances, the nominal value of which is equal to the quantity of emissions. Such liability is a provision which is estimated at a value equal to expenses to be incurred by the Company for the settlement of liability at the reporting date. If the Company has acquired emission allowances, the value of the provision is equal to their carrying amount. If actual emissions exceeds the quantity of emission allowances held, the Company accounts for an obligation to buy additional emission allowances, the value of which is equal to their market value.

The obligation can only be covered with inventories if the amount of pollutants is approved by the responsible regulatory authority.

Changes in the value of liability related to insufficient emission allowances are recognised in profit or loss in the statement of profit or loss.

3.16 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 comprise cash on hand deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are presented under loans in the statement of financial position.

3.17 Issued capital, share premium

Ordinary shares are classified as equity.

Share premium represents the difference between the nominal value of the new share issue and the fair value of consideration received for shares sold.

3.18 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.

3.18.1 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.

3.18.2 Company as a lessor in operating leases

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

3.19 Grants and subsidies

3.19.1 Asset-related grants

For presentation of grants related to assets, the Company uses the method which recognises the grant as deferred income that is recognised in profit or loss in the statement of profit or loss on a systematic basis over the useful life of the asset. Government and the EU asset-related grants, and third-party compensations 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 profit or loss in the statement of profit or loss by reducing the depreciation charge of the related asset over the expected useful life of the asset. Liability related to received asset-related grants is presented in the statement of financial position under the non-current liabilities' item 'Grants and subsidies'.

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

3.19.2 Income-related grants

Government and the EU grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. Grants related to income are presented as part of profit or loss in the statement of profit or loss.

3.20 Provisions

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

3.21 Employee benefits

3.21.1 State plans

The Company participates only in State plans. State plans are established by legislation to cover all entities and are operated by national or local government or by another body (for example, in the case of the Company, the State Social Security Fund). State plans are defined benefit plans 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.

3.21.2 Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

3.21.3 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. The Company's employee with 10-year service is entitled to payment equal to 4 monthly salaries. 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.

3.22 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.

3.23 Related parties

Related parties are defined as:
- Group companies;
- the parent company's controlling shareholders and shareholders having significant effect;
- associates;
- state-owned enterprises and their subsidiaries (transactions with these entities are disclosed separately only if they are material);
- the Ministry of Finance of the Republic of Lithuania and entities under control of the Ministry of Finance (transactions with these entities are disclosed separately only if they are material);
- key management personnel and their close family members as well as controlled entities.

3.24 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.

3.25 Fair value

The Company measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position 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

– if primary market is not available – on the market, which is the most favourable for an asset or a 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

3.26 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 30.

4 Risk management

4.1 Overview

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

4.2 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 Foreign currency exchange risk

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

The sale/purchase contracts of the Company 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.

Revenues and cash flows of the Company are affected by fluctuations in the market interest rates. As at 31 December 2022, a portion of the Company's loans is subject to a variable interest rate, which is linked to EURIBOR.

As at 31 December 2022, part of the Company's loans with variable interest rate amounted to EUR 12,483 thousand (31 December 2021: EUR 16,900 thousand).

Interest rate risk is assessed in relation to sensitivity of the Company's profit to potential shift in interest rates. This assessment is given in the table below.

EUR thousand	Increase/decrease, percentage points	(Decrease)/increase in profit
2022	1/(1)	(37)/37
2021	1/(1)	(50)/50

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

4.2.2 Commodity risk

Commodity risk is the risk that changes in market prices (i.e. commodity prices) will affect the Company's results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company uses derivatives to manage the commodity risk. All such transactions are carried out according to Group's risk management policy.

In the ordinary course of its operations, the Company is exposed to commodity risks on natural gas and electricity products. The source of exposure lies with cash flows from sales of electricity or cost cash flows incurred to sell fixed price electricity for sales contracts. Majority of this type of exposure is based on changes of respective commodity price in the market that the Company operates. Commodity risk is primarily related to the sale of electricity on the wholesale market.

In order to manage commodity risk, the Company enters into financial derivatives contracts (cash flow hedges). This is done to secure a fixed selling price for electricity and to obtain optimum profit.

For electricity related hedges, the Company uses over-the-counter contracts (OTC). Assessment of economic relationship and hedge effectiveness is performed using a descriptive method.

Source of hedge ineffectiveness is mainly related to limited supply of financial derivatives for Lithuanian electricity price area in the market; however, as at 31 December 2022, the derivatives entered into by the Company are hedged in the Lithuania price area and therefore 100% of the hedges were effective in terms of value.

Overview of the Company's derivatives positions:

EUR thousand	31 December 2022		31 December 2021	
	Contractual nominal value	Market value	Contractual nominal value	Market value
Over the counter (OTC) derivatives – Electricity (Note 26)	79,438	15,196	15,207	7,444
Total	**79,438**	**15,196**	**15,207**	**7,444**

Nominal amounts (quantities in MWh) hedged:

	Nominal amounts (quantities in MWh) hedged 2023
Electricity hedges	240,720
Total	**240,720**

4.2.3 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).

As at 31 December 2022 and 2021, trade receivables are neither past due nor impaired and were of high credit quality. The Company is exposed to significant credit risk concentration, because debts of the main customer of the Company (related party non-Group company) account for approximately 82% of total trade receivables. More details about credit risk arising from amounts receivable are provided in Notes 16 and 17.

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

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

EUR thousand	Note	31 December 2022	31 December 2021
Financial assets measured at amortised cost:			
Non-current receivables	14	10,180	118
Trade receivables	16	30,960	20,369
Other receivables	17	1,387	3,163
Loans granted		-	64,933
Cash and cash equivalents	18	26,779	169,421
Financial assets at FVPL or FVOCI			
Derivatives	26.1	15,196	-
Total		**84,502**	**258,004**

4.2.4 Liquidity risk

The liquidity risk is managed by planning future cash flows of the Company and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support the Company's ordinary activities. The refinancing risk is managed by ensuring that 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 3.12 and 1.53 respectively (31 December 2021: 1.66 and 1.53 respectively).

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

EUR thousand	Note	31 December 2022	31 December 2021
Amounts payable measured at amortised cost			
Loans	21	73,901	16,900
Lease liabilities	22	5,773	5,585
Non-current trade payables		271	390
Trade payables		8,872	31,973
Other current amounts payable and liabilities		2,521	101,829
Financial liabilities at FVPL			
Derivatives	26.1	-	7,444
Total		**91,338**	**164,121**

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

EUR thousand	2022				Total
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	
Loans	62,641	3,609	8,499	-	**74,749**
Lease liabilities	90	221	1,013	15,920	**17,244**
Trade payables and non-current amounts payable to suppliers	8,872	-	271	-	**9,143**
Other payables	2,521	-	-	-	**2,521**
As at 31 December 2022	**74,124**	**3,830**	**9,783**	**15,920**	**103,657**

EUR thousand	2021				Total
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	
Loans	1,163	3,470	12,517	308	**17,458**
Lease liabilities	86	258	1,013	15,286	**16,643**
Trade payables and non-current amounts payable to suppliers	31,974	-	361	-	**32,335**
Other payables	101,829	-	-	-	**101,829**
Derivatives	-	6,612	832	-	**7,444**
As at 31 December 2021	**135,052**	**10,340**	**14,723**	**15,594**	**175,709**

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, 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 Impact of climate change

The Company pays special attention in order to reveal a potential impact of climate change and its related economic, transitional changes on the Company's activities. This impact may arise from physical (extreme) weather phenomena and from the aspiration of states to switch to the Green Deal, which could cause additional requirements for energy sector: to comply with new regulations, implement new technological solutions, manage reputational risks, respond to fast growing market demand for green solutions, etc. Read more on the impact of climate change and the Company's approach on managing it in section '5.4 Climate Action' of the annual report.

Climate change and the transition to net zero have been considered in the preparation of these financial statements. In preparing these financial statements, the following has been considered:

Valuation of property, plant and equipment

The Company assesses the useful economic life of its property, plant and equipment annually. The useful economic life of assets has not been shortened. There are no indicators suggesting that assets have reduced in value, significant impacts of climate change on the Company's assumptions used in estimating their recoverable value and there is no need to perform sensitivity analyses of the effects of climate risk within the assumptions made. The Company's management does not reasonably expect climate change to have a significant impact on the valuation of property, plant and equipment, and impairment assessment of goodwill.

Impact of climate change on provision for risk and on ECL

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

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

5.2 Expected credit losses of receivables

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

5.2.1 Individual assessment of ECL

Decision to assess amounts receivable on an individual basis depends on the possibility to obtaining information on the credit history of a particular client / borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular client, thus enabling making judgement on the recognition of lifetime expected credit losses in respect of that particular client / borrower. These accounting estimates require significant judgement. Judgement is based on information about substantial financial difficulties experienced by the debtor, probability that the debtor will enter bankruptcy or any other reorganisation, default of delinquency in payments.

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

5.3 Provision for emission allowances

As the Company makes emissions, a liability arises to pay for these emissions to the state using emission allowances, the nominal value of which is equal to the quantity of emissions. This liability falls within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. It is measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. If the Company has acquired emission allowances, the value of the provision is equal to their carrying amount. If actual emissions exceeds the quantity of emission allowances held, the Company accounts for an obligation to buy additional emission allowances, the value of which is equal to their market value. The quantity of actual emissions is approved by a respective state authority during four months after the end of the year. The provision accounted for as at 31 December 2021 was consistent with actual quantities of emissions. The Company's management, based on its own experience, does not expect any significant differences to arise between the estimated provision at 31 December 2022 and the quantity of emissions which will be approved for 2023.

5.4 Regulated activities: accrued revenue and provisions

Profitability of the Company is regulated by NERC through the service tariffs approved for the next periods. The level of tariffs depends on the projected costs and volume of services for the next period, the extent to which the previous period earnings are at variance with the regulated level, and other factors.

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

5.4.1 Services ensuring isolated operation of the power system and capacity reserve

On 14 November 2019, NERC adopted a resolution No O3E–715 'On approval of the methodology for establishing the prices for electricity, capacity reserve and services ensuring isolated operation of the power system'. This resolution stipulates that Companies that discontinue capacity reserve ensuring services or services ensuring isolated operation of the power system shall reimburse any discrepancies between the projected and actual costs of providing these services to the transmission system operator if the costs actually incurred by the Group were less than the revenues received from the transmission system operator. If the actual costs incurred by the Company were higher than the income of the transmission system operator, the transmission system operator shall reimburse this amount to the Company. Formulas determined for period y in the resolution for isolated operation of the power system and capacity reserve services:

- In the case of capacity reserve assurance services: the amount of discrepancy between the assigned investment return that meets the reasonableness criteria, compared to the determined investment return, during the reporting period (y-2);
- In the case of isolated operation of the power system: the amount of discrepancy between the costs assigned in the reporting period (y-2) compared to the amount of income received from transmission system operator in the reporting period (y-2).

With regard to the resolution above, the Company recognises assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level regardless the difference under the provision of services in the future.

On 8 February 2022, an additional agreement with transmission system operator was signed. Under the agreement, the Company undertook to purchase the required amount of gas and sell the set amount of electricity in advance on the electricity market in accordance with the electricity generation schedule submitted by transmission system operator, and transmission system operator undertook to reimburse the costs incurred by the Company under the schedule.

As at 31 December 2022, the management of the Company accounted for EUR 2,294 thousand (31 December 2021: EUR 7,107 thousand) to be refunded for tertiary capacity reserve, isolated power system operation and secondary active capacity reserve services (Note 24). The current portion of the provision for tertiary active capacity reserve services, services ensuring isolated operation of the power system, services ensuring secondary active capacity reserve and incident prevention services amounting to EUR 3,098 thousand (31 December 2021: EUR 15,161 thousand) was accounted under "Provisions", current liabilities (Note 24). Non-current provision is based on the Company's calculations when comparing set and actual prices, though these are not yet approved by NERC. According to the results of previous periods, the management of the Company does not expect significant differences between provision as at 31 December 2022 and confirmed correction by NERC, which is expected to be approved at the end of 2023 for 2022.

6 Revenue from contracts with customers

6.1 Disaggregated revenue information

EUR thousand	2022	2021
Revenue from sale of produced electricity	392,732	243,437
Revenue from services ensuring isolated operation of power system	99,659	26,039
Revenue from capacity reserve services	33,037	20,361
Revenue from supply of thermal energy	5,913	2,911
Other income	3,478	2,453
Total	**534,819**	**295,201**

The Company's operating income is earned by selling services to Lithuanian companies or by selling electricity on the Nord Pool AS exchange, but the trading is carried out in the Lithuanian price zone, and the Company's management treats such sales as trading on the local Lithuanian market.

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

EUR thousand	2022	2021
Performance obligations satisfied over time	531,680	292,989
Performance obligations satisfied at a point of time	3,139	2,212
Total	**534,819**	**295,201**

6.2 Contract balances

EUR thousand	Notes	31 December 2022	31 December 2021
Trade receivables		**30,960**	**20,369**
Performance obligations satisfied at a point of time		30,960	20,369
Contract assets		**7**	**-**
Accrued revenue from other contracts with customers		7	-
Contract liabilities		**61**	**42**
Advances received		61	42

6.2.1 Contract assets

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under the contracts.

In most cases, the Company receives payment immediately after the services are rendered. On rare occasions, deferred payment terms may be agreed, but the deferral of payments never exceeds twelve months and therefore the transaction price is not adjusted for the impact of the financing relationship on the recognition of revenue.

6.2.2 Contract liabilities

EUR thousand	Notes	31 December 2022	31 December 2021
Current		61	42
Non-current		-	-
Total		**61**	**42**

6.3 Rights to returned goods assets and refund liabilities

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

7 Purchases of electricity, natural gas and other services

EUR thousand	2022	2021
Purchases of electricity for generation	133,049	68,664
Costs of purchases of gas and biofuel for generation	108,580	81,448
Total	**241,629**	**150,112**

8 Other expenses

EUR thousand	2022	2021 (restated)[1]
Derivative financial instruments (Note 26.2)	66,188	10,626
Tax (other than income tax) expenses	1,562	2,109
Consulting services	1,121	1,194
Telecommunications and IT services	647	647
Utilities	406	339
Transport	394	313
Loss allowance of receivables	(171)	(63)
Other	3,307	2,468
Total	**73,454**	**17,633**

[1] Part of the amounts do not agree with the financial statements issued for the year 2021. In 2022, the Company classified the consultation costs under 'Consultation services' and the comparative figures for 2021 were reclassified accordingly from 'Business support and management services'.

9 Finance expenses

EUR thousand	2022	2021
Interest expenses	705	535
Interest and discount expense on lease liabilities	233	222
Currency exchange loss	119	71
Other finance expenses	151	-
Total	**1,208**	**828**

9.1 The Company's interest expenses

In 2022, the Company paid EUR 873 thousand of interest in cash (2021: EUR 768 thousand), which is presented in the cash flow statement under "Interest paid".

10 Income taxes

10.1 Recognised in profit or loss

EUR thousand	2022	2021
Income tax expenses (benefit) for the reporting period	27,541	14,737
Deferred income tax expenses (benefit)	107	(1,570)
Result from amount of tax losses carried forward	(71)	(22)
Income tax expenses (benefit) recognised in profit or loss	**27,577**	**13,145**

10.2 Reconciliation of effective tax rate

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

EUR thousand		2022		2021
Profit before tax		183,683		87,961
Income tax expenses (benefit) at tax rate of 15%	15.00%	27,552	15.00%	13,194
Non-deductible expenses	0.06%	116	0.01%	5
Non-taxable income	(0.01)%	(25)	(0.05)%	(44)
Adjustments in respect of prior years	(0.01)%	(12)	(0.01)%	(10)
Taxable income[1]	1.24%	2,279	-	-
Income tax recognised in other comprehensive income[1]	(1.24)%	(2,279)	-	-
Other	(0.03)%	(54)	-	-
Income tax expenses (benefit)	**15.01%**	**27,577**	**14.95%**	**13,145**

[1] Taxable income relates to the effective change in fair value of derivatives recognised in other comprehensive income. The amount of income tax recognised in other comprehensive income is related to the Company's derivatives. For the purpose of income taxes, they are treated as deductible expenses (or taxable income) in the period when change in fair value is recognised.

10.3 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 income taxes relate to the same fiscal authority.

Movement of deferred tax assets and liabilities during the reporting period was as follows:

EUR thousand	31 December 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2021	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2022
Deferred tax assets							
Accrued expenses	970	(453)	-	517	(127)	-	390
Impairment of property, plant and equipment	1,265	(617)	-	648	(330)	-	318
Derivatives	-	1,117	-	1,117	(1,117)	-	-
Other	92	75	70	237	48	(40)	245
Deferred tax asset, net	**2,327**	**122**	**70**	**2,519**	**(1,526)**	**(40)**	**953**
Deferred income tax liability							
Revaluation of property, plant and equipment	4,486	(590)	-	3,896	(422)	-	3,474
Differences of financial and tax value (PPE)	17,244	(884)	-	16,360	(936)	-	15,424
Tax relief on acquisition of property, plant and equipment	1,975	(85)	-	1,890	(81)	-	1,809
Other	-	111	-	111	20	-	131
Deferred income tax liability, net	**23,705**	**(1,448)**	-	**22,257**	**(1,419)**	**-**	**20,838**
Net deferred tax	**(21,378)**	**1,570**	**70**	**(19,738)**	**(107)**	**(40)**	**(19,885)**

Deferred tax asset was offset with deferred tax liability in the Company's statement of financial position as they relate to the same taxation authority.

During 2022 the Company purchased tax losses of EUR 15,493 thousand (deferred tax assets amount to EUR 2,324 thousand) and paid consideration of EUR 2,252 thousand. During 2021 the Company purchased tax losses of EUR 6,868 thousand (deferred tax assets amount to EUR 1,030 thousand) and paid consideration of EUR 1,008 thousand.

11 Property, plant and equipment

11.1 Company's property, plant and equipment

EUR thousand	Land	Buildings	Assets of Hydro Power Plant, Pumped Storage Power Plant	Combined Cycle Unit and Reserve Power Plant	Other property, plant and equipment	Construction in progress	Total
1 January 2021							
Cost or revalued amount	1,845	599	211,264	774,227	2,279	1,845	**992,059**
Accumulated depreciation	-	(28)	(113,222)	(345,875)	(535)	-	**(459,660)**
Accumulated impairment	-	-	-	(105,765)	-	(223)	**(105,988)**
Carrying amount	**1,845**	**571**	**98,042**	**322,587**	**1,744**	**1,622**	**426,411**
Carrying amount as at 1 January 2021	**1,845**	**571**	**98,042**	**322,587**	**1,744**	**1,622**	**426,411**
Additions	-	-	24	103	59	727	**913**
Write-offs	-	-	-	(1,063)	-	(35)	**(1,098)**
Reclassifications between categories	-	-	772	231	-	(1,003)	**-**
Reclassified from (to) investment property	-	-	-	1,323	-	-	**1,323**
Reclassified from (to) inventories	-	-	56	6	-	-	**62**
Depreciation	-	(14)	(5,400)	(19,542)	(113)	-	**(25,069)**
Carrying amount as at 31 December 2021	**1,845**	**557**	**93,494**	**303,645**	**1,690**	**1,311**	**402,542**
31 December 2021							
Cost or revalued amount	1,845	599	212,108	770,565	2,314	1,534	**988,965**
Accumulated depreciation	-	(42)	(118,614)	(361,842)	(624)	-	**(481,122)**
Accumulated impairment	-	-	-	(105,078)	-	(223)	**(105,301)**
Carrying amount	**1,845**	**557**	**93,494**	**303,645**	**1,690**	**1,311**	**402,542**
Carrying amount as at 1 January 2022	**1,845**	**557**	**93,494**	**303,645**	**1,690**	**1,311**	**402,542**
Additions	-	2	24	113	1	2,646	**2,786**
Write-offs	-	-	(1)	(231)	-	-	**(232)**
Reclassifications between categories	-	-	264	1,398	-	(1,662)	**-**
Reclassified from (to) investment property	-	-	-	(126)	-	-	**(126)**
Reclassified from (to) inventories	-	-	16	13	-	-	**29**
Depreciation charge	-	(14)	(5,046)	(19,695)	(92)	-	**(24,847)**
Carrying amount as at 31 December 2022	**1,845**	**545**	**88,751**	**285,117**	**1,599**	**2,295**	**380,152**
31 December 2022							
Cost or revalued amount	1,845	601	212,241	770,510	2,315	2,518	**990,030**
Accumulated depreciation	-	(56)	(123,490)	(380,328)	(716)	-	**(504,590)**
Accumulated impairment	-	-	-	(105,065)	-	(223)	**(105,288)**
Carrying amount	**1,845**	**545**	**88,751**	**285,117**	**1,599**	**2,295**	**380,152**

11.2 Revalued property, plant and equipment

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

EUR thousand	Land	Buildings	Other property, plant and equipment	Total
31 December 2021	1,699	140	1,753	**3,592**
31 December 2022	1,699	138	1,662	**3,499**

11.3 Additions of property, plant and equipment

The Company has significant acquisition commitments of property, plant and equipment which will have to be fulfilled during the later years. The Company's acquisition and construction commitments amounted to EUR 7,271 thousand as at 31 December 2022 (31 December 2021: EUR 4,713 thousand).

11.4 Fully depreciated property, plant and equipment

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

EUR thousand	31 December 2022	31 December 2021
Assets of Hydro Power Plant, Pumped Storage Power Plant	30,032	30,184
Combined Cycle Unit and Reserve Power Plant	120,371	116,186
Other property, plant and equipment	513	608
Total	**150,916**	**146,978**

11.5 Fair value hierarchy of property, plant and equipment

In the opinion of the Company's management, the carrying amount of substantially all assets stated at revalued amount as at 31 December 2022 did not differ significantly from their fair value. The fair value of revalued property, plant and equipment is attributed to Level 3 of the fair value hierarchy (fair value hierarchy levels are specified in Note 3.25).

11.6 Pledged property, plant and equipment

As at 31 December 2022, the Company had pledged to the banks its property, plant and equipment with the carrying amount of EUR 18,670 thousand (31 December 2021: EUR 19,235 thousand).

11.7 Impairment of property, plant and equipment

As at 31 December 2022, the Company's management has assessed external (changes in the economic and legal environment, market structure, interest rate, etc.) and internal (changes in the use of the asset, changes in the useful life of the asset, changes in the asset's ability to generate cash flows, etc.) factors that may affect the value of property, plant and equipment. Taking into account the above considerations, no indications of impairment of property, plant and equipment were identified as at 31 December 2022 and no impairment tests were performed.

11.8 Acquisitions of property, plant and equipment based on activities

In 2022, acquisitions amounted to EUR 2,786 thousand, of which EUR 929 thousand related to the operations of the Kruonis PSHP, EUR 1 thousand related to the operations of Kaunas HPP, EUR 1,291 thousand related to the operations of the CCU, Units 7 and 8 of the Elektrėnai Complex, EUR 554 thousand related to the operations of the Elektrėnai Biofuel Boiler Plant and EUR 11 thousand related to other activities of the Company.

In 2021, acquisitions amounted to EUR 913 thousand, of which EUR 236 thousand related to the operations of the Kruonis PSHP, EUR 460 thousand related to the operations of Kaunas HPP, EUR 218 thousand related to the operations of the CCU, Units 7 and 8 of the Elektrėnai Complex, EUR 4 thousand related to the operations of the Elektrėnai Biofuel Boiler Plant and EUR 5 thousand was transferred to operating expenses.

12 Right-of-use assets

12.1 The Company's right-of-use assets

EUR thousand	Land	Buildings	Vehicles	Total
1 January 2021				
Acquisition cost	5,438	89	434	**5,961**
Accumulated depreciation	(121)	(18)	(195)	**(334)**
Carrying amount	**5,317**	**71**	**239**	**5,627**
Carrying amount as at 1 January 2021	**5,317**	**71**	**239**	**5,627**
Additions	1	-	58	**59**
Write-offs	-	(44)	(17)	**(61)**
Depreciation charge	(76)	(27)	(100)	**(203)**
Carrying amount as at 31 December 2021	**5,242**	**-**	**180**	**5,422**
31 December 2021				
Acquisition cost	5,439	-	475	**5,914**
Accumulated depreciation	(197)	-	(295)	**(492)**
Carrying amount	**5,242**	**-**	**180**	**5,422**
Carrying amount as at 1 January 2022	**5,242**	**-**	**180**	**5,422**
Additions	394	-	13	**407**
Depreciation charge	(82)	-	(109)	**(191)**
Carrying amount as at 31 December 2022	**5,554**	**-**	**84**	**5,638**
31 December 2022				
Acquisition cost	5,834	-	488	**6,322**
Accumulated depreciation	(280)	-	(404)	**(684)**
Carrying amount	**5,554**	**-**	**84**	**5,638**

The Company has land lease agreements most of which are effective until 2095. The agreements are subject to interest rate from 4.07% to 4.18%, their carrying amount was EUR 5,554 thousand as at 31 December 2022 (31 December 2021: EUR 5,242 thousand).

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

The Company's lease expenses recognised in the statement of profit or loss were as follows:

EUR thousand	2022	2021
Depreciation	191	203
Interest expenses	233	222
Expenses related to leases of low-value assets (other expenses)	-	2
Other lease expenses	(79)	-
Lease expenses, total	**345**	**427**

12.3 Future expenses related to lease agreements

The Company's future lease expenses:

EUR thousand	31 December 2022	31 December 2021
Future expenses related to short-term and low value leases	2	3
Leases not yet commenced for which the lessee is committed	293	27
Future lease expenses, total	**295**	**30**

12.4 Acquisitions of right-of-use assets by activities

In 2022, the Company's acquisitions of right-of-use assets comprised EUR 407 thousand, including EUR 391 thousand related to the operations of Units 7 and 8 of the Elektrėnai Complex, EUR 7 thousand related to the operations of the Elektrėnai Biofuel Boiler Plant and EUR 9 thousand related to other activities of the Company. In 2021, the Company's acquisitions of right-of-use assets comprised EUR 59 thousand, including EUR 2 thousand related to the operations of KPSHP and EUR 57 thousand related to other activities of the Company.

13 Investments in associated companies

EUR thousand	2022	2021
Carrying amount as at 1 January	**2,990**	**2,867**
Dividends received	(156)	(160)
Profit (loss) from investments in associated companies	185	283
Carrying amount as at 31 December	**3,019**	**2,990**

The summarised financial information for the associates for the year 2022 (unaudited data) and the year 2021 (audited data) are presented below:

Summarised statement of financial position, EUR thousand	UAB „Ignitis grupės paslaugų centras“	
	2022	2021
Non-current assets	20,500	16,459
Total non-current assets	**20,500**	**16,459**
Cash and cash equivalents	53	1,464
Other current assets	9,897	8,651
Total current assets	**9,950**	**10,115**
Other non-current liabilities	(526)	(574)
Total non-current liabilities	**(526)**	**(574)**
Current loans	(7,054)	(8,840)
Other current liabilities	(8,861)	(3,158)
Total current liabilities	**(15,915)**	**(11,998)**
Net assets	**14,009**	**14,002**

14 Non-current receivables

EUR thousand	31 December 2022	31 December 2021
Cash reserved for guarantees	10,141	51
Loans granted	24	32
Other non-current amounts receivable	15	35
Total	**10,180**	**118**
Less: loss allowance	-	-
Carrying amount	**10,180**	**118**

14.1 Cash reserved for guarantees

During 2022, the limit of guarantee on behalf of Nord Pool AS was increased by EUR 10,000 thousand.

15 Inventories

EUR thousand	31 December 2022	31 December 2021
Natural gas	147,652	-
Emission allowances and emission reduction units	16,984	22,666
Biofuel	1,060	462
Consumables, raw materials and spare parts	1,046	703
Other	247	212
Carrying amount	**166,989**	**24,043**

The Company’s inventories expensed were as follows:

EUR thousand	2022	2021
Natural gas	105,198	80,303
Biofuel	3,382	1,145
Other inventories	629	674
Total	**109,209**	**82,122**

Movements on the account of inventory write-down to net realisable value were as follows:

EUR thousand	2022	2021
Carrying amount as at 1 January	**2,335**	**2,709**
Additional write-down to net realisable value	58	36
Reversal of write-down to net realisable value	(163)	(410)
Carrying amount as at 31 December	**2,230**	**2,335**

The write-down of inventories to net realisable value is included in Purchases of electricity, natural gas and other services in the statement of profit or loss.

16 Trade receivables

EUR thousand	31 December 2022	31 December 2021
Amounts receivable from contracts with customers		
Receivables for sale of electricity	13,599	14,990
Receivables for sale of reserve services	951	1,965
Receivables for sale of isolated power system operation services	15,031	2,646
Receivables for sale of heat	1,376	775
Amounts receivable from other contracts		
Other trade receivables	5	-
Total	**30,962**	**20,376**
Less: loss allowance	(2)	(7)
Carrying amount	**30,960**	**20,369**

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 between 15 and 30 days. Trade receivables for which the settlement period is more than 30 days comprise insignificant part of total trade receivables. The Company doesn't provide the settlement period longer than 1 year. The management didn't identify any significant financing component. For terms and conditions on settlement between related parties see Note 28.

16.1 Loss allowance of amounts receivable (lifetime expected credit losses)

The table below presents information on the Company's trade receivables from contracts with customers as at 31 December 2022 that are assessed on a collective basis using the loss ratio matrix:

EUR thousand	Loss ratio	Trade receivables	Loss allowance
Not past due	0.00%	27	-
Up to 30 days	0.00%	-	-
30-60 days	0.00%	-	-
60-90 days	0.00%	-	-
90-120 days	0.00%	-	-
More than 120 days	50.00%	4	2
31 December 2022		**31**	**2**

The Company's trade receivables from contracts with customers as at 31 December 2021 that are assessed on a collective basis using the loss ratio matrix:

EUR thousand	Loss ratio	Trade receivables	Loss allowance
Not past due	16.92%	32	5
Up to 30 days	16.92%	5	1
30-60 days	34.63%	-	-
60-90 days	85.76%	-	-
90-120 days	91.25%	-	-
More than 120 days	100%	1	1
31 December 2021		**38**	**7**

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	
EUR thousand	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Not past due	30,931	-	20,338	-
Up to 30 days	-	-	-	-
30-60 days	-	-	-	-
60-90 days	-	-	-	-
90-120 days	-	-	-	-
More than 120 days	-	-	-	-
Carrying amount	**30,931**	**-**	**20,338**	**-**

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

17 Other receivables

EUR thousand	31 December 2022	31 December 2021
Value added tax	2,398	5,231
Cash reserved for guarantees	371	2,900
Other receivables	1,229	635
Total	**3,998**	**8,766**
Less: loss allowance	(206)	(372)
Carrying amount	**3,792**	**8,394**

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

As at 31 December 2022, financial assets amounted to EUR 1,387 thousand (31 December 2021: EUR 3,163 thousand). Financial assets do not include value added tax and accrued revenue.

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

18 Cash and cash equivalents

EUR thousand	31 December 2022	31 December 2021
Cash balances in bank accounts	26,779	169,421
Carrying amount	**26,779**	**169,421**

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 not pledged current and future cash inflows.

19 Equity

19.1 Capital management

For the purpose of capital management, the Company's management uses equity as reported in the statement of financial position.

Pursuant to the Lithuanian Republic Law on Companies, the issued capital of a public limited liability company must be not less than EUR 25 thousand. The shareholders' equity must be not lower than 50% of the company's issued capital. As at 31 December 2022 and 2021, the Company met regulatory capital requirements.

19.2 Issued capital

As at 31 December 2022 and 2021, the Company's issued capital comprised EUR 187,920,762 and was divided in to 648,002,629 registered ordinary shares with par value of EUR 0.29 each. All the shares are fully paid.

As at 31 December 2022 and 2021, share premium of the Company amounted to EUR 89,975 thousand.

19.3 Dividends

EUR thousand	2022	2021
AB „Ignitis grupė“	44,064	119,232

On 29 April 2022, the Company's sole shareholder AB „Ignitis grupė“ made a decision to pay out dividends of EUR 0.068 per share for October–December 2019, amounting to EUR 44,064 thousand in total.

On 21 December 2021, the Company's sole shareholder AB „Ignitis grupė“ made a decision to pay out dividends of EUR 0.155 per share for January– September 2021, amounting to EUR 100,440 thousand in total.

On 31 March 2021 during ordinary General Meeting of Shareholders, a decision was made to pay out dividends of EUR 0.029 per share for July–December 2020, amounting to EUR 18,792 thousand in total.

20 Reserves

20.1 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.

In 2022 and 2021, the Company's legal reserve was fully formed.

20.2 Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment due to increase in value. The revaluation cannot be used to cover losses.

20.3 Hedging reserve

The hedging instrument revaluation reserve is the change in the fair value of qualifying derivatives that are used for hedging purposes and for which hedging is considered effective.

EUR thousand	Before tax	2022 Tax income (expenses)	After tax	Before tax	2021 Tax income (expenses)	After tax
Cash flow hedges – effective portion of change in fair value	15,196	(2,279)	12,917	-	-	-
Total	**15,196**	**(2,279)**	**12,917**	-	-	-

21 Loans

EUR thousand	31 December 2022	31 December 2021
Non-current		
Bank loan 1	3,984	5,210
Bank loan 2	4,082	7,273
Current		
Current portion of non-current loan 1	1,226	1,226
Current portion of non-current loan 2	3,191	3,191
Group's cash-pool platform	61,341	-
Accrued interest	77	-
Total	**73,901**	**16,900**

Non-current loans by maturity:

EUR thousand	31 December 2022	31 December 2021
From 1 to 2 years	4,417	4,417
From 2 to 5 years	3,649	7,760
After 5 years	-	306
Carrying amount	**8,066**	**12,483**

All loans of the Company are denominated in euros.

21.1 Movement of loans

Movement of loans during the year 2022 mainly consisted of the loan with AB „Ignitis grupė" through cash-pool platform. The increase in financing needs is due to the acquisition of gas reserves and dividend payments. For the year of 2022 expenses related to interest on the loans and overdrafts totalled EUR 616 thousand (2021: EUR 535 thousand)

21.2 Covenants and unwithdrawn balances

The loan agreements with the bank do not provide for financial and non-financial covenants that the Company is obliged to comply with. The Group's cash-pool platform agreement with AB „Ignitis grupė" provides for a borrowing limit. The Company borrowed EUR 61,341 thousand and the unused balance as at 31 December 2022 was EUR 138,659 thousand.

22 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:

EUR thousand	31 December 2022	31 December 2021
Cash and cash equivalents	(26,779)	(169,421)
Non-current loans payable after one year	8,066	12,483
Current loans payable within one year (including accrued interest)	4,425	4,417
Current loans – Group's cash-pool platform including accrued interest	61,410	-
Lease liabilities	5,773	5,585
Net debt	**52,895**	**(146,936)**

	Assets	Lease liabilities		Loans		Total
EUR thousand	Cash	Non-current	Current	Non-current	Current	
Net debt as at 1 January 2021	**(138,120)**	**5,579**	**150**	**16,900**	**4,417**	**(111,074)**
Cash changes						
(Increase) decrease in cash and cash equivalents	(31,301)	-	-	-	-	**(31,301)**
Repayments of loans	-	-	-	-	(4,417)	**(4,417)**
Lease payments	-	-	(146)	-	-	**(146)**
Interest paid	-	-	(222)	-	(546)	**(768)**
Non-cash changes						
Lease contracts concluded	-	21	38	-	-	**59**
Lease liabilities write-off	-	(27)	(34)	-	-	**(61)**
Accrual of interest payable	-	-	222	-	535	**757**
Reclassification of interest payable (from) / to trade payables	-	-	4	-	11	**15**
Reclassifications between items	-	(112)	112	(4,417)	4,417	**-**
Net debt as at 31 December 2021	**(169,421)**	**5,461**	**124**	**12,483**	**4,417**	**(146,936)**
Net debt as at 1 January 2022	**(169,421)**	**5,461**	**124**	**12,483**	**4,417**	**(146,936)**
Cash changes						
(Increase) decrease in cash and cash equivalents	142,642	-	-	-	-	**142,642**
Group's cash-pool platform	-	-	-	-	61,341	**61,341**
Repayments of loans	-	-	-	-	(4,417)	**(4,417)**
Lease payments	-	-	(126)	-	-	**(126)**
Interest paid	-	-	(233)	-	(640)	**(873)**
Non-cash changes						
Lease contracts concluded	-	407	-	-	-	**407**
Lease liabilities write-off	-	-	(93)	-	-	**(93)**
Accrual of interest payable	-	-	233	-	705	**938**
Reclassifications between items	-	(176)	176	(4,417)	4,417	**-**
VAT on interest payable	-	-	-	-	12	**12**
Net debt as at 31 December 2022	**(26,779)**	**5,692**	**81**	**8,066**	**65,835**	**52,895**

23 Grants and subsidies

EUR thousand	Fuel combustion equipment and other assets	Project for renovation, improvement of environmental and safety standards	Total
Carrying amount as at 1 January 2021	**25,351**	**125,423**	**150,774**
Depreciation and amortisation	(362)	(7,907)	**(8,269)**
Grants attributable to write-off of property, plant and equipment	(35)	-	**(35)**
Carrying amount as at 31 December 2021	**24,954**	**117,516**	**142,470**
Carrying amount as at 1 January 2022	**24,954**	**117,516**	**142,470**
Depreciation and amortisation	(423)	(7,612)	**(8,035)**
Carrying amount as at 31 December 2022	**24,531**	**109,904**	**134,435**

Amortisation of grants is accounted for under depreciation and amortisation in the statement of profit or loss and reduces depreciation expenses of related property, plant and equipment. Grants reversed and written off are reported within revaluation/impairment of assets and reduce these expenses.

24 Provisions

EUR thousand	31 December 2022	31 December 2021
Non-current	3,752	8,580
Current	5,290	21,168
Total	**9,042**	**29,748**

Movement of the Company's provisions was as follows:

EUR thousand	Emission allowance liabilities (Note 5.3)	Provisions for isolated power system operations' and system services (Note 5.4.1)	Dismantling works	Provisions for employee benefits	Other provisions	Total
Balance as at 1 January 2021	**8,276**	**17,261**	**2,787**	**614**	**57**	**28,995**
Increase during the year	5,713	5,878	331,	558	-	**12,480**
Utilised during the year	(8,276)	(871)	(2,978)	(60)	(10)	**(12,195)**
Result of change in assumptions	-	-	-	468	-	**468**
Balance as at 31 December 2021	**5,713**	**22,268**	**140**	**1,580**	**47**	**29,748**
Balance as at 1 January 2022	**5,713**	**22,268**	**140**	**1,580**	**47**	**29,748**
Increase during the year	1,986	2,356	-	426	-	**4,768**
Utilised during the year	(5,713)	(19,321)	(140)	(114)	(11)	**(25,299)**
Discounting effect	-	89	-	-	-	**89**
Result of change in assumptions	-	-	-	(264)	-	**(264)**
Balance as at 31 December 2022	**1,986**	**5,392**	**-**	**1,628**	**36**	**9,042**
Non-current portion	-	2,294	-	1,427	31	**3,752**
Current portion	1,986	3,098	-	201	5	**5,290**
Balance as at 31 December 2022	**1,986**	**5,392**	**-**	**1,628**	**36**	**9,042**

Provisions for employee benefits include a statutory retirement benefit and retirement benefit under collective agreement payable to the Company's employees (Note 3.22.3). The period of non-current provision is calculated according to each employee using actuarial assumptions that include the age of employee, mortality risk, index of staff turnover, discount rate (0.055% as at 31 December 2022, 0.043% as at 31 December 2021), long-term salary increase rate (5% as at 31 December 2022, 4% as at 31 December 2021).

The provision for isolated power system operation and additional services relates to regulatory activities that give rise to regulatory differences which are reimbursed during the next years (Note 5.4.1). Regulatory differences and the period of reimbursement is determined and confirmed by NERC. According to the NERC's methodology, the period of reimbursement is 2023-2024 year.

25 Other current amounts payable and liabilities

EUR thousand	31 December 2022	31 December 2021
Payroll related liabilities	2,118	1,662
Payable dividends	1,112	101,574
Amounts payable for property, plant and equipment	557	173
Taxes (other than income tax)	327	506
Accrued expenses	285	80
Derivatives	-	7,444
Other amounts payable and liabilities	852	82
Carrying amount	**5,251**	**111,521**

Financial liabilities amounting to EUR 2,521 thousand (31 December 2021: EUR 101,829 thousand). Financial liabilities do not include accrued expenses, taxes (other than income tax) and payroll related liabilities.

26 Derivatives

Derivative financial instruments mainly comprise contracts made directly with other parties – over-the-counter (OTC).

26.1 Derivative financial instruments included in the statement of financial position

EUR thousand	Note	Movement during 2022
Derivatives		
Other current amounts payable and liabilities	25	(7,444)
Carrying amount as at 31 December 2021		**(7,444)**
Change in the value		
Fair value change of OTC recognised in Other expenses		7,444
Fair value change of OTC recognised in OCI		15,196
Total change during 2022		**22,640**
Derivatives		
Carrying amount as at 31 December 2022		**15,196**
Other current assets		15,196

26.2 Derivative financial instruments included in the statement of profit or loss

EUR thousand	2022	2021
Fair value change of OTC	7,444	(7,444)
Hedge ineffectiveness recognised - OTC	(73,632)	(3,182)
Total recognised in statement of profit or loss	**(66,188)**	**(10,626)**

27 Contingent liabilities

27.1 Litigations

On 7 August 2019, the Company appealed to the Vilnius Regional Administrative Court regarding the annulment of the decision taken by NERC on 8 July 2019 No. R2-(E) -1340 “On compensation for the amount of funds of public interest services for public services provided in 2016” (hereinafter “Administrative Act”) and to oblige the NERC when determining the need for funds for public interest services (hereinafter “PSO”) for the first year for which the need of PSO funds will be determined after the effective date of this court decision to estimate the resulting difference of EUR 2.51 million between the Company’s 2016 forecast revenue and actual costs incurred. On 2 December 2020, the Supreme Administrative Court of Lithuania partially upheld the Company’s appeal - annulled the decision of the Vilnius Regional Administrative Court of 21 November 2019 to dismiss the Company’s appeal and remitted the case to the Court of First Instance for reconsideration.

By its decision dated 10 March 2021, the Vilnius Regional Administrative Court partially upheld the Company’s appeal: annulled the Administrative Act and obliged the NERC when determining the need for funds for public interest services for the first year for which the need of PSO funds will be determined after the effective date of this court decision to estimate the resulting difference of EUR 2.51 million between the Company’s 2016 forecast revenue and actual costs incurred.

By its ruling dated 9 June 2021, the Supreme Administrative Court of Lithuania dismissed the appeal of NERC. The decision of 10 March 2021 of the Vilnius Regional Administrative Court came into effect and became mandatory for NERC.

On 29 October 2021, NERC by adopting Resolution No. O3E-1420 “On Determining the Funds and Price of Services of Public Interest for 2022”, executing the decision of the Vilnius Regional Administrative Court, after assessing the Company's request, decided not to repay the resulting difference of EUR 2.51 million between the Company's forecast revenue in 2016 and actual costs. The Company is evaluating the possibility of appealing the decision of NERC to a court.

On 8 December 2021, the Company lodged a revised appeal to the Vilnius Regional Administrative Courts requesting annulment of Item 1 of NERC Resolution and obligation to reconsider Claim No. SD-381 of 15 May 2019 of the claimant.

On 21 December 2021, NERC filed its reply to the appeal. The case is scheduled for hearing at Vilnius Regional Administrative Court on 2 February 2023 (Note 30).

As at 31 December 2022, the amount of the Company’s contingent assets (these contingent assets are not recognised in the financial statements) related to the legal dispute concerning the NERC decision of 2014, by which the Company was declared as an undertaking with significant power in the electricity generation market and thus the amount of the payable PSO funds was additionally reduced by EUR 2.51 million, amounted to EUR 2.51 million and remains unchanged from 31 December 2021.

27.2 Other contingent liabilities and commitments

Based on a press release of the European Commission, the Company informs that on 3 June 2019, the European Commission has opened an in-depth investigation to assess whether EU State aid rules were respected when allocating public interest service monies to the Company in the context of a strategic reserve measure.

The Company’s management is not aware of any circumstances that could result in potential significant liabilities for the Company in this respect; therefore, no provisions are recognised.

28 Related-party transactions

Related parties, in EUR thousand	Amounts receivable 31 December 2022	Amounts payable 31 December 2022	Loans received 31 December 2022	Sales 2022	Purchases 2022	Finance income (expenses) 2022
Parent company AB „Ignitis grupė“	-	174	59,547	-	159	(274)
Associates of the Company	2	233	-	21	1,937	1
Other Group companies	19,019	170	1,794	23,963	221,293	(37)
State-controlled UAB EPSO-G group companies	110,070	6,295	-	124,053	133,162	-
Total	**129,091**	**6,872**	**61,341**	**148,037**	**356,551**	**(310)**

Related parties, in EUR thousand	Amounts receivable 31 December 2021	Loans granted 31 December 2021	Amounts payable 31 December 2021	Sales 2021	Purchases 2021	Finance income (expenses) 2021
Parent company AB „Ignitis grupė“	-	-	100,461	-	354	-
Associates of the Company	2	1,177	325	14	1,721	1
Other Group companies	47	63,733	9,406	268	23,913	270
State-controlled UAB EPSO-G group companies	23,995	-	20,166	75,432	91,108	-
Total	**24,044**	**64,910**	**130,358**	**75,714**	**117,096**	**271**

Negative sales amount in 2022 to Baltpool UAB is related with credit invoices issued for PSO services. Revenue from PSO funds is calculated for 1 MW electricity as the difference between the fixed tariff set by the NERC and the weighted average price of electricity sold in Power exchange of electricity. If the weighted average price on the Electricity Exchange exceeds the fixed rate set by NERC, the Company issues credit invoices to Baltpool UAB.

During 2022 and 2021, the Company used the Group's cash-pool platform. In 2022, the funds granted were recovered and additional funds were withdrawn (Note 21). During 2021, the Company has granted funds through the platform (see table above "Loans granted").

Derivative transactions with related parties are disclosed in Note 26.

Transactions with other state-owned entities included regular business transactions and therefore they were not disclosed.

28.1 Terms of transactions with related parties

The payment terms set range from 15 to 90 days. Receivables as at the year-end are not secured by pledges, they do not yield interest, and settlements occur in cash.

28.2 Compensation to key management

EUR thousand	2022	2021
Wages and salaries and other current benefits to key management	405	350
Whereof:		
Short-term benefits	405	335
Termination benefits	-	1
Share-based payment expenses	-	14
Number of key management personnel	6	6

In 2022 and 2021, members of Board, Supervisory board and Chief Executive Officer are assigned to the Company's key management personnel. For more information on the key management personnel, see Section 4.3 of the Annual Report.

29 Fair values of financial instruments

29.1 Financial instruments measured at fair value

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

As at 31 December 2022 and 2021, the Company has accounted for assets and liabilities arising from financial derivatives. The Company accounts for financial derivative assets and liabilities at fair value and their accounting policies are set out in Note 3.13.3. Market values that are based on quoted prices (Level 1) comprise quoted commodities derivatives that are traded in active markets. The market value of derivatives traded in an active market are often settled on a daily basis, thereby minimising the market value presented on the statement of financial position. Market values based on observable inputs (Level 2) comprise derivatives where valuation models with observable inputs are used to measure fair value. All assets and 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 and Estonian/Finish electricity price areas. Derivatives acquired directly from other market participants (OTC contracts) and physical transmission rights acquired are estimated based on the prices of the NASDAQ Commodities exchange.

29.2 Financial instruments for which fair value is disclosed

The fair value of the Company's financial liabilities related to debt liabilities to commercial banks and Group companies 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:

EUR thousand	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 fair value through profit (loss) or other comprehensive income						
Assets						
Derivatives	26	**15,196**	-	15,196	-	**15,196**
Financial instruments for which fair value is disclosed						
Liabilities						
Loans to group companies	22	**61,410**	-	61,410	-	**61,410**
Loans from commercial banks	22	**12,491**	-	12,238	-	**12,238**

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

EUR thousand	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 fair value through profit (loss)						
Liabilities						
Derivatives	26	**7,444**	-	7,444	-	**7,444**
Financial instruments for which fair value is disclosed						
Assets						
Loans to Group companies		**64,910**	-	64,910	-	**64,910**
Liabilities						
Loans from commercial banks	22	**16,900**	-	15,956	-	**15,956**

30 Events after the reporting period

30.1 Events related to cases and claims

On 2 February 2023, the Vilnius Regional Administrative Court adopted a decision rejecting the appeal of UAB Ignitis gamyba and upholding NERC's decision No O3E-1420 of 29 October 2021, which refused to grant the request of AB Ignitis gamyba for EUR 2.51 million compensation (payment of PSO funds). On 3 March 2023, the Company lodged an appeal, which was accepted by the Court. The hearing is expected to start in late 2023 or early 2024.

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 AB "Ignitis Gamyba"

Opinion

We have audited the financial statements of AB "Ignitis Gamyba" ("the Company"). The Company's financial statements comprise:

- the statement of profit or loss for the year ended 31 December 2022,
- the statement of other comprehensive income for the year then ended,
- the statement of financial position as at 31 December 2022,
- 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 - 57), 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: 111616158
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

ROKAS KASPERAVIČIUS

Digitally signed by ROKAS KASPERAVIČIUS
Date: 2023.03.31 16:41:26 +03'00'

Rokas Kasperavičius
Partner
Certified Auditor

Klaipėda, the Republic of Lithuania
31 March 2023

The electronic auditor's signature applies only to the Independent Auditor's Report on pages 107 to 109 of this document.

6.3 Information on the auditor

Overview

There were no changes in the Company's independent auditor during 2022. Since the appointment by the Company's Annual General Meeting of Shareholders on 29 September 2021, the Group's independent auditor was KPMG Baltics, UAB (KPMG). Based on the concluded agreement, KPMG audited the Company's financial statements for the years of 2021 and 2022. Before KPMG, the independent auditor of the Company was UAB Ernst & Young Baltic which audited the Company's financial statements for the period over 2019–H1 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. The tender procedures were finalised in Q1 2023 and the new independent auditor for the years 2023–2027 is expected to be appointed in the next Company's Annual General Meeting of Shareholders.

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 criterion of implementing public tenders is to ensure competitiveness and accordingly the only specific audit selection criterion 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 g. 101 LT-08104 Vilnius, Lithuania	Ernst & Young Baltic, UAB Aukštaičių g. 7 LT-11341 Vilnius, Lithuania

Services and fees

During the period of 2021–2022, the following services have been provided to the Company by the independent auditors 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, EUR thousand

EUR thousand	**2022**	**2021**
Statutory audit	58	58
Interim financial statement audits	-	33
Other	2	2
Total	**60**	**93**

Other services included the translation into English of the Company's financial statements and annual report.

Additional information

7.1 Other important statutory information

The Annual report provides information to the shareholders, creditors and other stakeholders of AB Ignitis Gamyba 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 (Elektrinės str. 21, Elektrėnai) on working days from Mondays to Thursdays from 7.30 am to 4.30 pm, and on Fridays from 7.30 am to 3.15 pm (with a prior arrangement).

Company details

1. Company name: AB "Ignitis gamyba"
2. Legal form: joint stock company
3. Share capital: EUR 187,920,762.41
4. Registration date and place: 20 July 2011, the Register of Legal Entities of the Republic of Lithuania
5. Company code: 302648707
6. Company address: Elektrinės str. 21
7. Company's register: Register of Legal Entities
8. Telephone number: +370 618 37392
9. Email address: gamyba@ignitis.lt
10. Website: www.ignitisgamyba.lt

Legal notes

After the end of the reporting period, a new version of the Articles of Association of the Company were registered. Having changed the two-tiered governance model to a one-tiered one, the new composition of the Management Board of the Company was approved and the Management Committee was established and started their activities.
The Company has not used financial and hedging instruments subject to hedge accounting that would be significant in assessing the Company's assets, equity, liabilities, financial position, and performance.
The Company had no treasury shares at the beginning of the reporting period and did not acquire any treasury shares during the reporting period.
The Company has no branches or representative offices.
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.
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 indicators

Alternative Performance Indicators (APIs) 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 English version shall prevail.

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

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

Point in the description of the Guidelines on Transparency in State-Owned Companies (version as at 30 April 2021)	Disclosure	Explanation
Chapter II. Disclosure of information by a State-owned enterprise		
5. The following data and information must be announced in the internet website of a state-owned enterprise:		Information available on www.ignitisgamyba.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.ignitisgamyba.lt
7. The following documents shall be announced in the website of a State-owned enterprise:	Yes	Information available on www.ignitisgamyba.lt
7.1. Articles of Association;	Yes	
7.2. statement from the representative body of the State on the definition of the State's objectives and expectations in a State-owned enterprise;	Yes	
7.3. the business strategy or a summary thereof where the business strategy contains confidential information or information considered to be a commercial/industrial secret;	Yes	
7.4. a document setting out the remuneration policy covering the remuneration of the chief executive of a State-owned enterprise and the remuneration of the members of the collegiate bodies and committees of a State-owned enterprise, as detailed in the Corporate Governance Code;	Yes	
7.5. annual and interim reports of a State-owned enterprise, and annual and interim activity reports of a State-owned enterprise for a period of at least 5 years;	Yes	
7.6. sets of annual and interim financial statements for a period of at least 5 years and auditor's reports on the annual financial statements.	Yes	
8. If 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	Not applicable	

as the annual consolidated financial statements and the consolidated annual reports.		
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.ignitisgamyba.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.	Yes	The Company prepares 6-month interim financial statement
16. A State-owned company classified as a public interest entity under the Law on Audit of Financial Statements of the Republic of Lithuania prepares a 6-month interim report in addition to the annual report. A State-owned enterprise classified as a public-interest entity under the Law on Audit of Financial Statements of the Republic of Lithuania shall, in addition to the annual activity report, prepare a 6-month interim activity report.	Yes	The Company prepares a 6-month interim report
17. The annual report of a State-owned company or the annual activity report of a State-owned company shall, in addition to the content requirements set out in the Law on Financial Reporting of Enterprises of the Republic of Lithuania or the Law on State and Municipal Enterprises of the Republic of Lithuania, contain:		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.	Yes	
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	

20. The annual report of the State-owned company or the annual activity report of the State enterprise may also contain other information not specified in the Description.	Yes	The annual report also contains other information
21. A State-owned company which is the parent company shall disclose in its consolidated annual report or, if it is not required by law to prepare a consolidated annual report, in its annual report, the structure of the group of companies, as well as the data referred to in points 5.1 to 5.3, for each of its subsidiaries and subsequent-row subsidiaries, the shareholding (in percentage of share capital) in the authorised capital of the subsidiary and the financial and non-financial results of its operations for the financial year. Where a State-owned company which is the parent company prepares a consolidated annual report, the requirements of point 17 of the Description shall apply mutatis mutandis to it.	Not applicable	
22. The interim report of a State-owned enterprise or the interim performance report of a State-owned enterprise shall include a brief description of the business model of the State-owned enterprise, an analysis of its financial performance for the period under review, information on significant events that occurred during the period under review, as well as the indicators of profitability, liquidity, turnover, assets and debt, and the changes of these indicators as compared to the corresponding period of the previous year.	Yes	The Company presents information in the interim report

Abbreviations

RES	Renewable Energy Sources	**KHPP**	Kaunas Hydroelectric Power Plant
EA	Emission Allowances	**CEN**	Continental European Network
Company	AB “Ignitis gamyba”	**RL**	Republic of Lithuania
GDP	Gross Domestic Product	**MW**	Megawatts
OHS	Occupational Health and Safety	**Nord Pool**	NordPool electricity exchange
EC	Elektrėnai Complex	**TSO**	Transmission system operator AB Litgrid
EU	European Union	**TWh**	Terawatt-hours
Group	Companies of the companies group AB Ignitis Grupė	**NERC**	National Energy Regulatory Council
GWh	Gigawatt-hours	**SPI**	Services of public interest
CCU	Combined cycle unit	**Vilnius TE-3**	3rd Combined Heat and Power Plant of Vilnius
KPSHP	Kruonis Pumped Storage Hydroelectric Plant		

Certification statement

31 March 2023

We, the undersigned AB „Ignitis gamyba“ Rimgaudas Kalvaitis, Chief Executive Officer, Edgaras Mechoncevas, Head of Finance and Regulation Division, acting under Decision No SP-68 of 12 July 2022 of the CEO of AB „Ignitis gamyba“, and Renata Zakažauskienė, Accounting Expert acting under Order No 23_GSC_SP_0010 of 17 February 2023, hereby confirm that, to the best of our knowledge, AB „Ignitis gamyba“ financial statements for the year 2022, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of AB „Ignitis gamyba“ assets, liabilities, financial position, profit or loss for the period and cash flows, the annual report for the year 2022 includes a fair review of the activities business development as well as the condition of AB „Ignitis gamyba“ and with the description of the principle risk and uncertainties it faces.

Rimgaudas Kalvaitis	**Edgaras Mechoncevas**	**Renata Zakažauskienė**
General Manager	Head of Finance and Regulation Division, acting under Decision No SP-68 of 12 July 2022 of the CEO of AB „Ignitis gamyba“	Accounting expert of UAB „Ignitis grupės paslaugų centras“, acting under Decision No 23_GSC_SP_0010 of 17 February 2023

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