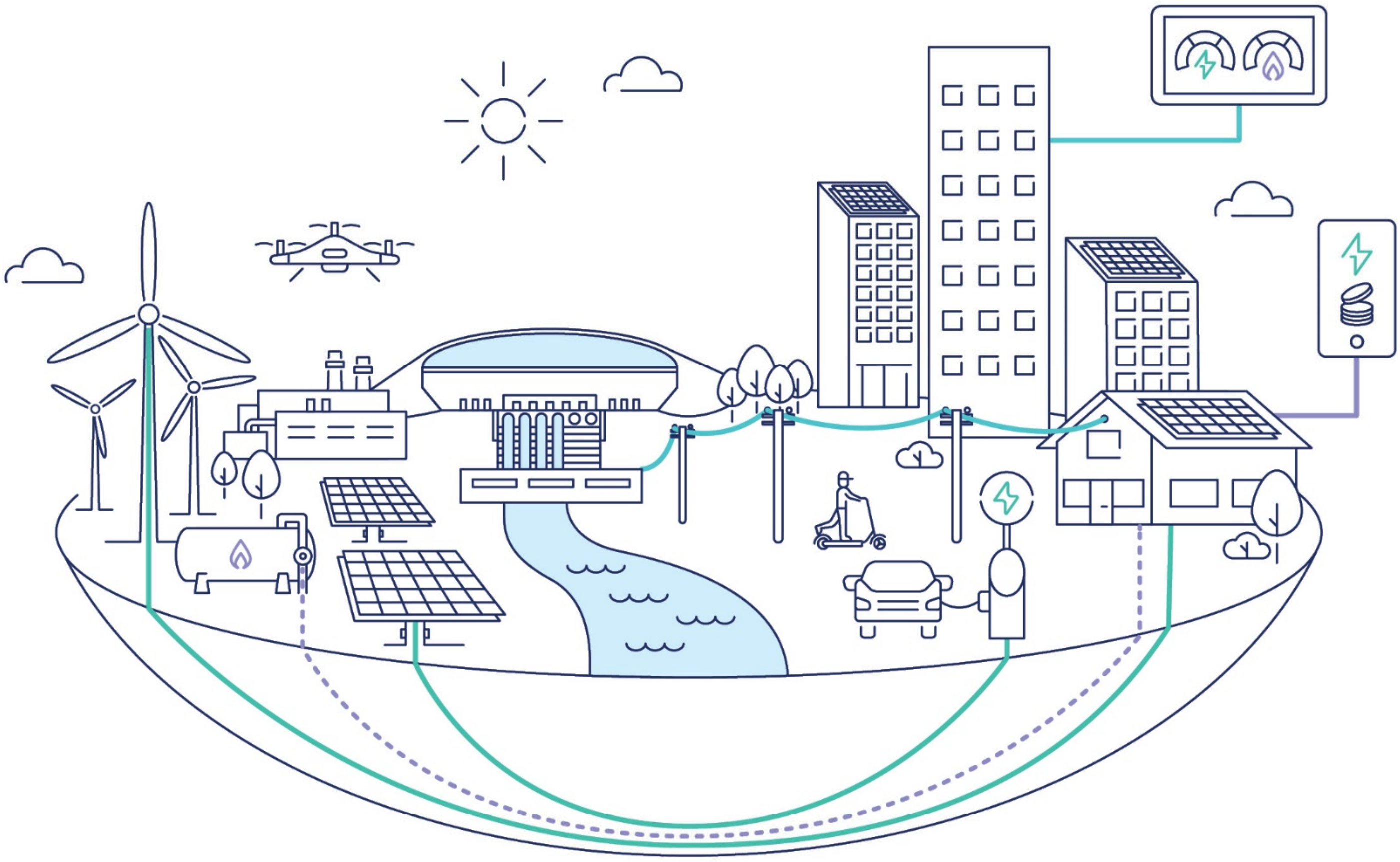
Kauno kogeneracinė jėgainė

UAB Kauno Kogeneracinė Jėgainė

Annual report 2021

Annual report for the year ended 31 December 2021 and the financial statements of the Company for the year ended 31 December 2021, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, presented together with an Independent Auditor's Report for the year ended 31 December 2021



UAB Kauno kogeneracinė jėgainė,
Jėgainės St. 6, 54469 Biruliškių village,
Kaunas region, Lithuania
info@kkj.lt
www.kkj.lt
Company code: 303792888

ignitis grupė

CONTENTS

1	**Overview**	**3**
	1.1 CEO's statement	4
	1.2 Business highlights	5
	1.3 Performance highlights	6
2	**Business overview**	**9**
	2.1 Business profile	10
	2.2 Business environment	11
	2.3 Strategy	12
3	**Results**	**16**
	3.1 Annual results	17
	3.2 Three-year summary	22
4	**Governance report**	**23**
	4.1 Governance model	24
	4.2 Management Board	26
	4.3 People and remuneration	31
	4.4 Risks and risk management	34
5	**Sustainability (social responsibility) report**	**35**
	5.1 Sustainability highlights	36
6	**Financial statements**	**44**
	6.1 Company's financial statements	45
	6.2 Independent Auditor's Report	75
	6.3 Information on the Auditor	78
7	**Additional information**	**79**
	7.1 Other important statutory information	80

Overview

1.1	CEO’s statement	4
1.2	Business highlights	5
1.3	Performance highlights	6

1.1 CEO's statement

CEO's statement

The year 2021 can be described as a year of challenges. The COVID-19 pandemic has not receded and we had to take all measures to protect our employees and ensure the continuity of our operations. At the same time, however, this was the first full calendar year of operation of UAB Kauno kogeneracinė jėgainė.

Despite the challenges, the year 2021 was a successful year. EBITDA of UAB Kauno kogeneracinė jėgainė reached EDITDA of EUR 13.1 million (EUR 2.9 million in 2020). The main contributors to this positive development were the full-year operation of the plant in 2021 (commercial operation started in August 2020), and the higher prices on the electricity exchange. The increase in EBITDA also led to an increase in net profit of EUR 7.2 million in 2021 (2020: net loss of EUR 0.4 million).

The project of UAB Kauno kogeneracinė jėgainė was completed in 2020; therefore, the investments during the reporting period amounted to just EUR 1.5 million (EUR 70.5 million in 2020). These mainly consisted of outstanding payments for the work carried out.

Though Kaunas kogeneracinė jėgainė treats 200,000 tonnes of waste per year, we saw that large amounts of waste continued to be sent to landfill. That's why we started working on an Environmental Impact Assessment (EIA) programme in March 2021, and prepared an EIA report in August of the same year. It plans to increase the amount of waste treated at UAB Kauno kogeneracinė jėgainė from 200 thousand tonnes to 255 thousand tonnes per year. Looking ahead to 2022, we plan to obtain the Environmental Protection Agency's approval of the EIA report at the beginning of the year and based on it prepare an updated Integrated Pollution Prevention Control permit and start handling larger amounts of waste. In this way, we hope to contribute to the reduction of landfill.

Other significant events in 2021 include a change of shareholders. In March 2021, Fortum Heat Lietuva, owning 49% of UAB Kauno kogeneracinė jėgainė, was sold to Partners Group. Following the change of shareholders in Fortum Heat Lietuva, in July 2021 the company changed its name to Gren Lietuva.

We also aim to be as open as possible to the public. At the end of 2021, we started organising regular tours for anyone who wanted to visit UAB Kauno kogeneracinė jėgainė. However, due to the COVID-19 pandemic and for the protection of our employees, we are still not able to run tours to the desired extent. We hope that 2022 will be more favourable and that we will be able to give the people of Lithuania a closer look at the operation of the cogeneration plant.

However, we are also looking for other ways allowing to educate people about the importance of sorting, recycling, the circular economy and the role of cogeneration plants in it. One of them is an education campaign launched in 2021 to improve people's knowledge about sorting. Together with Vilnius kogeneracinė jėgainė, we set up an educational exhibition at the Energy and Technical Museum and a training room at UAB Kauno kogeneracinė jėgainė.

Compliance with the highest environmental standards continue to be a priority for UAB Kauno kogeneracinė jėgainė. We carry out regular environmental monitoring: we keep track of our emissions, which, we are pleased to say, are significantly lower than set by the current legislation. Nevertheless, we challenge ourselves to continue to minimise the impact of our activities, thus contributing to a safer environment.

Ramūnas Paškauskas

1.2 Business highlights

During the reporting period

February

- Completion of the independent warranty tests of the power plant.

July

- In March 2021, Fortum Heat Lietuva, owning 49% of UAB Kauno kogeneracinė jėgainė, was sold to Partners Group. Following the change of shareholders in Fortum Heat Lietuva, Lietuva in July 2021 the company changed its name to Gren Lietuva.

November

- Waste supply contracts concluded/renewed with main suppliers for 2022.

Subsequent to the reporting period

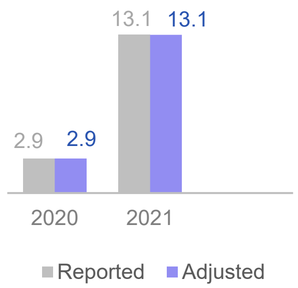
January - March

- Municipal waste management contracts were signed with Regional Waste Management Centres;
- On 24 March 2022, a loan refinancing agreement was signed with AB Swedbank for an amount of EUR 110 million;
- As of 31 March, Mantas Mikalajūnas replaced Nerijus Rasburskis within the Company's Management Board.

1.3 Performance highlights

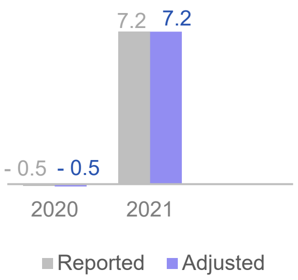
Financial performance

EBITDA, adjusted EBITDA APM
EUR million



In 2021, EBITDA was significantly higher than that of the previous year, as the Company started commercial operations only in the second half of 2020. This is also due to higher electricity prices on the market.

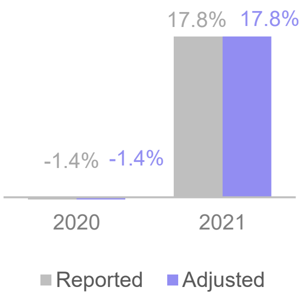
Net profit, Adjusted net profit APM
EUR million



The increase in net profit was driven by an increase in EBITDA, partly offset by higher depreciation and amortisation charges due to a full year of commercial operations.

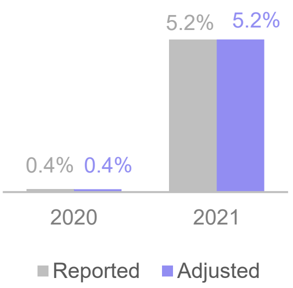
Also the effect was made by the deferred income tax of EUR -2.1 million, calculated using the incentive on investment. The deferred income tax will be utilised over four years.

ROE (12 months), Adjusted ROE (12-month) APM
%



High ROE was reached due to increased profitability and a relatively low share of equity in the financing structure.

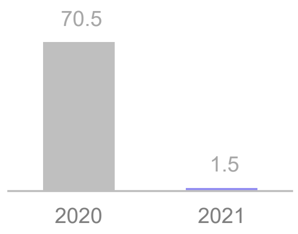
ROCE (12 months), Adjusted ROCE (12-month) APM
%



ROCE increased strongly in 2021 due to higher profitability and a strong reduction in capital employed, as the plant's credit was classified as a current liability at the year-end.

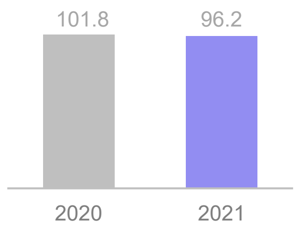
AVR *Alternative performance indicators are the adjusted figures used for internal performance management assessment in this report. These indicators are not defined by International Financial Reporting Standards (IFRS) and do not comply with IFRS requirements. Definitions of alternative performance indicators are available on the Group's website.*

Investments APM
EUR million



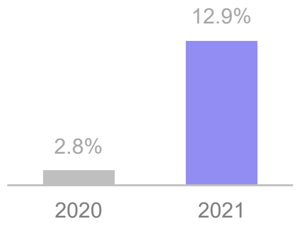
The power plant construction project was completed in 2020, so the Company had no significant investment projects in 2021.

Net debt APM
EUR million



The net debt ratio slightly decreased due to a reduction in the bank loan balance.

FFO (12-month) / Net debt APM
%

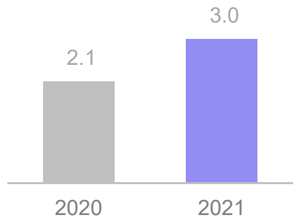


FFO / Net Debt ratio was significantly higher in 2021 due to an increase in positive cash flows from operating activities.

AVR *Alternative performance indicators are the adjusted figures used for internal performance management assessment in this report. 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 Group's website.*

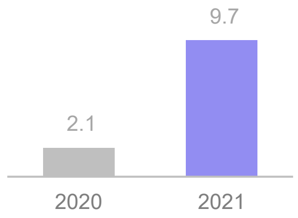
Operating expenses

OPEX
EUR million



Operating expenses, consisting of wages, repair and other administrative expenses, increased due to the power plant operating at full capacity throughout the year.

Production costs
EUR million



Production costs, consisting of emission allowances and maintenance costs, have risen sharply due to the full year of commercial activity compared to 2020 and a significant increase in the price of emission allowances (+97%).

Business overview

2.1	Business profile	10
2.2	Business environment	11
2.3	Strategy	12

2.1 Business profile

Description of the Company's activities

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

Major customers

The Company's main customers by source of income are as follows:

- Waste management - regional waste management centres and other waste managers;
- Sale of electricity - electricity is traded on the Nord Pool AS exchange;
- Sale of heat - heat is sold at auctions organised by BALTPOOL in the centralised heat supply (CHS) system of Kaunas city. The operator of Kaunas city CHP system is AB Kauno energija, which purchases heat at auctions.

2.2 Business environment

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

Waste management business environment

The Company can treat about 200-255 thousand tonnes of municipal and non-hazardous industrial waste. The main fuel is municipal waste supplied from mechanical biological treatment facilities. The Company participates in public tenders for municipal waste management services organised by regional waste management centres, where it competes for the price and quantity of municipal waste to be managed. For the non-hazardous industrial waste management service, the Company organises public tenders.

Heat and electricity trading business environment

Kauno kogeneracinė jėgainė is connected to the centralised heat system (CHS) of Kaunas city, where the only heat supplier AB Kauno energija (hereinafter referred to as KE) operates. Every month, the Company participates in the heat auction organised by the operator of the energy resources exchange BALTPOOL, where it submits a price and volume offer. 10 energy production facilities operate within Kaunas City CHS, the majority of which (7) are independent heat producers (IHPs).

Kauno kogeneracinė jėgainė trades electricity on Nord Pool, Europe's largest electricity trading exchange. Electricity is traded on the Day-Ahead and Intraday exchanges.

2.3 Strategy

Overview

As part of the Ignitis grupė, the Company's activities are aimed at ensuring the implementation of the renewed Strategy of Ignitis grupė for 2020 which applies to all the subsidiaries.

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

In the Strategy, Ignitis grupė focuses on four key strategic priorities. Firstly, it is creating sustainable future where there is no place for coal or nuclear energy. Environmental, social, and governance (ESG) criteria are an integral part of the strategic goals with strong commitment to a more sustainable future. Ignitis grupė aligns its business targets with the United Nations' Sustainable Development Goals, and it is committed to reducing net carbon dioxide (CO_2) emissions to zero by 2050. Ignitis grupė also thrives to align its businesses with science-based targets to a 1.5°C-compliant business model. Second, it ensures the reliability and flexibility of the energy system and promotes change and development on energy sector. Third, it expands green generation by contributing to regional energy goals. The Group therefore aims to develop 4 GW of installed green generation capacity by 2030. Fourth, it captures growth opportunities and develops innovative solutions to make life easier and energy-smart.

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

In implementing its strategic priorities, Ignitis grupė pays particular attention to financial discipline. Engaged employees, 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, Ignitis grupė announces an up-dated strategic plan. This plan discloses the strategic objectives and key performance indicators for the next four years, which guide the subsidiaries in their activities and are their responsibility to achieve.

Our values

RESPONSIBILITY

Care. Do. For Earth. Starting with myself.

PARTNERSHIPS

Diverse. Strong. Together.

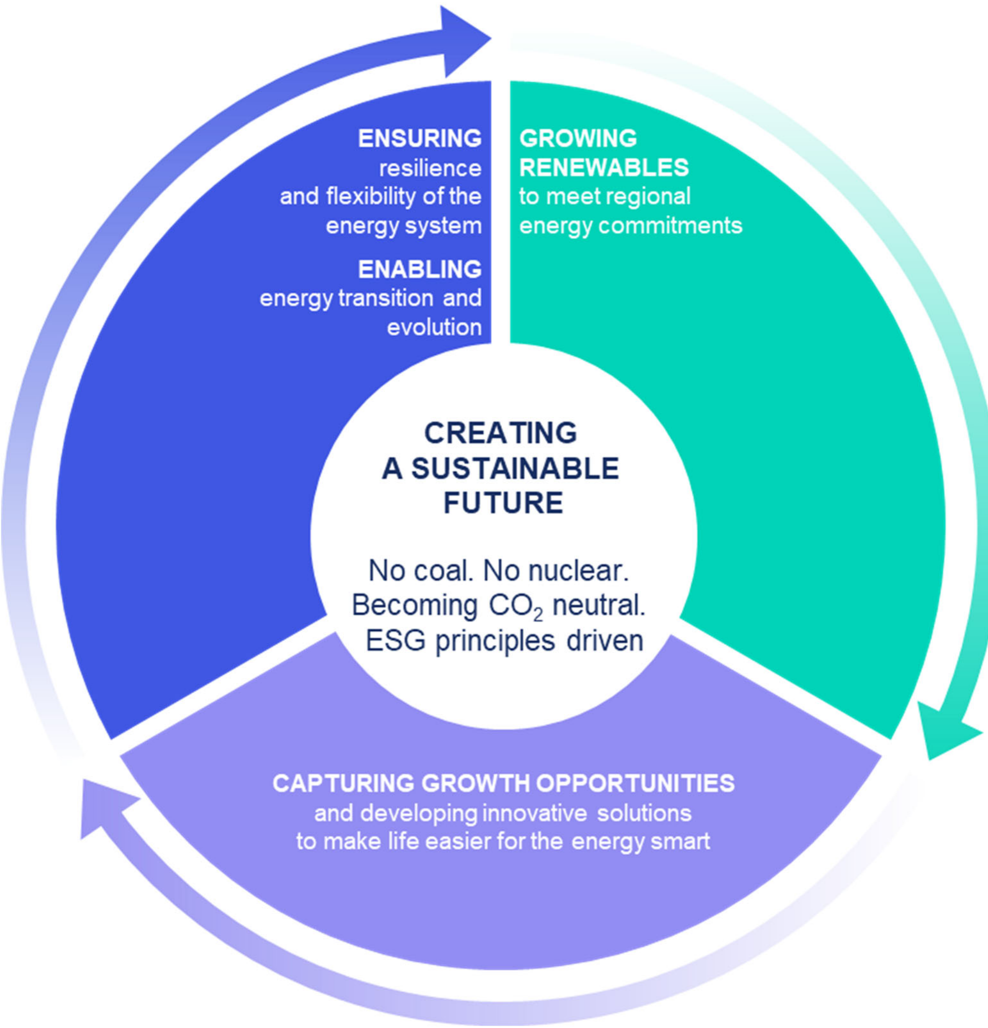
OPENNESS

See. Understand. Share. Open to the world.

GROWTH

Curious. Bold. Everyday.

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



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

Activity plans

The Company develops and updates its strategy and its action plans for their implementation in line with the strategy of the group of entities AB Ignitis grupė. The Company reviews and prepared its long-term financial plans and annual budget on an annual basis in accordance with its strategy, strategic and operational plans which are drawn up for a period of four years.

The Company regularly reviews its strategy and assesses the status of the strategic objectives. It regularly reports to the group of entities AB Ignitis grupė on the implementation of strategic initiatives and performance management results. The strategies are updated in the event of changes in circumstances that alter the Company's structure, areas of activity and have a material impact on forecast performance, strategic directions and strategic objectives.

Strategic directions and indicators of the Company

Strategic directions of the Company	Specification of strategic directions	Strategic indicators
Renewables. Targeted, sustainable and profitable development	We reliably use the latest technologies to convert waste into energy, ensuring the highest environmental standards. The company's operations are based on sustainable principles, and the value created for shareholders is delivered through a targeted level of profit margins. Efficient and uninterrupted power plant operation.	200-255,000 tonnes of waste converted into energy per year within emission limits.
Sustainable development. Environmental protection, social responsibility and good governance practices	Implementation of the Sustainable Development Goals - Environment, Social Responsibility and Good Governance Practices: - affordable and clean energy (ESG 7), - decent work and economic growth (ESG 8), - industry, innovation and infrastructure (ESG 9), - responsible consumption and production (ESG 12), - mitigating the impact of climate change (ESG 13). Aiming for CO_2 neutrality by 2050.	Greenhouse gas emissions, CO_2 thousand tonnes - change according to plan*. Fatal accidents 0.
People and culture. Engaged people, flexible teams, learning anywhere, anytime, fast	People and culture: engaged people, flexible teams, learning everywhere, all the time and fast.	Stable and positive growth.
Finances. Strong financial position	Return targets, dividends, stable return on capital.	Adjusted EBITDA; OPEX.

Goals for 2021

Performance assessment criteria	Indicators
Finances	Guaranteed operating profit indicator (adjusted EBITDA)
	Operational expenses in line with budget (OPEX)
Renewables	Power plant availability ensured during continuous operation
	Introduction of a pricing policy for energy raw materials
Sustainable development	Ensured environmental and occupational health and safety requirements
	New EIA screening
People and culture	Improving employee experience (improvement of the Employee Satisfaction Index eNPS)

Goals for 2022

Performance assessment criteria	Indicators
Finances	Guaranteed operating profit indicator (Adjusted EBITDA)
	Operational expenses in line with budget (OPEX)
Renewables	Power plant availability ensured during continuous operation
Sustainable development	Ensured environmental requirements under the Integrated Pollution Prevention Control (IPPC) permit
	Ensured occupational safety and health requirements
	Renewed and approved Integrated Pollution Prevention and Control permit for KKJ
People and culture	Improving employee experience (improvement in of the Employee Satisfaction Index eNPS)

Results

3.1	Annual results	17
3.2	Summary for three years	22

3.1 Annual results

Revenues

In 2021, revenues from contracts with customers more than tripled, compared to 2020, and reached EUR 29.1 million. Most of the revenue growth was influenced by the fact that the Company has converted the maximum amount of waste allowed under the Integrated Pollution Prevention and Control (IPPC) permit into energy, resulting in significantly higher volumes of energy sold and waste treated than in the previous year 2020. The increase in revenues was also driven by a significant increase in the price of electricity on the power exchange and a higher auction price for thermal energy.

Other income included sales of by-product - recovered metal, which grew as a result of a full-year of activity.

Revenue by type of activity, million EUR

	2021	2020	Δ	Δ, %
Revenue from contracts with customers	28.6	7.1	21.5	302.7%
Other revenue	0.5	0.1	0.4	537.5%
Revenue	**29.1**	**7.2**	**21.9**	**305.3%**

A full year of operation of the power plant and a significant increase in electricity prices on the market resulted in revenues from operating activities of EUR 28.6 million.

Revenue by countries, million EUR

	2021	2020	Δ	Δ, %
Lithuania	29.1	7.2	21.9	305.3%
Other[1]				
Revenue	29.1	7.2	21.9	305.3%

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

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

Expenses

The largest part of expenses in 2021 comprised the cost of emission allowances which amounted to EUR 6.6 million (EUR +5.7 million). The cost of allowances rose sharply both due to higher production volumes and a more than 97% increase in the price of emission allowances.

Depreciation and amortisation amounted to EUR 5.9 million (EUR +3.5 million). Depreciation and amortisation charges in 2021 were higher than in the previous year as the asset was in use for a full year and only for part of the year in 2020 (commissioned in August 2020).

Electricity and heat production costs amounted to EUR 3.1 million at the end of the year (EUR +1.8 million). The plant recovered energy in 2021 from the maximum allowable waste volume set out in the IPPC permit, and the operating costs of production were correspondingly higher.

Salary costs amounted to EUR 1.4 million (EUR +0.1 million). The increase in remuneration costs resulted from an increases in the number of positions and salaries.

Other expenses amounted to EUR 4.9 million (EUR +4.1 million) at the end of the year.

Financial expenses amounted to EUR 2 million (+1.1 million). The financial expenses in 2021 were significantly higher due to the fact that part of the previous year's financial expenses was capitalised as cost of the power plant project prior to the commencement of commercial operations.

Expenses, million Eur

	2021	2020	Δ	Δ, %
Use of emission allowances	-6.6	-0.9	-5.7	660%
Depreciation and amortisation	-5.9	-2.4	-3.5	145%
Electricity and heat production	-3.1	-1.3	-1.8	131%
Salaries and related costs	-1.4	-1.3	-0.1	10%
Other	-4.9	-0.8	-4.1	507%
Financial expenses	-2.0	-1.0	-1.1	111%
Total:	**-23.9**	**-7.7**	**-16.3**	**211%**

EBITDA

In 2021, EBITDA amounted to EUR 13.1 million (EUR +10.2 million). EBITDA exceeded the previous year's result due to a full-year commercial activity and higher electricity prices on the power exchange. During 2021, the planned amount of waste was managed, and the planned amount of heat was generated and sold. The increase in revenues was partly offset by the increased production costs due to the very rapid growth in the market price of emission allowances.

Adjusted EBITDA

There were no adjustments to EBITDA.

Net profit

The net profit for 2021 was EUR 7.2 million (EUR +7.7 million). The reasons for the growth in net profit were the same as in the case of EBITDA. The increase in net profit is less than the increase in EBITDA because depreciation and financial expenses were charged for the full year in 2021 (only from the start of the commercial activities in 2020).

Investments

Investments in 2021 amount to EUR 1.5 million (EUR -69.0 million). The investments for the reporting period were significantly lower than in 2020 as the investments in the main project were completed last year. The investments of the reporting year were related to the completion and improvement works of the power plant project.

Balance sheet

Assets

In 2021, the value of the assets amounted to EUR 166.4 million (EUR +7 million). Current assets increased by EUR 9.5 million due to the purchase of emission allowances. There was also an increase in the balance of trade receivables at the end of the year. Non-current assets decreased approximately by EUR 2.5 million due to depreciation and amortisation.

Balance sheet, million Eur

	2021	2020	Δ	Δ, %
Non-current assets	139.4	141.9	*-2.5*	*-1.8%*
Current assets	27.0	17.5	*9.5*	*54.3%*
TOTAL ASSETS	166.4	159.4	*7.0*	*4.4%*
Equity	44.2	37.0	*7.2*	*19.5%*
Total Liabilities	122.2	122.4	*-0.2*	*-0.2%*
Non-current liabilities	-	114.7	*-114.7*	*-100.0%*
Current liabilities	122.1	7.7	*114.4*	*1 485.7%*
TOTAL EQUITY AND LIABILITIES	166.4	159.4	*7.0*	*4.4%*
Asset turnover APM	*0.1*	*0.2*	*-0.1*	*-50%*
ROA APM	*4.4*	*-0.4*	*4.8*	*-1 200.0%*
Gross liquidity ratio. APM	*0.2*	*2.3*	*-2.1*	*-91.3%*
Working capital / Revenues (12-month) APM	*36.6*	*-2.5*	*39.1*	*-1 564.0%*

Equity

Shareholders' equity at the end of 2021 amounted to EUR 44.2 million (EU +7.2 million). The total change in equity was related to the net profit generated during the year.

Liabilities

In 2021, the liabilities amounted to EUR 122.2 million (EUR -0.2 million). At the end of the reporting year, the Company's credit balance was reduced, but due to the provisions made for emission (ETS) allowances, the total amount of liabilities remained almost the same.

Financing

Net debt

At the end of 2021, net debt amounted to EUR 96.2 million (EUR -5.6 million). The net debt decreased because of the repaid part of the credit related to the power plant at the end of the year, but at the same time there was an increase in other liabilities related to the settlement of ETS allowances.

Net debt, million Eur

	2021	2020	Δ	Δ, %
Total non-current financial liabilities	**0.0**	**114.7**	***-114.7***	***-100.0%***
Long-term loans	-	114.7	*-114.7*	*-100.0%*
Bonds	-	-	-	
Payable interest (including accrued)	-	-	-	
Lease liabilities (IFRS 16)	0.0	0.0	*-0.0*	*-57%*
Total current financial liabilities	**122.1**	**7.7**	***114.4***	***1 488.2%***
Current part of long-term loans	110.3	0.3	*110.0*	
Short-term loans	-	-	-	
Payable interest (including accrued)	0.3	0.2	*0.0*	*-100%*
Lease liabilities (IFRS 16)	-	-	-	
Financial liabilities	**122.2**	***122.4***	***-0.3***	***-0.2%***
Cash and cash equivalents and funds in the escrow account	**14.1**	**13.3**	***0.8***	***6.0%***
Cash and cash equivalents	14.1	13.3	*0.8*	*6.0%*
Funds in the escrow account	-	-	-	
Net debt	**96.2**	**101.8**	***-1.1***	***-1.0%***
EPSO-G receivable amount	0.0	*0.0*	*0.0*	*0%*
Net debt, net of EPSO-G amount	96.2	101.8	***-1.1***	***-1.0%***
Net debt / adjusted EBITDA (12-month)	7.34	35.6	*-28.2*	*-79.4%*
Net debt / EBITDA (12-month)	7.34	35.6	*-28.2*	*-79.4%*
FFO (12-month) / Net debt	12.9	2.8	*10.1*	*360.7%*
Financial liabilities / Equity	2.5	*3.1*	*-0.6*	*-19.4%*
Equity level	0.3	*0.2*	*0.1*	*50%*

Key performance indicators

In 2020, the Company was in the project implementation phase and started its commercial activities in August 2020, so it was not fully operational in 2020. As a result, the Company's KPI values for 2020 are significantly lower than for 2021.

Indicator	Measurement unit	2019	2020	2021
Key performance indicators				
Amount of waste handled	thousand t	-	142	199
Sold heat	GWh	-	226	427
Electricity sold	GWh	-	71	155
Fossil CO2 emissions	thousand t	-	87	113
Sustainability ratios				
Not to exceed the potential exceedance limits for emissions to the environment set out in the IPPC permit (hours/year)	hour	-	-	0
Financial indicators				
EBITDA	EUR thousand	-1,558	2,862	13,112
OPEX	EUR thousand	1,558	2,113	2,997

3.2 Three-year summary

Key financial indicators

		2021	2020	2019
Revenue	EUR million	29.1	7.2	-
Net profit	EUR million	7.2	-0.5	-1.6
Adjusted net profit	EUR million	7.2	-0.45	-1.6
Investments	EUR million	1.5	70.5	44.0
FFO	EUR million	12.4	2.9	-1.6
FOCF	EUR million	4.1	-48.9	-52.4
ROE	%	17.8	-1.4	-4.1
Adjusted ROE	%	17.8	-1.4	-4.1
ROCE	%	5.2	0.4	-2.4
Adjusted ROCE	%	5.2	0.4	-2.4
ROA	%	4.4	-0.4	-1.9
Adjusted ROA	%	4.4	-0.4	-1.9
		2021	2020	2019
Total assets	EUR million	166.4	159.4	111.8
Equity	EUR million	44.2	37.0	37.5
Net debt	EUR million	96.2	101.8	53.4
Net working capital	EUR million	10.6	-0.2	16.0
Net debt / EBITDA	times	7.3	35.6	-34.3
Net debt / adjusted EBITDA	times	7.3	35.6	-34.3
FFO / Net debt, %	%	12.9%	2.8%	-2.9%

Governance report

4.1	Governance model	24
4.2	Management Board	26
4.3	People and remuneration	31
4.4	Risks and risk management	34

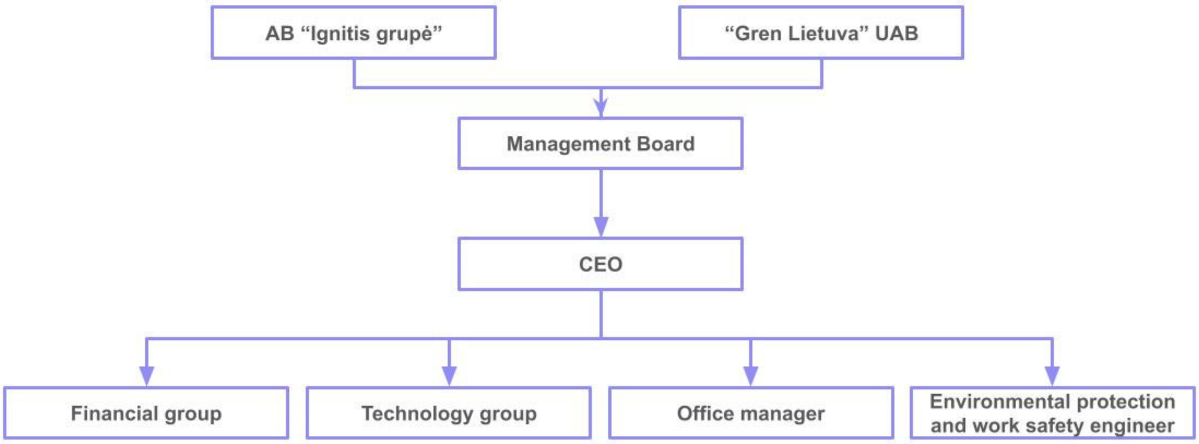
4.1 Governance model

Governance model of the Company

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

As at the date of this report, in accordance with the Company's Articles of Association, the Company's bodies are:

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



Organisation structure of the Company (as at 31 December 2021).

General Meeting of Shareholders

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

The competence, convening and decision-making procedures of the General Meeting of Shareholders shall be determined by laws, other legal acts and the Company's Articles of Association. The Company's General Meeting of Shareholders shall have the additional competence to decide on the approval or disapproval of the Management Board's decisions:

- on the conclusion, amendment and/or termination of the Company's long-term, i.e. at least 12-month, contracts for the transmission of electricity and/or thermal energy and/or waste incineration services;
- on the issue of the Company's bonds other than convertible bonds;
- on the Company becoming a founder or participant of other legal entities, as well as the conclusion, modification and/or termination of transactions for the acquisition, transfer or encumbrance of part or all of the Company's interest in other legal entities, or the acquisition, transfer or encumbrance of the Company's interest in other legal entities;
- on the establishment and liquidation of branches and representative offices of the Company;
- on the conclusion, amendment and/or termination of contracts for the investment, transfer, lease, pledge, mortgage or hypothecation of the Company's non-current assets with a carrying amount exceeding EUR 2,500,000;

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

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

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

The shareholders of the Company are:

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

In 2021, the Company's authorised capital was EUR 40,000,000. It is divided into 40,000,000 ordinary registered uncertificated shares with a nominal value of EUR 1. All shares are fully paid in.

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

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

4.2 Management Board

Management Board of the Company

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

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

- the Company's management structure and staff positions, and the maximum number of the Company's staff posts;
- the pricing principles applied on an ongoing basis for the Company's business-related energy services and commodities, and the pricing ranges for non-business-related services;
- conclusion, modification and/or termination of contracts for the supply of fuel needed to run the business;
- conclusion, modification and/or cancellation of contracts for the acquisition of non-current assets for a price exceeding EUR 2,500,000;
- conclusion, amendment and/or termination of other major contracts necessary for the implementation of business projects where the value of the contract in question exceeds EUR 300.00;
- conclusion, amendment and/or termination of contracts for the investment, transfer, lease, pledge, mortgage or hypothecation of the Company's non-current assets with a carrying amount exceeding EUR 2,500,000;
- conclusion, amendment and/or termination of the Company's long-term contracts for the transmission of electricity and/or thermal energy and/or waste incineration services;
- approval of the Company's annual report and interim report;
- Company becoming a founder or participant of other legal entities;
- establishment and liquidation of branches and representative offices of the Company;
- transfer of an undertaking (asset complex) belonging to the Company to a third party;
- approval or amendment of the Company's business plan for the coming calendar year, approval of the operating budget;
- disposal of all or substantially all of the assets of the Company;
- making other decisions as provided for in the Company's Articles of Association.
- certain decisions of the Management Board may be implemented only upon approval of the General Meeting of Shareholders for the relevant decision of the Management Board.
- The Board elects and recalls the Company's Chief Executive Officer (Managing Director), determines his/her remuneration and other terms and conditions of his/her employment, approves his/her job descriptions, and gives him/her incentives and penalties.

The composition of the Management Board of the Company remained unchanged during the reporting period.

The term of office of the Management Board in office as at the date of publication of this report is expected to end on 30 April 2024.

Information on the selection criteria for members of the Management Board

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

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

Activities of the Management Board of the Company during the period under review

A total of 26 meetings of the Management Board of the Company were held in 2021. The table below provides an overview of the attendance of Board members at meetings.

Overview of attendance of Board members at Board meetings

Andrius Vilkauskas	26/26
Nerijus Rasburskis	26/26
Vitalijus Žuta	26/26

* The figures show how many of the meetings organised in 2021 were attended by Board members.

The Management Board's activities in 2021 covered the following main areas:

- approval of the Company's business planning documents;

approving the conclusion of contracts to be entered into by the Company, approving the material terms of such contracts, and approving the amendment and termination of contracts entered into by the Company;

- approval of the Company's annual management report;
- approval of the Company's set of annual financial statements and draft statement on appropriation of profit (loss);
- approval of the pricing principles and ranges for the Company's energy services and business-related goods;
- approval of the Company's organisational structure, the list of staff positions and the maximum number of positions;
- convening the Company's general meetings of shareholders.

The Management Board conducts an evaluation of its performance once a year. In 2021, the Management Board's self-assessment was carried out after the reporting period on 23 February 2022.

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

Members of the Management Board

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

		sciences for his mechanical engineering thesis "Modelling and study of ballistic processes of small calibre bullets". In the same year, GGG's 5.56x45 (GP21) and 7.62x51 (GP11) products were tested at the NATO European Regional Test Centre (Pendine, United Kingdom) and were awarded NATO Design numbers and officially certified as NATO compliant products. From 2009 to 2011, he coordinated GGG's new product development activities, developing products for the civilian sports and hunting market. These products were considered to be among the best in their class, appreciated by Lithuanian and foreign military and force structure representatives. Since 2012, he has been working in various managerial positions at KTU. He has initiated and implemented a number of organisational change projects for the development of the organisation. He has served as Director of the Research Centre and Dean of the Faculty of Mechanics and Mechatronics. Currently holds the position of the Dean of the Faculty of Mechanical Engineering and Design. Since 2016, he has been an independent member of the Board of UAB Kauno kogeneracinė jėgainė.		(Savanorių Ave. 176 C - 803, Vilnius, company code 121895717). Founder and shareholder of Pažangūs pozicionavimo sprendimai UAB (Baltijos St. 53-2, Kaunas, company code 303339813). Member of the Senate of Kaunas University of Technology (K. Donelaičio St. 73, Kaunas, company code 111950581).
	**Nerijus Rasburskis** Member Term of office: from 30-04-2020 to 31-03-2022	Since 1999, he has been involved in national and international projects related to energy and environment. Many of the projects are related to energy efficiency, security of supply and environmental protection. For more than 15 years he has been an energy consultant for Lithuanian and Swedish consulting companies. As an advisor to the President of the Republic of Lithuania on energy issues, he has worked closely with the Lithuanian and European legislative and executive authorities in implementing strategic energy infrastructure projects in Lithuania and the Baltic region, such as the Klaipėda LNG terminal, Nord-Balt, etc. "LitPol Link" power connections.	Graduated from Kaunas University of Technology with a Bachelor's degree in Management and Economics studies and defended his PhD thesis in Energy and Thermal Engineering. Graduated from Aalborg University in Denmark in Environmental Management.	Head of Heat and Power Solutions, Ignitis Group UAB. Chairman of the Board at Vilnius Cogeneration Power Plant UAB (Laisvės Ave. 10, Vilnius, company code 303782367).

	**Vitalijus Žuta** Member Term of office: from 30-04-2020 to 29-04-2024	He has many years of experience in the energy sector and has completed a number of major projects. While working at Tena, a branch of AB Lietuvos Energija, he was responsible for the material and technical supply of the branches of Lietuvos Energija, the implementation of loans from the European Bank for Reconstruction and Development and the World Bank, and the implementation of projects. For the first time in the Baltic region, he implemented a waste-to-fuel cogeneration power plant project in Klaipėda. He worked for a long time at Vilnius CHP, and since 2000 as Technical Director at Finnish Energy. From 2005 to 2021, he managed the Finnish energy company Fortum's operations in Lithuania. From 2021, he is the head of GREN Holding's activities in Lithuania.	Graduated in Mechanical Engineering from Kaunas University of Technology.	General Director at UAB Gren Lietuva (J. Jasinskio St. 16B, Vilnius, company code 111679436) Chairman of the Board at the following companies: UAB Gren Lietuva (J. Jasinskio St. 16B, Vilnius, company code 111679436) UAB Gren Švenčionys (Vilniaus St. 16A, Švenčionys, company code 178860251) UAB Gren Joniškis (Bažnyčios St. 4, Joniškis, company code 157687636) UAB Gren Klaipėda (Kretainio St. 3, Klaipėda, company code 301276531) Deputy Chairman of the Supervisory Council at AB Klaipėdos energija (Danės St. 8, Klaipėda, company code 140249252)
	**Mantas Mikalajūnas** Member Term of office: from 01-04-2022 to 29-04-2024	He has worked in the energy sector for almost 20 years. He started his career at Lietuvos Dujos, then spent a year and a half in an energy concern in Germany. After returning to Lithuania, he worked in strategic positions at Lietuvos Dujos, where he was a member of the management team responsible for relations with investors, state authorities and the regulator, and for the integration of Lietuvos Dujos into Lietuvos Energija (now Ignitis grupė). Before moving to his current position as Head of Business Development at Ignitis grupė, Mantas was the General Director of Lietuvos dujų tiekimas (later Lietuvos energijos tiekimas).	He graduated in Communication and Information Management from Vilnius University with a Bachelor's degree and later obtained a Master's degree in Business Administration and Management.	Main place of work: Head of Regulated Activities of the Group, AB Ignitis grupė.

Chief Executive Officer of the company (General Director)

The Chief Executive Officer (General Director) is a single-person governing body of the Company. The competence, election and dismissal of the Company's Chief Executive Officer (General Director) shall be determined by laws, regulations and the Company's Articles of Association. The Chief Executive Officer of the Company shall organise the Company's activities, direct the Company and its activities, act on behalf of the Company and conclude transactions on his/her own behalf, except as provided for in the Company's Articles of Association and the legal acts.

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

Profile

	Description	Experience	Education	Other currently held positions
	**Ramūnas Paškauskas** CEO Term of office: from 01-01-2019 to 01-01-2023	He has been working in the energy sector since 2001, including 14 years in senior management positions. Since 2016, he has been working as the General Director of UAB Kauno kogeneracinė jėgainė. Participated in various projects related to the construction and operation of cogeneration power plants.	Graduated in Electrical Engineering from Kaunas University of Technology. Master's degree in Management and Business Administration from ISM University of Management and Economics.	-

4.3. People and remuneration

People and culture

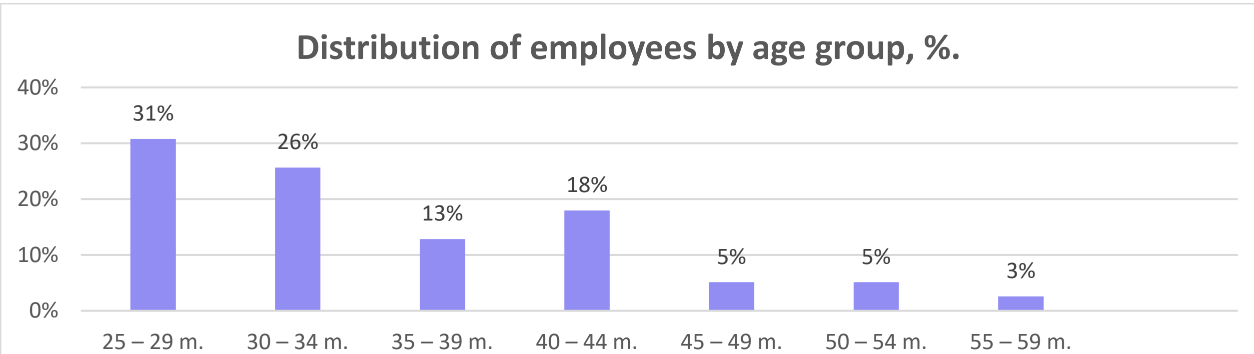
Overview

Ignitis grupė, 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.

The human resources policy of UAB Kauno kogeneracinė jėgainė is in line with the guidelines of Ignitis grupė. Great attention is being paid not only to the selection of employees, but also to the development of their professional competences and periodic training. Each employee is subject to annual performance appraisals which are used to assess the efficiency of the staff. The Company places great emphasis on employee engagement, building flexible and competent teams, keeping in mind the Group's values of excellence, responsibility, development and partnership.

Employees, their diversity and representation

At the end of the reporting year, the Company had 39 employees. 8% of the employees were female and 92% were male. The average age of employees in the Company was 35 years, with the largest number of employees in the 25-29 age group (31%t). The second largest age group was 30-34 years, with 26% of employees. 18% of employees were in the 40-44 age group, and 13% - in the 35-39 age group.



Remuneration within the Company

Overview

Within Ignitis grupė it has been rapidly moving towards a sustainable performance management model. Management of human resources is not an exception. New skills and competences are needed to continue the transition process in order to further develop the culture of Ignitis grupė. In 2019, the remuneration system was essentially revised with the aim of reducing the gap between the remuneration market (fixed component) and the median remuneration of the Ignitis grupė, by shifting a part of the variable part of the remuneration into the fixed part. This will allow remaining competitive in the market. To ensure external competitiveness, we participate annually in remuneration market surveys. More information on personnel management and remuneration-related issues is available on the website of the parent company Ignitis grupė.

Remuneration policy

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

Key Remuneration Policy principles of the Group

Internal fairness	We ensure that similar or same-value-creating work is compensated equally throughout the organisation.
Competitive externally	Employees are paid a competitive salary in relation to the labour market of the country in which they work.
Clarity	We aim that all employees are informed about how their performance, competences and qualification impact their remuneration package as well as on what basis it is set.
Transparency	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 grupė consists of two components: the fixed base salary (FBS) and the short-term incentive (percentage of FBS). Dependent on employees' position, short-term incentives (STIs) are paid on a quarterly basis, semi-annual basis or annually and are tied to performance results of an employee, a team and (or) a company / Ignitis grupė. Specialised remuneration systems are applicable to positions in a highly competitive environment (e. g. heads of development of renewable energy projects, specialists and salespeople of wholesale trade in electricity and gas).

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

Remuneration of the Company's employees

The Company's salary fund in 2021 amounted to EUR 1.4 million, compared to EUR 1.3 million in 2020. Average monthly salary (FBS and STI) for the period of 2020–2021 is provided in the following table.

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

Position category	2021		2020	
	Number of employees	Average salary	Number of employees	Average salary
Chief Executive Officer	1	8,171	1	8,431
Top level executives	2	5,821	2	6,198
Mid-level executives	2	4,653	2	5,062
Experts / Specialists	34	2,425	33	2,416
Workers	-	-	-	-
Total	**39**	**2,919**	**38**	**2,948**

Remuneration of the Company's CEO and the Management Board

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

Remuneration structure for the CEO and the Management Board

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

Remuneration of the Company's members of the Management Board in 2020, EUR (before tax)

Name, surname (position)	PAD	KAD	PBM	Total
Andrius Vilkauskas, the Chairman			9,038	9,038

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

Name, surname (position)	PAD	KAD	PBM	Total
Andrius Vilkauskas, the Chairman			13,112	13,112

More information on remuneration establishment principles of Ignitis grupė is available in the Annual Report 2021 of Ignitis grupė.

4.4. Risks and risk management

Risk management framework

In its activities Ignitis grupė is exposed to internal and external risks that may have impact on the results. In order to reduce the risks to an acceptable level, Ignitis grupė applies uniform risk management principles to all its subsidiaries, including the Company. the risk management principles are based on market best 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).

The main risk management objectives of Ignitis grupė are the following:

- to achieve the performance objectives of Ignitis grupė with controllable, yet, in principle, acceptable deviations from these objectives;
- to ensure provision of information of the highest possible accuracy to decision-makers, shareholders and other stakeholders;
- to protect reputation of Ignitis grupė;
- to protect the interests of shareholders, employees, customers, stakeholders and the public;
- to ensure the stability (including financial) and sustainability of the activities of Ignitis grupė.

Ignitis grupė applies the “three lines of defence” principle by establishing a clear distribution of responsibilities for risk management and control between the management and supervisory bodies, structural units or functions of Ignitis grupė.

Risk assessment and risk control

On an annual basis, Ignitis grupė carries out risk assessment; during this process, the key risks of the upcoming years and their management plan are identified. In order to ensure the relevance of risks and their management measures as well as changes in business environment and within the activities of Ignitis grupė, the relevance of the main present and new risk factors are reviewed within Ignitis grupė on a quarterly basis, and additional risk management measures are provided if necessary.

More information about the risk management framework of Ignitis grupė, risk factors and their management is available in the Annual Report 2021 of Ignitis grupė.

Sustainability (social responsibility) report

5.1	Overview of sustainability	36

5.1 Overview of sustainability

The sustainability performance and results of AB Ignitis grupė as a whole (hereinafter - the Group), including its subsidiary UAB Kauno kogeneracinė jėgainė (hereinafter – KKJ), are summarised in the consolidated Annual Report 2021 of AB Ignitis grupė, of which the Sustainability (social responsibility) Report (hereinafter - Sustainability Report) of the Group as a whole is an integrated part. This report is available on www.ignitisgrupe.lt under *For Investors* and *Sustainability*. 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 2021 to 31 December 2021, is prepared in accordance with the Global Reporting Initiative (GRI) Standard Core Model (GRI Core). Disclosures are made on the basis of 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, KKJ is not preparing a separate report on this topic, but provides below a summary of its sustainability activities and links to the relevant sections of the sustainability report of the Group.

Sustainability in the Group and UAB Kauno kogeneracinė jėgainė

Sustainable operations are a prerequisite for the Group's mission to build an energy-smart world. The world needs energy to exist, and that is why 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 strategic plan of the Group, updated annually, can be found here.

The guiding principles of sustainability that we follow in our day-to-day activities at KKJ and across the entire Group are defined in the Sustainability Policy of the Group, updated in 2020.

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

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

Sustainability activities in the Group companies are coordinated centrally through a separate Sustainability function reporting directly to the CEO of the parent company. The Management Board of the Group decides on the formulation, approval and updating of the organisation's sustainability strategic directions, policies and activities. A detailed description of the management of sustainable activities at the Group can be found in the Sustainability Report integrated into the Annual Report 2021 of the Group under the heading *Sustainability at the Group* and in the *Sustainability* section on the website . The following is the basis on which we are improving our ESG performance.

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

MAIN THEMATIC AREAS	GOVERNANCE AND PROCESSES	ACCOUNTABILITY
We aim 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 on the basis of ESG ratings provided by independent, leading ESG rating agencies.

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

Stakeholder relations and assessment of ESG priorities

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

That is why, when planning our activities, such as investment plans, we analyse stakeholder expectations based on international principles (AA1000 standard) and involve stakeholders, as recommended by recognised sustainability standards such 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 of KKJ in relation to each aspect of ESG.

The stakeholder engagement exercise identified and interviewed 6 main stakeholder groups:

- employees,
- customers,
- contractors and suppliers,
- media representatives,
- communities,
- State, municipal and their subordinate institutions.

This grouping was chosen to reflect the specificity of the expectations of each group more accurately, while at the same time assessing the similarity of respondents' expectations within each group. Other stakeholders relevant at the level of the entire Group were interviewed in an additional Group survey (a full survey report is available on the Group's website under *Sustainability pillar*). Responses received from 47 respondents are an equivalent to 25–54% of accountability, depending from a stakeholder. Focus groups were also held with 2 communities, involving 8 community representatives. 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 KKJ, which led to the identification of priority themes that are in line with both stakeholders' expectations and stated operational objectives of KKJ. The outcome of the materiality assessment provides the basis for further embedding sustainable development in the Company's activities in a way that takes into account the overall impact of KKJ on its stakeholders and aligns the expectations expressed by the stakeholders with the strategic objectives.

Key facts on KKJ materiality assessment:

- We interviewed 47 stakeholder representatives;
- We identified 16 thematic aspects of the ESG that are most relevant to KKJ 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 KKJ clarified the links between stakeholders' expectations and the operational strategy.

KKJ materiality assessment matrix 2021

An overview of key effects of sustainability and implemented initiatives / measures

Environmental area

The main environmental impacts of KKJ:

- reducing impacts on environmental components (soil, water and air quality) - maintaining soil, water and air quality, preventing environmental pollution;
- diverting waste from landfill, circularity - extracting energy from unsortable waste, promoting circular economy principles;
- impact on climate change and GHG emissions - reducing greenhouse gases (CO2, etc.) from operations, generating electricity and heat from less pollutant sources;
- resource efficiency and waste reduction - the use of secondary raw materials in the operation of the power plant and the minimisation of waste generated from the operation;
- energy efficiency for society and customers - encouraging consumers to save and not waste energy;
- impact on biodiversity and ecosystems - protecting wildlife, vegetation, natural ecosystems, flora and fauna;
- more sustainable self-consumption of energy - self-consumption of green energy, reduction of energy consumption in power plants.

Reducing impacts on environmental components (soil, water and air quality) and biodiversity and ecosystems

Environmental issues are coordinated at Group level in accordance with the Environmental Protection Policy of the Group, which sets out the general principles and principles of environmental protection within the Group. The aim is to reduce the Company's overall environmental impact in the most effective manner and to ensure compliance.

We monitor the environmental impact of activities. All environmental monitoring reports are published on the website of KKJ.

Diverting waste from landfills, circularity

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

For more information on the Group's objectives and actions in the areas of nature conservation and waste reduction, please see the section *Protection of Natural Resources* in the Sustainability Report integrated into the Group's Annual Report 2021 (link).

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 throughout the year and will seek to involve our partners, suppliers and customers in this process. The planned emission reduction measures of the Group and its companies include increasing green generation capacity, increasing the share of green electricity sold to consumers and consumed by Group companies, promoting the phase-out of natural gas, reducing losses in the distribution network, adding electric vehicles to the vehicle fleet, etc.

For more information on the Group’s objectives and planned emission reduction measures, please refer to the *Climate Impact Mitigation* section of the Sustainability Report integrated into the Annual Report 2021 of the Group (link).

Resource efficiency and waste reduction

Waste management in each of the Group's company is carried out in accordance with the Environmental Protection Policy and the Zero Tolerance Towards Accidents at Work Policy.

The largest share of the Group's waste in 2021 is generated at the Vilnius and Kaunas cogeneration plants, mainly slag and ash. Fly ash from the Vilnius and Kaunas cogeneration plants is used for landscape restoration on the Norwegian island of Langøya. Using modern technology, fly ash is mixed with water and acid from industrial waste. This creates a gypsum-like material that will fill in the craters created by limestone extraction and return the restored part of the island to the public.

For more information on the Group's objectives and actions in the field of resource efficiency, please see the section on *Protection of Natural Resources* in the Sustainability Report integrated into the Group's Annual Report 2021 (link).

Staff and society/communities area

The main impacts of KKJ on staff and society/communities:

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

Occupational safety and health of employees and contractors

KKJ adheres to the general provisions and principles of occupational safety and health and the Zero Tolerance towards Accidents at Work Policy of the Group, which defines the main guidelines for their implementation. The prevention of accidents and ensuring safety and health is a major focus of the Company. Total recordable injury rate per million hours worked, (TRIR) of KKJ was equal to 0 in 2021. No accidents have occurred to KKJ or contractors' staff.

Detailed information on the measures and initiatives implemented to ensure the safety and health of employees and contractors at the Group, including KKJ, is provided in the section *Future-fit Employees and Communities* of the Sustainability Report, integrated in the Annual Report 2021 of the Group (link).

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

The Group is one of the largest employers in Lithuania, and as such, it is committed to creating and maintaining an organisational culture that fosters a long-term partnership between employer and employee based on values of the Group and the Code of Ethics, mutual understanding and the opportunity to build an energy-smart future together. We conduct our activities and achieve our goals with respect not only for the environment, but also for the well-being of our employees: for us, this is a prerequisite for sustainable performance. This is why the Group is constantly developing, researching and testing different measures that can contribute to the well-being of employees. At the end of 2021, KKJ had 39 employees, and all of these principles are implemented with the utmost scrutiny.

KKJ respects the rights of employees and opposes child labour and discrimination of any kind, both in the recruitment of new employees and among existing employees. The Company has the Labour Council. The Employee Satisfaction Index (eNPS) at KKJ for 2021 has increased, compared to 2020. 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, KKJ enables its employees to grow and develop, and to expand their professional, general and managerial competences.

Maintaining close relationships with the communities in which we operate and with non-governmental organisations is one of the key principles of our sustainable and responsible operations, as set out in the Code of Ethics and the Sustainability Policy. We act consistently and transparently, taking responsibility for our own activities and working in partnership with a wide range of organisations.

In order to contribute to a better community environment, KKJ signed a cooperation agreement with Kaunas District Municipality. The Company plans to contribute to infrastructure improvement projects, events and other initiatives of importance to communities and the municipality.

In 2021, we developed a programme of guided tours and will invite the public to take part in guided tours of the KKJ after the end of the COVID-19 restrictions. The guided tours will introduce the principles of the circular economy, the benefits of waste sorting, and other topics.

Detailed information on how employee well-being and representation is ensured in Group companies, including KKJ, as well as information on the application of the Remuneration Policy and employee training and competence development initiatives, is provided in the section *Future-fit Employees and Communities* of the Sustainability Report, integrated in the Annual Report 2021 of the Group (link).

Human rights area

Main impacts of KKJ in the field of human rights:

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

We value the diversity of our workforce and strive to ensure that all our employees have equal opportunities to be a full part of the organisation. This means equal opportunities for employment, smooth working, fair pay, well-being, development, career progression, work-life balance, skills and talents. Therefore, as enshrined in Equal Opportunities and Diversity Policy of the Group, KKJ and other companies of the Group do not tolerate discrimination, promote a work environment that reflects the diversity of society, and implement the principles of respect for diversity in their activities.

The Group regularly collects and publishes data on the diversity of its workforce: the distribution of employees by gender, age, education, occupation and country of employment. Diversity data is a way of getting to know the people of the Group and, taking into account the fact that we are different, of creating a supportive and inclusive work culture for all. In 2021, men accounted for 92% of KKJ workforce, while women accounted for 8%.

For more information on the work and achievements in ensuring diversity, equality and human rights within Group companies, please refer to the section *Future-fit Employees and Communities* of the Sustainability Report integrated in the Annual Report 2021 of the Group (link).

Actual number of employees by position, 2021	Men	Women	Total
Trainees	0	0	0
Workers	0	0	0
Experts, specialists	32	2	34
Mid-level executives	2	0	2
Top level executives	1	1	2
Key executives	1	0	1

Governance and anti-corruption area

Main impacts of KKJ on governance and anti-corruption:

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

Ethical business, anti-corruption and transparency

KKJ, like other companies of the Group, is guided by the principles of ethical conduct as defined in the Code of Ethics of the Group of companies. In line with the Global Compact principle on anti-corruption, 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 the Group, cases of discrimination or corruption, as well as other breaches of the principles of sustainability or concerns to the Helpline by email pasitikejimolinija@ignitis.lt, by phone +370 640 88889 or by filling out an online form. These contacts are open to both employees and all stakeholders.

Responsibility and sustainability in the company's supply chain, ensuring access to energy

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

Ensuring access to energy includes reliable technical conditions, physical access, communication with customers, and risk management. Ensuring adequate energy access involves all Group companies responsible for energy generation, distribution, supply and all support functions.

Detailed information on achievements in ensuring grid stability and reliability, applying transparency and anti-corruption principles, ensuring security of personal data, quality customer service, responsible procurement and supplier involvement is provided in the section *Robust Organisation* within the Sustainability Report integrated in the Annual Report 2021 of the Group.

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

Financial statements

6.1	Company's financial statements	45
6.2	Independent Auditor's Report	75
6.3	Information on the auditor	78

6.1 Company’s financial statements

For the year ended 31 December 2021, prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Statement of financial position	46
Statement of profit or loss and other comprehensive income	47
Statement of changes in equity	48
Statement of cash flows	49
Notes to the financial statements	50

The Company's financial statements were prepared and signed by UAB Kauno kogeneracinė jėgainė management on 27 April 2022:

Ramūnas Paškauskas	**Aksana Stankevičienė**	**Paulius Žukovskis**
Chief Executive Officer	Director of Finance	Head of Financial Statements and Consultations of UAB Ignitis grupės paslaugų centras, acting under Order No IS-22-22 of 4 April 2022

Statement of financial position

31 December 2021
All amounts in thousands of euro unless otherwise stated

	Notes	31 December 2021	31 December 2020 (restated)[1]
ASSETS			
Non-current assets			
Intangible assets	6	2,091	2,149
Property, plant and equipment	7	133,303	137,672
Right-of-use assets	8	1,186	1,214
Non-current receivables		773	905
Deferred tax asset	24	2,070	-
Total non-current assets		**139,423**	**141,940**
Current assets			
Inventories	9	7,805	2,043
Prepayments and deferred expenses		917	26
Trade receivables	10	2,870	1,806
Other receivables		196	295
Other current assets	18	1,056	-
Cash and cash equivalents	11	14,125	13,327
Total current assets		**26,969**	**17,497**
TOTAL ASSETS		**166,392**	**159,437**
EQUITY AND LIABILITIES			
Equity			
Issued capital	12	40,000	40,000
Retained earnings (losses)		4,222	(3,001)
Total equity		**44,222**	**36,999**
Liabilities			
Non-current liabilities			
Non-current loans	14	-	114,709
Non-current lease liabilities		12	28
Provisions	16	22	12
Total non-current liabilities		**34**	**114,749**
Current liabilities			
Loans and borrowings	14	110,334	349
Lease liabilities		15	15
Trade payables		1,069	439
Prepayments received		22	3
Provisions	16	6,494	2,069
Other current amounts payable and liabilities	17	4,202	4,814
Total current liabilities		**122,136**	**7,689**
Total liabilities		**122,170**	**122,438**
TOTAL EQUITY AND LIABILITIES		**166,392**	**159,437**

[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2020 due to change in accounting policy. More information disclosed in Note 5.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2021
All amounts in thousands of euro unless otherwise stated

	Notes	2021	2020 (restated)[1]
Revenue from contracts with customers	19	28,592	7,098
Other income		514	76
Total revenue and other income		**29,106**	**7,174**
Use of emission allowances		(6,591)	(865)
Depreciation and amortisation	6, 7, 8	(5,917)	(2,418)
Electricity and heat production expenses	20	(3,082)	(1,332)
Wages and salaries and related expenses		(1,437)	(1,308)
Other expenses	21	(4,887)	(806)
Total expenses		**(21,913)**	**(6,729)**
Operating profit (loss)		**7,192**	**445**
Finance costs	22	(2,037)	(967)
Finance activity, net		**(2,037)**	**(967)**
Profit (loss) before tax		**5,155**	**(522)**
Deferred tax (expenses)/benefit	23, 24	2,070	-
Net profit (loss) for the year		**7,225**	**(522)**
Other comprehensive income (expenses)			
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)			
Change in actuarial assumptions		(2)	-
Items that will not be reclassified to profit or loss in subsequent periods, total		**(2)**	**-**
Total other comprehensive income (expenses) for the year		**(2)**	**-**
Total comprehensive income (expenses) for the year		**7,223**	**(522)**

[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2020 due to change in accounting policy: More information disclosed in Note 5.

Statement of changes in equity

For the year ended 31 December 2021
All amounts in thousands of euro unless otherwise stated

	Notes	Issued capital	Retained earnings (losses)	Total
Balance as at 1 January 2020		**40,000**	**(2,479)**	**37,521**
Net profit (loss) for the year[1]		-	(522)	**(522)**
Total comprehensive income (expenses) for the year (restated)[1]		-	**(522)**	**(522)**
Balance as at 31 December 2020 (restated)[1]		**40,000**	**(3,001)**	**36,999**
Balance as at 1 January 2021		**40,000**	**(3,001)**	**36,999**
Net profit (loss) for the year		-	7,225	**7,225**
Other comprehensive income (expenses)				
Result of change in actuarial assumptions		-	(2)	**(2)**
Total other comprehensive income (expenses) for the year		**-**	**(2)**	**(2)**
Balance as at 31 December 2021		**40,000**	**4,222**	**44,222**

[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2020 due to change in accounting policy: More information disclosed in Note 5.

Statement of cash flows

For the year ended 31 December 2021
All amounts in thousands of euro unless otherwise stated

	Notes	2021	2020 (restated)[1]
Cash flows from operating activities			
Net profit (loss) for the year		7,225	(522)
Adjustments to reconcile net profit to net cash flows:			
Depreciation and amortisation	6, 7, 8	5,917	2,418
Fair value changes of derivatives	18	2,316	-
Impairment/(reversal of impairment) of financial assets		70	-
Income tax expenses (benefit)	23	(2,070)	-
Increase/(decrease) in provisions	16	4,433	865
Loss on disposal/write-off of property, plant and equipment	7	2	-
Interest expenses	22	2,060	848
Changes in other financing activities	22	(23)	120
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(903)	(1,558)
(Increase)/decrease in inventories, prepayments and deferred expenses		(6,653)	(2,065)
Increase/(decrease) in trade payables, prepayments received, other current amounts payable and liabilities		(303)	969
Net cash from / (used in) operating activities		**12,071**	**1,075**
Cash flows used in investing activities			
Acquisition of property, plant and equipment and intangible assets		(4,642)	(47,340)
Net cash flows from / (used in) investing activities		**(4,642)**	**(47,340)**
Cash flows from/(used in) financing activities			
Loans received	15	-	53,680
Repayments of borrowings	15	(4,709)	-
Lease payments	15	(16)	(16)
Interest paid	15	(1,906)	(1,849)
Net cash flows from/(used in) financing activities		**(6,631)**	**51,815**
Increase (decrease) in cash and cash equivalents		**798**	**5,550**
Cash and cash equivalents at the beginning of the period		13,327	7,777
Cash and cash equivalents at the end of the period		**14,125**	**13,327**

[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2020 due to change in accounting policy. More information disclosed in Note 5.

All amounts in thousands of euro unless otherwise stated

Notes to the financial statements

For the year ended 31 December 2021

1 General information

UAB Kauno kogeneracinė jėgainė (hereinafter “the Company”) is a private limited liability company registered in the Republic of Lithuania. The registered address is: Jėgainės g. 6, Biruliškių k., Kauno raj., Lithuania. The Company is a limited liability profit-oriented entity registered on 27 February 2015 with the Register of Legal Entities managed by the public institution the Centre of Registers. Company code is 303792888, VAT payer’s code – LT100009225616. The Company has been founded for an indefinite period. Reporting period is one year ended 31 December 2021.

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

	31 December 2021		31 December 2020	
	Number of shares held	Ownership interest (%)	Number of shares held	Ownership interest (%)
AB Ignitis grupė	20,400	51	20,400	51
Other shareholders	19,600	49	19,600	49
Total	**40,000**	**100**	**40,000**	**100**

The Company’s parent company is AB Ignitis grupė (company code 301844044, registered address Laisvės pr. 10, LT-04215 Vilnius, Lithuania), which owns 51% of shares of the Company as at 31 December 2021 and 2020. On 5 October 2020, AB Ignitis grupė increased its issued capital, and on 7 October 2020, has executed initial public offering (hereinafter “IPO”) of new shares. In December 2021, AB Ignitis grupė acquired own shares; as at 31 December 2021, the shareholders were the Ministry of Finance of the Republic of Lithuania (73.08%), retail and institutional investors (25.25%) and own shares (1.67%). As at 31 December 2020, the shareholders were the Ministry of Finance of the Republic of Lithuania (73.08%), and retail and institutional investors (26.92%). 49% of the Company’s shares are owned by UAB Gren LIETUVA (former name of the company (until 4 July 2021) UAB FORTUM HEAT Lietuva).

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

These financial statements were signed by the management of UAB Kauno kogeneracinė jėgainė on 27 April 2022. 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 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Company's financial statements (hereinafter "financial statements") for the year ended 31 December 2021 are summarized below:

2.1 Basis of preparation of the financial statements

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

The Company's financial statements as at and for the year ended 31 December 2021 have been prepared on a going concern basis applying measurement based on historical acquisition cost, except for 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.

For change in accounting policy – see Note 2.2.1 and Note 5.

2.2 New standards, amendments to standards and interpretations

2.2.1 Changes in accounting policy and disclosures

The accounting policies are consistent with compliance of those which were presented in the financial statements, unless otherwise stated, with the exception of the new standards which entered into force as of 1 January 2021.

In preparation of these financial statements, the Company did not apply new standards, amendments and interpretations, the effective date of which is later than 31 December 2021 and early adoption whereof is permitted.

2.2.1.1 Emission allowances

During 2021 it was concluded that the current accounting policy for emission allowances does not present the statement of profit or loss and other comprehensive income (hereinafter – SPLOCI) and the statement of financial position in the best interest of the users of the financial statements. Therefore, the change in accounting policy was necessary; the change affects the statements of financial position, cash flows and changes in equity for the year ended 31 December 2020.

For detailed information on impact – see Note 5.

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

The following new standards and/or amendments to standards approved by the International Accounting Standards Board and adopted by the European Union during the year ended 31 December 2021 had no significant effect on the financial statements:

Standards and/or amendments that became effective in 2021
COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments)
Interest Rate Benchmark Reform– Phase 2– (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

2.2.3 Standards issued but not yet effective and not early adopted

The Company did not adopt new IFRS, International Accounting Standards (hereinafter – IAS), their amendments and interpretations issued by International Accounting Standards Board (hereinafter – IASB), the effective date of which is later than 31 December 2021 and early adoption is permitted. The following new standards and/or amendments to the standards have been issued but are not yet effective:

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

The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in a manner intended by management. Instead, an entity recognises those sales proceeds in profit or loss. The amendments are be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments. Amendments apply for annual reporting periods beginning on or after 1 January 2022. Amendments are endorsed for application in the European Union.

In 2021 the Company did not put into operation any assets, the cost of which would capitalize the income earned in 2021; therefore, the Company's management has decided that these amendments do not have a significant impact on the Company's financial statements.

Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. Amendments are endorsed for application in the European Union.

The Company does not have significant onerous contracts; therefore, the Company's management determined that these amendments have no significant impact on the Company's financial statements.

All amounts in thousands of euro unless otherwise stated

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 not yet endorsed for application in European Union (hereinafter – EU).

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

Other standards

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

Other new standards or amendments	IASB Effective date	EU Endorsement status
Annual Improvements to IFRS Standards 2018–2020	1 January 2022	Endorsed
Reference to Conceptual Framework (Amendments to IFRS 3)	1 January 2022	Endorsed
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023	Not yet endorsed
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023	Endorsed
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023	Not yet endorsed
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	Not yet endorsed
Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)	1 January 2023	Not yet endorsed

2.3 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 in SPLOCI.

2.4 Intangible assets

Intangible assets expected to provide economic benefits in future periods are measured at acquisition cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3 to 13 years. Amortisation of an asset begins when it is 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.

2.5 Property, plant and equipment

Property, plant and equipment is stated at acquisition (production) cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis over the useful lives established for property, plant and equipment.

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 SPLOCI during the financial period in which they are incurred.

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

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

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

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

Depreciation periods (number of years):

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

2.6 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.

2.6.1 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.

2.6.2 Subsequent measurement of right-of-use assets

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

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

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

Group of right-of-use assets	Depreciation period (in years)
Land	90-100
Vehicles	4-5
Other property, plant and equipment	2-5

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

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

2.7 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.

Intangible assets with indefinite useful lives, goodwill and intangible assets not yet available for use are tested for impairment at each reporting date, and whenever there is an indication that the asset may be impaired.

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 SPLOCI.

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 SPLOCI.

2.8 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.

2.8.1 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 recognizing 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 SPLOCI. Impairment loss is accounted for as the cost of receivables and impairment of loans in SPLOCI.

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

2.8.1.1 Financial assets at amortised cost

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

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

2.8.1.2 Financial assets at FVPL

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

The Company classifies financial assets as assets measured at FVPL, if this eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising gains or losses thereof on different bases. A gain or loss on fair value measurement of debt investment is recognised in profit or loss of SPLOCI in the period in which it arises.

2.8.1.3 Effective interest rate method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss of SPLOCI 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).

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

ECL are recognised for all debt instruments not measured at fair value through profit or loss, ECL are based on the difference between contractual cash flows and cash flows that the Company expects to receive discounted using the approximate initial effective interest rate. Expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

2.8.1.5 Credit-impaired financial assets

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

2.8.1.6 Derecognition of financial assets

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

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

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

2.8.2 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.

2.8.2.1 Initial recognition and measurement of financial liabilities

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

2.8.2.2 Subsequent measurement

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

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

2.8.2.3 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 and other comprehensive income.

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

2.8.2.4 Financial liabilities at amortised cost

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

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

2.8.2.5 Presentation and borrowing costs

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

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

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

2.8.2.6 Derecognition of financial liabilities

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

2.8.3 Derivatives

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

2.8.3.1 Presentation

Fair value of derivative financial instruments is presented In the statement of financial position as “Other current assets” and “Other current amounts payable and liabilities” (Note 17).

Changes in fair value and result of settled derivatives for hedges that do not meet the qualifying criteria for hedge accounting are disclosed in SPLOCI 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 21).

2.9 Inventories

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

2.10 Emission allowances

Based on the European Union (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.

2.10.1 Inventories

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

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

Changes in the value of liability related to missing emission allowances are recognised in profit or loss in the statement of profit or loss and other comprehensive income.

2.11 Cash and cash equivalents

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

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

2.12 Issued capital, share premium

Ordinary shares are classified as equity.

2.13 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.

2.13.1 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.

2.14 Current and deferred tax

2.14.1 Corporate 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 2021 and 2020. The Company is a free economic zone company, whose capital investments reached EUR 1 million in 2016; therefore, the Company did not incur corporate income tax for next 6 tax periods starting from the tax period in which this amount of investments has been reached, and the Company will be subject to the reduced corporate income tax rate of 50% for the next 10 tax periods.

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.

2.14.2 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.

2.14.3 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.

2.15 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 SPLOCI, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. When discounting is used, an increase in the provision reflecting the past period, is accounted for as finance costs.

2.16 Employee benefits

2.16.1 Social security contributions

The Company pays social security contributions to the State Social Security Fund (hereinafter “the Fund”) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

2.16.2 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.

2.16.3 Non-current employee benefits

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

2.17 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.

2.18 Revenue from contracts with customers

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

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

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

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

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

2.18.1.1 Revenue from the sale of electricity

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

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

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

2.18.1.2 Revenue from waste management

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

2.18.1.3 Revenue from supply of thermal energy

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

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

2.19 Expense recognition

Expenses are recognised in SPLOCI as incurred applying accrual basis of accounting.

2.20 Dividend distribution

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

2.21 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 28.

2.22 Related parties

Related parties include AB Ignitis grupė and its subsidiaries (Group companies), associates, state-owned enterprises and their subsidiaries (transactions with these entities are disclosed 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 only if they are material), the parent company’s controlling shareholders and shareholders having significant effect, key management personnel and their close family members as well as controlled entities.

2.23 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.

2.24 Fair value

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

– in the principal market for the asset or liability

or

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

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

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

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

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

All amounts in thousands of euro unless otherwise stated

3 Financial risk management

3.1 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.

3.1.1 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.

3.1.1.1 Currency risk

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

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

3.1.1.2 Interest rate risk

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

The Company's income and cash flows are affected by fluctuations in market interest rates because the Company's borrowings had variable interest rates as at 31 December 2021.

Assuming debt obligations, it is aimed that non-current liabilities would bear a fixed interest rate. If the fixing of the interest rate is not possible due to objective reasons and the liability assumed comprises a significant amount, interest rate derivatives are used for the purpose of interest management, including interest rate swaps, interest rate options, interest rate collars, and interest rate swaptions. The aim is that non-current borrowings with fixed interest rates comprised no less than 50% of the Company's non-current borrowings portfolio. The usage of any of the interest rate derivatives requires the expiry date of the derivative to correspond to the maturity date of the debt obligation.

As at 31 December 2021, loans with variable interest rate amounted to EUR 110,000 thousand (31 December 2020: EUR 114,709 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.

	Increase/decrease, percentage points	(Decrease)/increase in profit
2021	0.5/(0.5)	(229)/229
2020	0.5/(0.5)	(232)/232

As at 31 December 2021, the Company had no significant valid interest rate swaps.

3.1.2 Credit risk

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

The Company's exposure to credit risk arises from operating activities of the Company (trade and other amounts receivable) and from financing activities (cash and cash equivalents).

The Company is exposed to significant credit risk concentration related to the main customer, the liabilities of which account for approximately 48% of the Company's trade receivables as at 31 December 2021 (31 December 2020: 36%). The Company's exposure to credit risk arising from amounts receivable is limited because the major buyers are reliable customers. As at 31 December 2021 and 2020, the Company has no receivables that are overdue or impaired. More details about credit risk arising from amounts receivable are provided in Note 10.

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

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

	Note	31 December 2021	31 December 2020
Financial assets measured at amortised cost:			
Non-current receivables		773	905
Trade receivables	10	2,870	1,806
Other receivables		196	295
Cash and cash equivalents	11	14,125	13,327
Financial assets at FVPL in SPLOCI			
Derivatives	18	1,056	-
Total		**19,020**	**16,333**
Off-balance sheet commitments:			
Guarantees issued	25.2	1,431	1,363
Total		**20,451**	**17,696**

All amounts in thousands of euro unless otherwise stated

3.1.3 Liquidity risk

The liquidity risk is managed by planning future cash flows of the Company and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support the Company's ordinary activities. The refinancing risk is managed by ensuring that 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 2021, the Company's current liquidity ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 0.22 and 0.16 respectively (31 December 2020: 2.28 and 2.00 respectively).

The financial statements were prepared based on the going concern assumption. Although the Company's current liabilities exceeded current assets by EUR 95,167 thousand as at 31 December 2021, the Company's management believes that this will not affect the Company's ability to continue as a going concern. More information is disclosed in Note 3.3.

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

	Note	31 December 2021	31 December 2020
Amounts payable measured at amortised cost			
Loans and borrowings	14	110,334	115,058
Lease liabilities		27	43
Trade payables		1,069	439
Other current amounts payable and liabilities	17	535	4,503
Financial liabilities measured at FVPL in SPLOCI			
Derivatives	18	3,372	-
Total		**115,337**	**120,043**

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):

	2021				
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	Total
Borrowings and lease liabilities	531	110,141	12	-	110,684
Trade payables	1,069	-	-	-	1,069
Other payables	3,907	-	-	-	3,907
31 December 2021	**5,507**	**110,141**	**12**	**-**	**115,660**

	2020				
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	Total
Borrowings and lease liabilities	554	625	115,059	-	116,238
Trade payables	439	-	-	-	439
Other payables	4,503	-	-	-	4,503
31 December 2020	**5,496**	**625**	**115,059**	**-**	**121,180**

3.2 Capital risk management

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

Pursuant to the Lithuanian Republic Law on private Companies, the issued capital of a private limited liability company must be not less than EUR 2.5 thousand, and the shareholders' equity must be not lower than 50% of the company's issued capital.

The Company forms its capital structure in view of internal factors relating to operating activities, the expected capital expenditures and developments and in view of business strategy of the Company, as well as based on external current or expected factors significant to operations relating to markets, regulation and local economic situation.

On 15 December 2020 the Board of AB Ignitis grupė approved the updated dividend policy of companies owned by AB Ignitis grupė. The provisions of the policy shall be followed when making decisions regarding the allocation of dividends by the subsidiaries (including subsequent subsidiaries). According to the updated Dividend Policy of Owned Companies, a subsidiary owned by AB Ignitis grupė shall allocate dividends for the financial year or a period shorter than the financial year using at least 80 per cent of the net profit of the subsidiary received during the financial period for which the dividends are offered. Exemptions for paying dividends by subsidiaries may apply if certain conditions are met.

3.3 Going concern

The financial statements were prepared based on the going concern assumption. Although the Company's current liabilities exceeded current assets by EUR 95,167 thousand as at 31 December 2021, the Company's management believes that this will not affect the Company's ability to continue as a going concern. Negative difference between current assets and current liabilities resulted from the maturity of credit agreement between the Company and Swedbank and subsequent reclassification of the loan: maturity is set on 31 May 2022; therefore, the loan was reclassified from non-current to current loans.

On 20 January 2021, the Company's controlling entity AB Ignitis grupė submitted a confirmation letter which states that it will continue providing financial support for at least 12 months following the date of this letter to enable the Company to continue trading activities and meet its liabilities.

The Company has initiated commercial purchasing procedures for re-financing of the bank loan (Note 28).

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

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

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

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

4.1 COVID-19 pandemic

The Company's management has assessed the impact of COVID-19 pandemic uncertainty to the following key areas:

1. Going concern
2. Impairment, residual value and useful life of property, plant and equipment
3. Assessment of expected credit losses
4. Net realisable value of inventories
5. Classification of financial instruments as current and non-current
6. Lease contracts

The Company's management has not identified any significant threats in assessing the potential impact of key COVID-19 factors on the Company's results.

4.2 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 2020 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 2021 and the quantity of emissions which will be approved for 2022.

4.3 Provision for plant dismantling and closure works

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

5 Restatement of comparative figures due to change in accounting policy and reclassifications

Restatement of comparative figures due to change in accounting policy

The Company participates in the greenhouse gas emissions (hereinafter – European Union emission allowances or EUEA) trading system. In 2021 the management has concluded that the current accounting policy for emission allowances does not present the SPLOCI and the statement of financial position in the best interest of the users of the financial statements. Therefore, the management has determined that there is a need for a voluntary change in accounting policy. The new accounting policy is described in Note 2.10.

The main arguments for changing the accounting policy are:

1. Revaluation of provision for EUEA will no longer have impact to the SPLOCI of future periods.
2. More fair presentation of SPLOCI and better relationship with cash flows.
3. More fairly presentation of the statement of financial position as EUEAs are used in the Group's operations rather than for sale.

As IAS 8 requires that the users of financial statements need to be able to compare the financial statements of an entity over time to identify trends, the management presents the information regarding the accounting policy change, that is performed retrospectively (see Restatement 1).

In the cash flow statement as at 31 December 2020, the amount of EUR 686 thousand was reclassified from "Increase/(decrease) in provisions" to "Net profit (loss) for the year", the amount of EUR 1,936 thousand was reclassified from "Acquisition of property, plant and equipment and intangible assets" to "(Increase)/decrease in inventories, prepayments and deferred expenses".

The balances in the financial statements as at 1 January 2020 were not restated as accounting of emission allowances started as of 1 April 2020.

Restatement of comparative figures due to change in presentation

In preparation of these financial statements, in 2021 the Company made reclassifications of some of the line items of the Statement of Financial Position to present more reliable information to users of financial statements; therefore, presentation of 2020 was amended accordingly.

The information regarding main reclassifications:

EUR 154 thousand was reclassified from item "Trade payables" to item "Loans and borrowings" in the statement of financial position. EUR 195 thousand was reclassified from item "Other current amounts payable and liabilities" to item "Loans and borrowings" in the statement of financial position (see Restatement 2).

The reclassifications did not have a significant effect on the SPLOCI, statement of changes in equity, and statement of cash flows.

All amounts in thousands of euro unless otherwise stated

Retrospective changes to the statement of financial position as at 31 December 2020 due to change in accounting policy:

	31 December 2020 before restatement	Restatement 1	Restatement 2	31 December 2020 after restatement
ASSETS				
Non-current assets				
Intangible assets	4,771	(2,622)	-	2,149
Property, plant and equipment	137,672	-	-	137,672
Right-of-use assets	1,214	-	-	1,214
Non-current receivables	905	-	-	905
Total non-current assets	**144,562**	**(2,622)**	**-**	**141,940**
Current assets			-	
Inventories	107	1,936	-	2,043
Prepayments and deferred expenses	26	-	-	26
Trade receivables	1,806	-	-	1,806
Other receivables	295	-	-	295
Cash and cash equivalents	13,327	-	-	13,327
Total current assets	**15,561**	**1,936**	**-**	**17,497**
TOTAL ASSETS	**160,123**	**(686)**	**-**	**159,437**
EQUITY AND LIABILITIES				
Equity				
Issued capital	40,000	-	-	40,000
Reserves	687	(687)	-	-
Retained earnings (losses)	(3,688)	687	-	(3,001)
Total equity	**36,999**	**-**	**-**	**36,999**
Liabilities				
Non-current liabilities				
Non-current loans	114,709	-	-	114,709
Non-current lease liabilities	28	-	-	28
Provisions	12	-	-	12
Total non-current liabilities	**114,749**	**-**	**-**	**114,749**
Current liabilities				
Loans and borrowings	-	-	349	349
Lease liabilities	15	-	-	15
Trade payables	593	-	(154)	439
Prepayments received	3	-	-	3
Provisions	2,755	(686)	-	2,070
Other current amounts payable and liabilities	5,009	-	(195)	4,814
Total current liabilities	**8,375**	**(686)**	**-**	**7,690**
Total liabilities	123,124	**(686)**	**-**	**122,439**
TOTAL EQUITY AND LIABILITIES	**160,123**	**(686)**	**-**	**159,437**

All amounts in thousands of euro unless otherwise stated

Retrospective changes to SPLOCI for the year ended 31 December 2020 due to change in accounting policy:

	2020 before restatement	Restatement 1	2020 after restatement
Revenue from contracts with customers	7,098	-	7,098
Other income	76	-	76
Total revenue and other income	7,174	**-**	**7,174**
Electricity and heat production expenses	(1,332)	-	(1,332)
Wages and salaries and related expenses	(1,308)	-	(1,308)
Depreciation and amortisation	(2,418)	-	(2,418)
Use of emission allowances	(1,552)	687	(865)
Other expenses	(806)		(806)
Total expenses	(7,416)	**687**	**(6,729)**
Operating profit (loss)	**(242)**	**687**	**445**
Finance costs	(967)	-	(967)
Finance activity, net	**(967)**	**-**	**(967)**
Profit (loss) before tax	**(1,209)**	**687**	**(522)**
Current year income tax (expenses)/benefit	-	-	-
Deferred tax (expenses)/benefit	-	-	-
Net profit (loss) for the year	**(1,209)**	**687**	**(522)**
Other comprehensive income (expenses)			
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)			
Revaluation of emission allowances through other comprehensive income	687	(687)	-
Items that will not be reclassified to profit or loss in subsequent periods, total	**687**	**(687)**	**-**
Total other comprehensive income (expenses) for the year	687	**(687)**	**-**
Total comprehensive income (expenses) for the year	**(522)**		**(522)**

All amounts in thousands of euro unless otherwise stated

6 Intangible assets

Movement on the Company's account of intangible assets is presented below:

	Patents and licences	Other Intangible assets	Total
1 January 2020			
Acquisition cost	1	-	**1**
Accumulated amortisation	-	-	**-**
Carrying amount	**1**	**-**	**1**
Carrying amount as at 1 January 2020	**1**	**-**	**1**
Additions	-	-	**-**
Reclassified (to) / from property, plant and equipment	-	2,216	**2,216**
Amortisation charge	(1)	(67)	**(68)**
Carrying amount as at 31 December 2020 (restated)[1]	**-**	**2,149**	**2,149**
31 December 2020 (restated)[1]			
Acquisition cost	1	2,216	**2,217**
Accumulated amortisation	(1)	(67)	**(68)**
Carrying amount (restated)[1]	**-**	**2,149**	**2,149**
Carrying amount as at 1 January 2021			
Additions	-	-	**-**
Reclassified (to) / from intangible assets	-	120	120
Amortisation charge	-	(178)	(178)
Carrying amount as at 31 December 2021	**-**	**2,091**	**2,091**
31 December 2021			
Acquisition cost	-	2,336	**2,336**
Accumulated amortisation	-	(245)	**(245)**
Carrying amount	**-**	**2,091**	**2,091**

[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2020 due to change in accounting policy. More information disclosed in Note 5.

Fully amortised intangible assets

As at 31 December 2021 and 2020, the Company had no fully amortised intangible assets used in operations.

6.1 Acquisition commitments

As at 31 December 2021 and 2020, the Company had no significant acquisition commitments of intangible assets which will have to be fulfilled during the later years.

6.2 Pledged assets

As at 31 December 2021 and 2020, the Company did not have non-current intangible assets pledged.

6.3 Impairment of intangible assets

As at 31 December 2021 and 2020, the Company did not identify any impairment indications of intangible assets; no impairment tests were performed.

All amounts in thousands of euro unless otherwise stated

7 Property, plant and equipment

7.1 Company's property, plant and equipment

	Cogeneration plants and their installations	IT and telecommunication equipment	Vehicles	Other property, plant and equipment	Construction-in-progress	Total
1 January 2020						
Acquisition cost	-	-	-	1	101,348	**101,349**
Accumulated depreciation	-	-	-	-	-	**-**
Carrying amount	**-**	**-**	**-**	**1**	**101,348**	**101,349**
Carrying amount as at 1 January 2020	**-**	**-**	**-**	**1**	**101,348**	**101,349**
Additions	-	-	-	8	40,853	**40,861**
Reclassifications between categories	137,956	1,122	39	307	(139,424)	**-**
Reclassified from (to) intangible assets	-	-	-	-	(2,216)	**(2,216)**
Depreciation charge	(2,270)	(39)	(1)	(12)	-	**(2,322)**
Carrying amount as at 31 December 2020	**135,686**	**1,083**	**38**	**304**	**561**	**137,672**
31 December 2020						
Acquisition cost	137,956	1,122	39	316	561	**139,994**
Accumulated depreciation	(2,270)	(39)	(1)	(12)	-	**(2,322)**
Carrying amount	**135,686**	**1,083**	**38**	**304**	**561**	**137,672**
Carrying amount as at 1 January 2021						
Additions	-	-	-	23	1442	**1,465**
Write-offs	(2)	-	-	-	-	**(2)**
Reclassifications between categories	1,763	93	-	7	(1,863)	**-**
Reclassified from / (to) intangible assets	-	-	-	-	(120)	**(120)**
Depreciation charge	(5,566)	(98)	(3)	(46)	-	**(5,713)**
Carrying amount as at 31 December 2021	**131,881**	**1,078**	**35**	**289**	**20**	**133,303**
31 December 2021						
Acquisition cost	139,717	1,215	39	347	20	**141,338**
Accumulated depreciation	(7,836)	(137)	(4)	(59)	-	**(8,036)**
Carrying amount	**131,881**	**1,078**	**35**	**289**	**20**	**133,303**

7.2 Additions of property, plant and equipment

A at 31 December 2021, the Company had no 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 1,110 thousand as at 31 December 2020.

During 2020, the Company capitalised EUR 1,001 thousand of interest expenses on borrowings intended to finance development of non-current assets.

As at 31 December 2021 and 2020, the Company had no fully depreciated property, plant and equipment used in operations.

7.3 Pledged property, plant and equipment

As at 31 December 2021 and 2020, the Company did not have property, plant and equipment pledged.

7.4 Impairment of property, plant and equipment

As at 31 December 2021, the Company’s management assessed the external factors (changes in economic and regulatory environment, market structure, interest rates, etc.) and the internal factors (changes in the purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets. After assessing the named aspects, no impairment indications were identified as at 31 December 2021 and 2020 and no impairment tests were performed.

8 Right-of-use assets

8.1 The Company's right-of-use assets

Movement on Company's account of right-of-use asset is presented below:

	Land	Vehicles	Other property, plant and equipment	Total
1 January 2020				
Acquisition cost	1,196	72	2	1,270
Accumulated depreciation	(12)	(15)	(1)	(28)
Carrying amount	**1,184**	**57**	**1**	**1,242**
Carrying amount as at 1 January 2020				
Additions	1,184	57	1	1,242
Depreciation charge	(12)	(15)	(1)	(28)
Carrying amount as at 31 December 2020	**1,172**	**42**	**-**	**1,214**
31 December 2020				
Acquisition cost	1,196	72	2	1,270
Accumulated depreciation	(24)	(30)	(2)	(56)
Carrying amount	**1,172**	**42**	**-**	**1,214**
Carrying amount as at 1 January 2021				
Reclassifications between categories				
Reclassified from / (to) property, plant and equipment				
Reclassified from / (to) assets held for sale				
Depreciation charge	(12)	(14)	-	**(26)**
Carrying amount as at 31 December 2021	**1,159**	**27**	**-**	**1,186**
31 December 2021				
Acquisition cost	1,196	72	-	**1,268**
Accumulated depreciation	(37)	(45)	-	**(82)**
Carrying amount	**1,159**	**27**	**-**	**1,186**

8.2 Expenses related to lease agreements recognised in SPLOCI

The Company's lease expenses recognised in SPLOCI were as follows:

	2021	2020
Depreciation	26	28
Expenses related to short-term leases (other expenses)	14	7
Lease expenses, total	**40**	**35**

9 Inventories

The Company's inventories comprised as follows:

	31 December 2021	31 December 2020 (restated)[1]
Emission allowances[1]	7,506	1,936
Consumables, raw materials and spare parts	299	107
Total	**7,805**	**2,043**
Less: write down to net realisable value	-	-
Carrying amount	**7,805**	**2,043**

[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2020 due to change in accounting policy. More information disclosed in Note 5.

The Company's inventories expensed were as follows:

	2021	2020
Emission allowances	6,591	-
Other inventories	253	147
Total	**6,844**	**147**

10 Trade receivables

The Company's trade receivables comprised as follows:

	31 December 2021	31 December 2020
Amounts receivable from contracts with customers		
Receivables for supply of heat	1,404	651
Receivables for waste management	1,272	1,126
Receivables for supply of electricity	81	17
Other receivables	113	12
Total	**2,870**	**1,806**
Less: impairment of trade receivables	-	-
Carrying amount	**2,870**	**1,806**

As at 31 December 2021 and 2020, the Company had not pledged claim rights to trade receivables.

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

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

	31 December 2021 Trade receivables	Impairment	31 December 2020 Trade receivables	Impairment
Not past due	2,624	-	1,660	-
Up to 30 days	246	-	146	-
30-60 days	-	-	-	-
60-90 days	-	-	-	-
90-120 days	-	-	-	-
More than 120 days	-	-	-	-
Carrying amount	**2,870**	**-**	**1,806**	**-**

The fair values of trade receivables as at 31 December 2021 and 2020 approximated their carrying amounts.

11 Cash and cash equivalents

The Company's cash and cash equivalents consisted of:

	31 December 2021	31 December 2020
Cash balances in bank accounts	14,125	13,327
Carrying amount	**14,125**	**13,327**

The fair values of cash and cash equivalents as at 31 December 2021 and 31 December 2020 approximated their carrying amounts.

Under the loan agreements signed with the banks, the Company has pledged current and future cash inflows. The balance of pledged funds as at 31 December 2021 was equal to EUR 9,137 thousand (31 December 2020: EUR 9,326 thousand).

12 Equity

12.1 Issued capital

Issued capital of the Company consisted of:

	31 December 2021	31 December 2020
Issued capital		
Ordinary shares, EUR	40,000,000	40,000,000
Ordinary shares issued and fully paid, EUR	**40,000,000**	**40,000,000**

As at 31 December 2021 and 2020, the Company's issued capital comprised EUR 40,000,000 and was divided in to 40,000,000 registered ordinary shares with par value is EUR 1 of each.

13 Reserves

13.1 Legal reserve

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

As at 31 December 2021 and 2020, the legal reserve was not formed.

14 Loans and borrowings

Borrowings of the Company consisted of:

	31 December 2021	31 December 2020
Non-current		
Bank loans	-	114,709
Current		
Bank loans	110,000	-
Accrued interest	334	349
Total	**110,334**	**115,058**

The repayment term of loan contract signed between Swedbank AB and the Company on 31 May 2017 is 31 May 2022; therefore, the loan was reclassified from non-current to current loans due to short maturity term. The loan balance as at 31 December 2021 is EUR 110,000 thousand (31 December 2020: EUR 114,709 thousand).

14.1 Commitments

The loan agreements provide for financial and non-financial covenants that the Company is obliged to comply with. The Company complied with the covenants as at 31 December 2021 and 2020.

15 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.

For the purpose of net debt calculation, borrowings comprise only debts to financial institutions, and related interest payables.

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:

	31 December 2021	31 December 2020
Cash and cash equivalents	(14,125)	(13,327)
Non-current loans payable after one year	-	114,709
Current loans payable within one year	110,334	349
Lease liabilities	27	43
Net debt	**96,236**	**101,774**

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

	Assets	Lease liabilities		Loans and borrowings		
	Cash	Non-current	Current	Non-current	Current	Total
Net debt as at 1 January 2020	**(7,777)**	**43**	**16**	**61,029**	**-**	**53,311**
Cash changes						
(Increase) decrease in cash and cash equivalents	(5,550)	-	-	-	-	**(5,550)**
Proceeds from borrowings	-	-	-	53,680	-	**53,680**
Lease payments	-	-	(16)	-	-	**(16)**
Interest paid	-	-	-	(1,849)	-	**(1,849)**
Non-cash changes						
Accrual of interest payable	-	-	-	1,849	349	**2,198**
Reclassifications between items	-	(15)	15	-	-	**-**
Net debt as at 31 December 2020	**(13,327)**	**28**	**15**	**114,709**	**349**	**101,774**
Net debt as at 1 January 2021						
Cash changes						
(Increase) decrease in cash and cash equivalents	(798)	-	-	-	-	**(798)**
Repayments of borrowings	-	-	-	-	(4,709)	**(4,709)**
Lease payments	-	-	(16)	-	-	**(16)**
Interest paid	-	-	-	-	(1,906)	**(1,906)**
Non-cash changes						
Accrual of interest payable	-	-	-	-	1,859	**1,859**
Reclassifications between items	-	(16)	16	(114,709)	114,709	**-**
VAT on interest payable	-	-	-	-	32	**32**
Net debt as at 31 December 2021	**(14,125)**	**12**	**15**	**-**	**110,334**	**96,236**

16 Provisions

The Company's provisions consisted of:

	31 December 2021	31 December 2020 (restated)[1]
Non-current	22	12
Current [1]	6,494	2,069
Total	**6,516**	**2,081**

[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2020 due to change in accounting policy. More information disclosed in Note 5.

Movement of the Company's provisions was as follows:

	Emission allowance liabilities	Provisions for employee benefits	Total
Balance as at 1 January 2020	**-**	**5**	**5**
Increase during the year	2,073	7	**2,080**
Utilised during the year	(4)	-	**(4)**
Balance as at 31 December 2020 (restated)[1]	**2,069**	**12**	**2,081**
Balance as at 1 January 2021 (restated)[1]	**2,069**	**12**	**2,081**
Increase during the year	6,592	8	**6,600**
Utilised during the year	(2,167)	-	**(2,167)**
Result of change in assumptions	-	2	**2**
Balance as at 31 December 2021	**6,494**	**22**	**6,516**
Non-current portion	-	22	**22**
Current portion	6,494	-	**6,494**
Balance as at 31 December 2021	**6,494**	**22**	**6,516**

[1] Part of the amounts do not agree with the financial statements issued for the year ended 31 December 2020 due to change in accounting policy. More information disclosed in Note 5.

17 Other current amounts payable and liabilities

Other current amounts payable and liabilities of the Company consisted of:

	31 December 2021	31 December 2020
Derivative financial instruments (Note 18)	3,372	-
Amounts payable for property, plant and equipment	305	4,356
Taxes (other than income tax)	233	101
Accrued expenses	35	186
Employment related liabilities	27	24
Other amounts payable and liabilities	230	147
Carrying amount	**4,202**	**4,814**

Accrued expenses, taxes (other than income tax) and payroll related liabilities are not financial liabilities.

18 Derivatives

Assets and liabilities related to the Company's agreements on derivative financial instruments were as follows:

	31 December 2021	31 December 2020
Other current assets		
Derivative financial instruments, EL market price	1,056	-
Total	**1,056**	**-**
Other current amounts payable and liabilities		
Derivative financial instruments linked to the market prices of electricity	3,372	-
Total	**3,372**	**-**

As at 31 December 2021, liabilities from derivatives related to trade in electricity amounted to EUR 3,372 thousand.

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

19 Revenue from contracts with customers

19.1 Disaggregated revenue information

The Company's revenue from contracts with customers was as follows:

	2021	2020
Electricity related revenue		
Revenue from the sale of electricity	13,944	2,410
Revenue from waste management	8,282	3,339
Revenue from supply of thermal energy	6,104	1,261
Revenue from electricity balancing and regulation	262	88
	28,592	**7,098**

19.2 Contract balances

Balances arising from contracts with customers as at the end of the year are as follows:

	2021	2020
Trade receivables	**2,870**	**1,806**
Contract liabilities	**22**	**3**
Prepayments received	22	3

20 Electricity and heat production costs

The Company's purchases of electricity, gas and other services were as follows:

	2021	2020
Cogeneration plants operating costs	2,492	1,003
Electricity, balancing services and purchases of related services	337	182
Purchases of gas and related services	246	147
Biofuel	7	-
Total	**3,082**	**1,332**

21 Other expenses

The Company's other expenses were as follows:

	2021	2020
Derivatives	3,254	-
Repair and maintenance expenses	495	45
Business support services	326	259
Telecommunications and IT services	159	85
Insurance expenses	140	26
Taxes (other than income tax)	98	74
Consultation services	57	52
Other	358	264
Total	**4,887**	**805**

The result of realised and unrealised derivatives is presented through profit and loss of SPLOCI (Note 2.8.3). In SPLOCI result of derivatives is presented on a net basis, depending on the final outcome of the reporting period. The result of such financial instruments can be presented as follows:

	2021	2020
Gain (loss) of realised financial derivatives:	(938)	-
Gain (loss) of unrealised financial derivatives[1]:	(2,316)	-
Total profit (loss)	**(3,254)**	**-**

[1] *Change in the fair value of unrealised derivatives*

22 Finance costs

The Company's finance costs are as follows:

	2021	2020
Interest expenses	2,060	848
Other finance costs	(23)	119
Total	**2,037**	**967**

22.1 The Company's interest expense

As at 31 December 2021, the Company paid EUR 1,906 thousand of interest in cash (31 December 2020: EUR 1,849 thousand), which are presented in the cash flow statement under "Interest paid".

23 Income tax expense

Income tax expenses for the year comprise current year income tax and deferred tax. The Company's tax expenses are as follows:

	2021	2020
Income tax expenses (benefit) for the reporting period	-	-
Deferred income tax expenses (benefit)	(2,070)	-
Income tax expenses (benefit) recognised in profit or loss	**(2,070)**	**-**

The Company is a free economic zone company and is eligible for income tax incentive; as at 31 December 2021 and 2020, income tax rate of 0% was applied. Starting from 1 January 2022 and for the next 10 tax periods, income tax rate of 7.5% will apply.

24 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:

	31 December 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2021
Deferred tax assets				
Accrued expenses	-	29	-	29
Unrealised investment relief	-	1,878	-	1,878
Derivatives	-	174	-	174
Capitalised income	-	306	-	306
Other	-	7	-	7
Deferred tax asset, net	**-**	**2,394**		**2,394**
Deferred tax liability				
Capitalised interest	-	324	-	324
Deferred income tax liability, net	**-**	**324**	**-**	**324**
Net deferred tax	**-**	**2,070**	**-**	**2,070**

As the Company expects to receive taxable profit in the future, as at 31 December 2021 deferred tax assets and liabilities were recognised applying income tax rate of 7.5% (Note 2.14).

The Company did not recognise additional deferred tax assets from unused investment relief of EUR 39,097 thousand (if recognised, deferred tax assets would amount to EUR 2,932 thousand). Deferred tax asset was not recognised as the Company does not hold sufficient evidence that it will be able to use investment relief. This investment relief can be used by the end of 2024.

25 Contingent liabilities

25.1 Litigations

As at 31 December 2021 and 2020, the Company was not involved in any legal procedures which, in the opinion of Management, could have a significant influence on the financial statements.

25.2 Guarantees

As at 31 December 2021, the Company has issued guarantees for its liabilities for the amount of EUR 1,431 thousand (31 December 2020: EUR 1,363 thousand); the management does not expect that the guarantees will be used. Significant guarantees are described below.

On 23 July 2021, the Company issued a guarantee of EUR 583 thousand to the Environmental Protection Department under the Ministry of Environment. When generating power from waste incineration, the Company must hold an integrated pollution prevention and control (IPPC) permit. One of preconditions for the permit is to hold a plan for the cessation of waste handling or disposal operations and the statement of expenditure for the implementation of the plan. The guarantee secures the financing of measures specified in the operations cessation plan in case of bankruptcy or in other circumstances when the Company must cease waste handling or disposal operations. The guarantee expires on 31 July 2023.

On 24 October 2019, the Company issued a guarantee of EUR 450 thousand to Public Institution Kaunas Region Waste Management Centre as it has concluded a service agreement on the disposal (incineration) of non-hazardous waste. The Company is committed to provide non-hazardous waste disposal (incineration) services at the specified volumes, terms and conditions. The guarantee expires on 12 February 2022.

26 Related-party transactions

The Company's transactions with related parties and year-end balances arising on these transactions are presented below:

Related parties	Amounts receivable	Amounts payable	Sales	Purchases	Finance income (costs)
	31 December 2021	31 December 2021	2021	2021	2021
Parent company AB Ignitis grupė	-	186	-	-	631
Other Group companies	-	3,863	-	4,891	-
State-controlled UAB EPSO-G group companies	43	1	262	161	-
Non-controlling shareholder UAB Gren Lietuva	-	-	-	-	761
Total	**43**	**4,050**	**262**	**5,052**	**1,392**

Related parties	Amounts receivable	Amounts payable	Sales	Purchases	Finance income (costs)
	31 December 2020	31 December 2020	2020	2020	2020
Parent company AB Ignitis grupė	-	200	-	-	392
Other group companies	-	151	-	1,176	-
State-controlled UAB EPSO-G group companies	7	6	192	49	-
Non-controlling shareholder UAB Gren Lietuva	-	115	-	-	805
Total	**7**	**472**	**192**	**1,225**	**1,197**

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

Compensation to key management

	2021	2020
Wages and salaries and other current benefits to key management	116	106
Whereof:		
Current benefits	116	106
Number of key management personnel	4	4

In 2021, key management only included the Head of the Company, Members of the Board; therefore, comparative information was not adjusted.

27 Fair values of financial instruments

27.1 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).

The Company has futures derivatives for emission allowances. These derivatives are measured based on the figures of the European power exchange (EEX).

The Company enters into derivative financial instruments transactions related to purchase and sale prices of electricity. Fair values of these financial instruments are measured using models with observable inputs.

27.2 Financial instruments for which fair value is disclosed

The fair value of the Company's financial liabilities related to debt liabilities to commercial banks 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 2.76% as at 31 December 2021 (31 December 2020: 2.45%). 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 2021.

	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Financial instruments at fair value through profit or loss						
Assets						
Derivatives	18	1,056		1,056	-	**1,056**
Liabilities						
Derivatives	18	3,372		3,372	-	**3,372**
Financial instruments for which fair value is disclosed						
Liabilities						
Bank loans	14	110,334		110,334		**110,334**

The table below presents allocation between the fair value hierarchy levels of the Company's financial instruments as at 31 December 2020:

	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Financial instruments for which fair value is disclosed						
Liabilities						
Bank loans	14	115,058	-	115,058	-	**115,058**

28 Events after the reporting period

28.1 War in Ukraine

In February 2022, the Russian Federation invaded Ukraine. The military actions affect not only the economy in Ukraine, Russia or Belarus, but also the EU and global economy. As at the date these financial statements were authorised for issue, the situation in Ukraine is extremely volatile and inherently uncertain. In the wake of the ongoing and dynamic nature of the military operations management concluded that a reliable estimate of the financial impact cannot be presently made. In 2021, the Company had no sales, purchases or other transactions with Ukrainian, Belarusian or Russian companies.

28.2 Other events

Re-financing agreement with Swedbank, AB

On 24 March 2022, the Company entered into a re-financing agreement with Swedbank, AB for EUR 110 million.

New Member of the Management Board

New Member of the Management Board was elected on 31 March 2022. Mantas Mikalajūnas changed former Member of the Management Board – Nerijus Rasburskis. The term of office of newly elected Member is from 31 March 2022 to 29 April 2024.

"KPMG Baltics", UAB
Lvivo str. 101
LT 08104 Vilnius
Lithuania

+370 5 2102600
vilnius@kpmg.lt
home.kpmg/lt

Independent Auditor's Report

To the Shareholders of UAB Kauno kogeneracinė jėgainė

Opinion

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

- the statement of financial position as at 31 December 2021,
- the statement of profit or loss and other comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, comprising 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 2021, 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 Matter

The financial statements of UAB Kauno kogeneracinė jėgainė as at and for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 1 March 2021.

Company code: 111494971
VAT code: LT114949716

Other Information

The other information comprises the information included in the Company's annual management report on pages 4 to 34, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

On behalf of KPMG Baltics, UAB

EDVINAS ŽUKAUSKAS

Digitally signed by EDVINAS ŽUKAUSKAS
Date: 2022.04.27 16:29:10 +03'00'

Edvinas Žukauskas
Certified Auditor

Vilnius, the Republic of Lithuania
27 April 2022

The electronic auditor's signature applies only to the Independent Auditor's Report on pages 75 to 77 of this document.

6.3 Information on the auditor

Independent auditor's selection

PricewaterhouseCoopers, UAB was designated as independent auditor for the period from 2015 to 2018. PWC provided independent audit services to the parent company for 10 years; therefore, considering the requirements for independent audit, the Group had to change its independent auditor. Following the tender organised in 2018-2019, UAB Ernst & Young Baltic (EY) was appointed as independent auditor by the General Meeting of Shareholders for 2019-2021.

Due to increased workload and needs of the Group, on 26 February 2021 a decision not to extend the agreement of financial audit services with EY for 2019–2021 was adopted. Therefore, on 30 April 2021, new public procurement of audit services was started for the reporting periods 2021 and 2022. After the tender, KPMG Baltics, UAB was appointed as the new auditor by the General Meeting of Shareholders on 23 September 2021.

Future selections of independent auditor will continue to be carried out according to best practices, by public tenders and ensuring that potential providers of these services meet the set criteria.

Independent auditors

2021–2022	2019–2020	2015–2018
KPMG Baltics, UAB Lvivo g. 101 LT-08104 Vilnius, Lithuania	Ernst & Young Baltic, UAB Aukštaičių g. 7 LT-11341 Vilnius, Lithuania	PricewaterhouseCoopers, UAB J. Jasinskio g. 16B LT-03163 Vilnius, Lithuania

Independent auditor's services and fees

During the period of 2020–2021, the following services have been provided by the independent auditor and its international partners.

Independent auditor's services and fees, EUR thousand

	2021	2020
Audit of the annual financial statements under the agreements (KPMG Baltics, UAB)	27	-
Audit of the annual financial statements under the agreements (Ernst&Young Baltic, UAB)	-	18
Other	1	-
Total	**28**	**18**

Additional information

7.1	Other important statutory information	80

7.1 Other important statutory information

The Annual report provides information to the shareholders, creditors and other stakeholders of UAB Kauno kogeneracinė jėgainė (hereinafter – the Company) about Company's and its controlled companies', if any, operations for the period of January–December 2021.

The Annual report has been prepared by the Company's administration in accordance with the requirements of the Law on Financial Reporting of Undertakings of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania, the Law on Consolidated Financial Reporting of Groups of Undertakings of the Republic of Lithuania, and taking into consideration the description of the guidelines for transparency of the activities of state-owned enterprises. Securities of the Company are not included and they 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 (Jėgainės St. 6, Biruliškių village, LT-54469 Kaunas region) on working days from Mondays to Thursdays from 7.30 am to 4.30 pm, and on Fridays from 7.30 am to 3.15 pm (with a prior arrangement).

Company details

1. Company name: UAB Kauno kogeneracinė jėgainė
2. Legal form: UAB (limited liability company)
3. Authorised capital: EUR 40,000,000.00
4. Date and place of registration: 2015-02-27, Vilnius, the Republic of Lithuania
5. Company code: 303792888
6. Company address: Jėgainės St. 6, Biruliškių village, LT-54469 Kaunas region
7. Company register: SE Centre of Registers Register of Legal Entities
8. Telephone No: +370 615 69294
9. Fax No: -
10. E-mail: info@kkj.lt
11. Website: www.kkj.lt

Legal Notes

1. There were no significant events after the end of the financial year.
2. The Company did not use any derivative financial instruments and hedging instruments that are subject to accounting of hedging transactions, which would be significant in assessing the Company's assets, equity, liabilities, financial position and performance results.
3. As at the beginning of the reporting period, the Company did not have own shares and did not acquire any during the reporting period.
4. The Company does not have any branches or representative offices.
5. The Company foresees further sustainable development of its existing operations seeking to ensure higher profitability of the activities and efficiency of asset use in a long term. Research will be carried out upon need.
6. The Company's operations are in compliance with the requirements of environment protection legislation.

Significant transactions

There are no significant agreements the Company is a party of that would come into force, change or be terminated in case of change in the Company's control.

There are 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 its private interests and (or) other duties.

There are no agreements of the Company or its governing body members 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 controls of the Company.

Main features of the internal control and risk management systems related to the preparation of the 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.

Employees of the entity that provides audit services to the Company make sure that the financial statements are prepared properly and that all data are collected in a timely and accurate manner. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the financial statements are monitored and managed.

Alternative performance measures

Alternative Performance Measures (hereinafter - APM) – adjusted figures used in this report refer for measurement of 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 website of AB Ignitis grupė (link).

Notice on the language

In the event of any discrepancy between the Lithuanian and the English versions of the document, the Lithuanian version shall prevail.