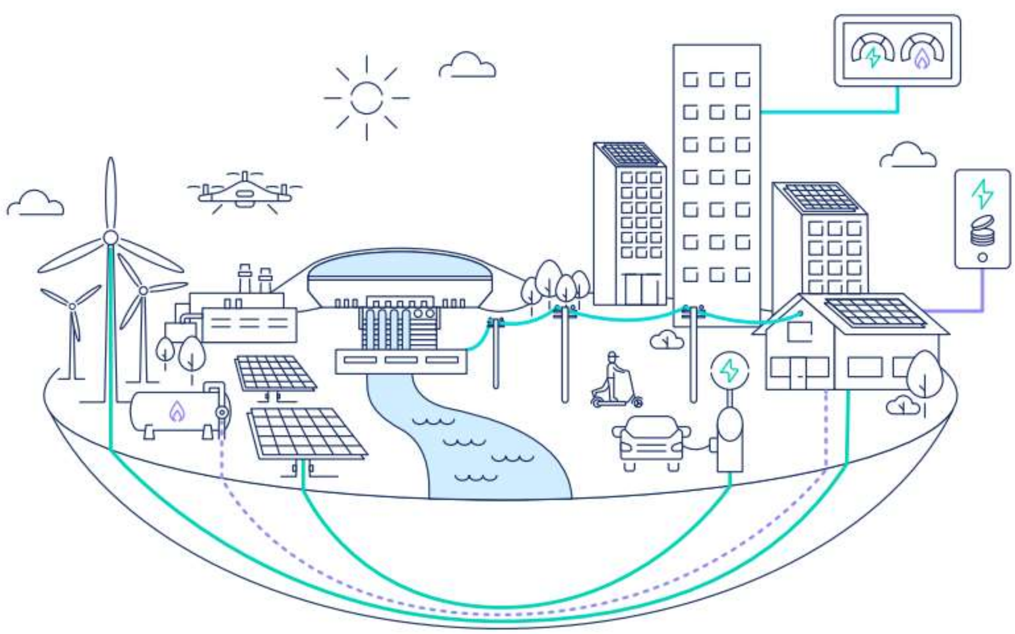
Kauno kogeneracinė jėgainė

UAB KAUNO KOGENERACINĖ JĖGAINĖ

Annual report 2022

Annual report for the year ended 31 December 2022 and the financial statements of the Company for the year ended 31 December 2022, 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 2022



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Company code: 303792888

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Overview

1.1 CEO's statement

The year 2022 could be described as a year of stabilisation and efficient operation of the plant. Successfully managed challenges of the COVID-19 pandemic, which started in 2020, when we took all available measures to protect the Company's employees, the continuous development of the team's competences and the experience gained allowed us to ensure not only a stable continuity of operations, but also to increase the efficiency of the heat and power generation day by day.

The uninterrupted operation of the technological equipment and the reliable work of the company's team, together with the atypical situation in the energy markets, made it possible to achieve a truly impressive result. In 2022, UAB Kauno kogeneracinės jėgainės (KKJ) EBITDA amounted to EUR 34.4 million (EUR 13.1 million in 2021). The most significant contributor to this positive development for the Company was the increase in electricity prices on the power exchange. The increase in EBITDA also led to an increase in net profit: EUR 26.8 million in 2022 (EUR 7.2 million in 2021).

One of the most important changes that took place last year and which has a significant impact on the operation of the plant is the possibility to increase the amount of non-recyclable waste with energy value used for energy production from 200,000 to 255,000 tonnes per year. The Environmental Protection Agency (EPA) approved the Environmental Impact Assessment (EIA) report, which led to the renewal of the Integrated Pollution and Integrated Prevention Control Permit (IPPC). The start of operations in 2022 and the renewal of the IPPC allowed us to manage almost 210,000 tonnes of waste and generate 469 GWh of heat and 184 GWh of electricity from it.

Other significant events for the Company's operations in 2022 include a EUR 110 million loan from Swedbank to refinance a loan previously granted for the construction of the power plant project.

Last year we also had the renewal of KKJ's Board, approval for the renewal of the shareholders' agreement and adoption of the new version of the articles of association of KKJ.

It is also very important to mention the environmental aspect of our activities. In our day-to-day operations, we pay particular attention to ensuring that the IPCP permit does not exceed the permissible emission limits set out in the IPCP permit. We are proud that the efforts of our employees and the pollution reduction measures we have put in place at the plant allow us to ensure that the environmental impact of the operation of KKJ is significantly lower than the current legislation. Anyone can see this by visiting our website www.kkj.lt, where we publish the results of our regular environmental monitoring on a daily basis. It is obvious that this is noticed and appreciated by the residents of Kaunas city and district. This is the assumption made by the results of the annual population survey, according to which as many as 70% of the residents have a favourable opinion of KKJ's activities.

We continue to strive to make our activities as open and transparent as possible to the public. Therefore, in 2022 we continued to organise regular guided tours for all those who want to learn more about KKJ's activities. These tours are an excellent opportunity for anyone interested to see our plant up close and to get a deeper insight into KKJ's daily operations, waste-to-energy technology and equipment.

In 2023, our ambition remains unchanged: to minimise the environmental impact of our activities, to enable the country's landfill sites to be reduced as rapidly as possible, and thus to contribute to a safer and cleaner environment.

CEO Ramūnas Paškauskas

1.2 Business highlights

During the reporting period

March

- The Environmental Protection Agency (EPA) under the Ministry of the Environment approved the Environmental Impact Assessment (EIA) report.
- A loan agreement for EUR 110 million was signed with AB Swedbank. These funds will be used to refinance the loan previously granted for the KKJ project.
- Head of Regulated Activities at Ignitis Group and Member of the Board Mantas Mikalajūnas joined the KKJ Board.

October

- KKJ renewed its pollution and integrated control permit (IPCP) by increasing the amount of non-recyclable but energy-containing waste used for energy production from 200,000 to 255,000 tonnes per year.
- Following the entry into force of the changed heat auction procedure, during the heating season of the centralised heating supplier of Kaunas city, the main (monthly) and balancing (weekly) auctions of heat quantity and price on the BALTPOOL exchange were organised.
- The European Council adopted new short-term measures in the energy sector. One of the main points of this intervention is a temporary cap of EUR 180/MWh on EU revenues from electricity produced below marginal cost. Any revenues above this level will be collected by EU governments and redistributed to energy consumers to reduce the impact of high energy prices.

December

- The methodology for determining market revenues and calculating surplus revenues set out by NERC for the application of the temporary cap of EUR 180/MWh on EU electricity revenues entered into force on 1 December 2022.
- KKJ shareholders approved the renewal of the shareholders' agreement and approved the new version of the Company's articles of association.

After the reporting period

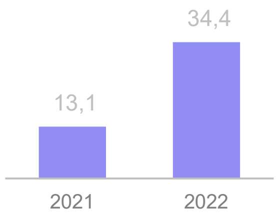
January

- As of 1 January 2023, the methodology for setting the cap on the rate per tonne for the incineration of municipal waste with an energy content not suitable for recycling and reuse after sorting entered into force with the main aim of regulating the cap on the rate per tonne for incineration of municipal waste.
- Amendment to the Shareholders' agreement was signed on 10 January 2023.
- A new version of the Company's articles of association was registered on 19 January 2023.

1.3 Performance highlights

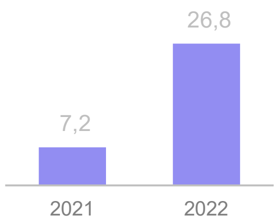
Financial performance

EBITDA
EUR million



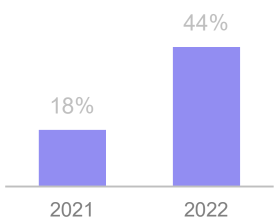
EBITDA was mainly driven by the increase in the Company's sales. The increase in electricity sales was mainly due to higher prices on the power exchange. The average Nord Pool electricity price in 2022 was EUR 230/MWh (EUR 90/MWh in 2021). Thermal energy sales were influenced by the higher price of the heat auctions won. Waste management revenues increased due to the renewal of industrial and municipal waste management contracts in 2022 and waste treatment per tonne rates. The increase in revenues was partly offset by the combined increase in production and operating costs.

Net profit
EUR million



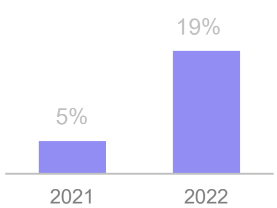
The increase in net profit was directly attributable to higher EBTIDA.

ROE (LTM)
%



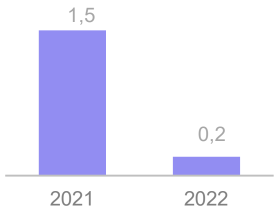
Return on equity increases significantly as a result of net profit growth.

ROCE (LTM)
%



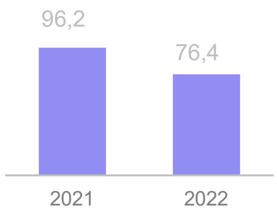
The increase in the return on fixed capital was mainly affected by a decrease in the net debt balance.

Investments
EUR million



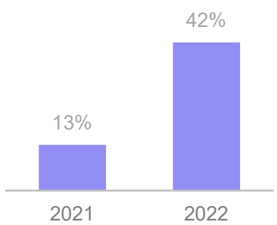
As the Company moves from project-based to process-based activities, the need for investment decreases. The main investments in 2022 are for plant improvement and modernisation works.

Net debt
EUR million



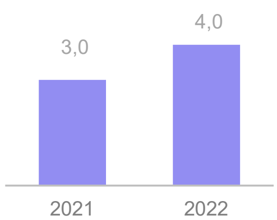
Net debt decreases due to the annual repayment of the investment loan portion of the power plant project and an increase in the cash balance.

FFO (LTM) / Net debt
%



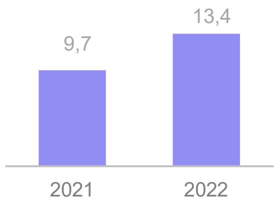
The higher ratio is determined by increased free cash flow and decreased net debt.

Operating expenses
EUR million



The increase in operating costs was determined by an increase in repair and administrative costs. The increase in repair costs was due to the expiry of the warranty period for the plant equipment. In addition, increases in market prices for goods and services increased repair and administrative cost.

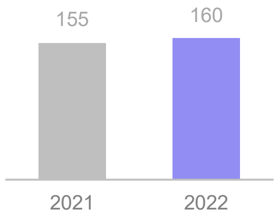
Production costs
EUR million



The increase in production costs was mainly determined by the increase in the market price of emission allowances. Production costs were also significantly affected by the increase in the cost of chemicals and consumables.

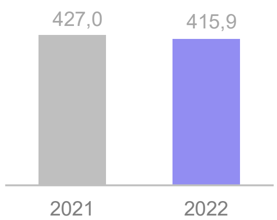
Activities

Electricity produced (net)
GWh



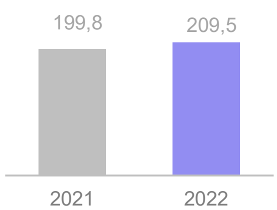
The increased amount of waste transformed in the boiler enabled more electricity to be generated.

Thermal energy produced (net)
GWh



Due to a change in the way heat is purchased, the Company cannot sell all the heat it can produce.

Amount of waste handled
thousand tonnes



The updated Integrated Pollution Prevention and Control (IPCP) permits allowed transforming more waste at the plant.

Business overview

2.1 Business profile

Description of the Company's activities

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

Company’s business model

The plant produces ~500 GWh of heat and ~170 GWh of electricity per year. The heat energy is fed into the centralised heat supply network of Kaunas city, and the electricity is fed into the national electricity transmission network. The plant operates continuously at base load and medium load for at least 8 000 hours per year and produces about 40% of the total heat demand of Kaunas city.

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

Major customers

The 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 sold to Ignitis AB and on the Nord Pool AS exchange;
- Sale of heat - heat is sold in heat auctions organized by Baltpool in Kaunas district heating system (DHS). DHS of Kaunas is owned by AB Kauno energija.

2.2 Business environment

The Company carries out commercial activities generating income from waste management, heat and electricity. The Company's main production costs consist of production raw materials (i. e. water and chemical substances), slag and ash treatment costs and the cost of purchasing CO_2 emission allowances.

Waste management business environment

The Company can treat up to 255 thousand tonnes of municipal and non-hazardous industrial waste. The main fuel is municipal waste supplied from mechanical biological treatment facilities (with a lower heating value of ~10-12 MJ/kg). The main fuel is municipal waste supplied from Kaunas MBT (mechanical biological treatment) facilities and MBTs in the surrounding counties (Alytus, Marijampolė and others). 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, where waste managers offer quantities of non-hazardous industrial waste at an agreed price.

Heat and electricity trading business environment

Kauno kogeneracinė jėgainė UAB is connected to the centralised heat system (CHS) of Kaunas city, where the only heat supplier AB Kauno energija (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 for the first month (after the current month). 10 energy production facilities operate within Kaunas City CHS, the majority of which (7) are independent heat producers (IHPs).

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

2.3 Strategy

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. 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. It 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.

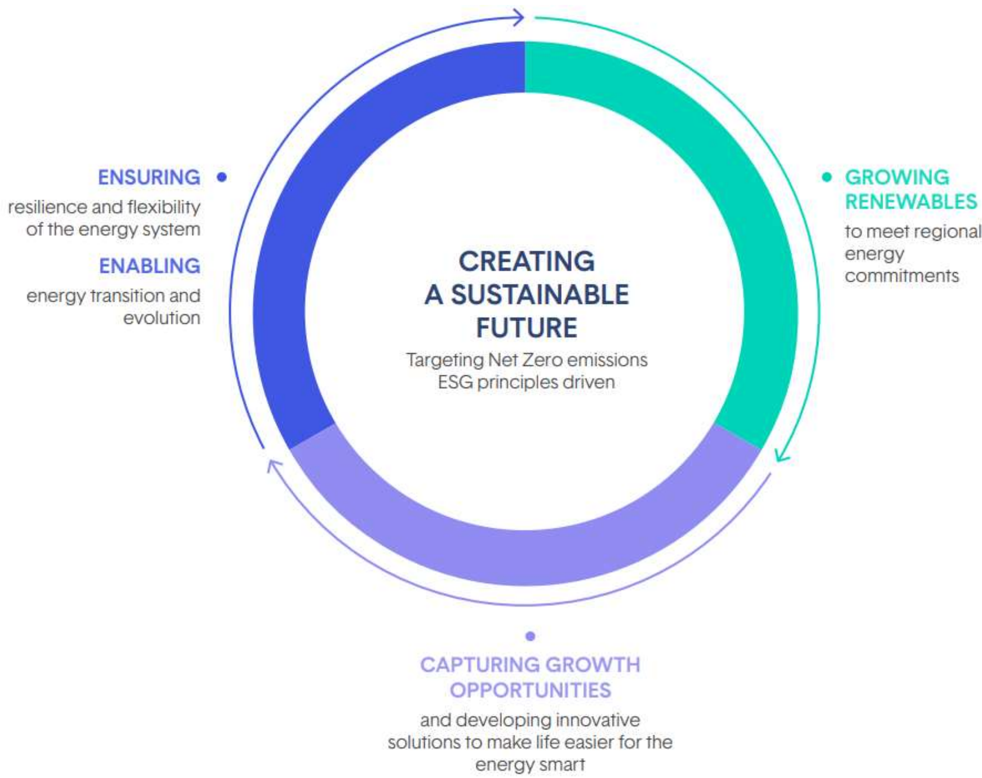
In implementing its strategic priorities, we pay particular attention to financial discipline. Engaged employees, agile teams, learning culture, organisation with strong governance model and digital approach are the integral parts of the Strategy of Ignitis grupė.

To ensure strategy implementation on an annual basis, Ignitis grupė announces a strategic plan with strategic objectives and key performance indicators for the next four years, which guide the subsidiaries of the Group in their activities and are their responsibility to achieve.

Our values

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

In pursuit of our **vision**, we change,
to make the **world more sustainable**.



In all our **activities**, we are united in our
mission to create an **energy-smart world.**

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	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.	Power plant availability factor, within emission limits, to energy 200-255 thousand tonnes of waste per month
Sustainability	Implementation of the Sustainable Development Goals - Environment, Social Responsibility and Good Governance Practices: • 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 CO2 neutrality by 2050.	Greenhouse gas emissions, CO2 thousand tonnes - change according to plan Fatal accidents 0; TRIR
People and culture	People and culture: engaged people, flexible teams, learning everywhere, all the time and fast.	eNPS,% Stable and positive growth
Attention financial discipline	Return targets, dividends, stable return on capital.	Adjusted EBITDA; OPEX.

Investments

The main investments will be made during the construction of the plant, i.e. until the end of 2020. As the Company moves from design to process operations, the need for investment is decreasing. The main investments in 2022 are for the improvement and modernisation of the plant. In 2023, it is planned to carry out upgrades to the plant’s existing systems and to purchase additional equipment to enable safer operation of the plant.

Results

3.1 Annual results

Revenues

In 2022, revenues from customer contracts more than doubled compared to 2021, reaching EUR 58.8 million. The main factors behind the increase in revenues were the strong increase in electricity and heat prices on the power exchange.

The renewal of the Integrated Pollution Prevention and Control (IPPC) permit, which allows the treatment of up to 255,000 tonnes of waste from 2022 (200,000 tonnes in 2021), also contributed to the increase in revenue. Actual waste treated was 209 thousand tonnes (199 thousand tonnes in 2021).

Revenue by type of activity, million EUR

	2022	2021	∆	∆,%
Revenue from contracts with customers	58.8	28.6	*30.2*	*105.6%*
Other revenue	0.6	0.5	*0.1*	*20.0%*
Revenue	**59.4**	**29.1**	***30.3***	***104.1%***

The customer contract revenue group consists of the Company's three main revenue streams - electricity and heat sales, and waste management revenues. The other income consists of sales of metal recovered from waste, which grew mainly due to an increase in the metal price on the market.

Revenue by countries, million EUR

	2022	2021	∆	∆,%
Lithuania	59.4	29.1	*30.3*	*104.1%*
Other[1]	0	0	*0*	*0%*
Revenue	**59.4**	**29.1**	**30.3**	**104.1%**

[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. All the revenue generated is earned in Lithuania.

Expenses

The Company's costs are mainly driven by the cost of emission allowances (EA), which amounted to EUR 9.1 million in 2022 (EUR +2.5 million). The cost of allowances was significantly affected by the increase in the price of allowances on the stock exchange.

Depreciation and amortisation charges in 2022 amounted to EUR 6 million (+ EUR 0.1 million). The increase in depreciation and amortisation expense is minimal as the Company had no major investments in 2022.

The cost of electricity and heat production in 2022 was EUR 4.3 million (+1.2 million). The main contributor to the increase in these production costs is the significant increase in the cost of chemicals used in the production process. Increases in the price of natural gas also contributed to the increase in production costs.

Payroll costs amounted to EUR 1.6 million (+ EUR 0.2 million). The increase in wage costs is due to an increase in the number of posts and salary increases.

Other expenses amounted to EUR 10 million (+EUR 5.1 million). The bulk of other charges is made up of derivative costs. They were affected by electricity price swaps entered into by the Company due to the significant increase in the electricity market price.

Finance costs of EUR 2.8 million (+ EUR 0.8 million) were incurred in 2022. The loan for the construction of the plant was refinanced in May 2022. The Company entered into an interest rate swap to manage the upside risk on the cost of the loan. As a result, the Company incurred higher financial costs in the short term.

Overall, the Company's costs in 2022 amounted to EUR 33.8 million (+ EUR 9.8 million). The main factors influencing costs are:

- Negative impact of electricity price hedges;
- Increased market price for emission allowances;
- Increased price of chemicals.

Expenses, million EUR

	2022	2021	Δ	Δ,%
Use of emission allowances	9.1	6.6	*2.5*	*37.9%*
Depreciation and amortisation	6.0	5.9	*0.1*	*1.7%*
Electricity and heat production	4.3	3.1	*1.2*	*38.7%*
Salaries and related costs	1.6	1.4	*0.2*	*14.3%*
Other	10.0	4.9	*5.1*	*104.1%*
Financial expenses	2.8	2.0	*0.8*	*40.0%*
Total:	**33.8**	**24**	***9.8***	***40.8%***

EBITDA

In 2022, EBITDA was EUR 34.4 million (+ EUR 21.3 million). The planned sales of electricity and heat, together with the strong increase in energy raw material prices on the market, led to a strong EBITDA growth.

Net profit

Net profit was EUR 26.8 million (+ EUR 19.6 million). The increase in net profit was driven by higher EBITDA, but the final result was slightly weighed down by higher finance costs.

Investments

Fixed assets purchased during 2022 amount to EUR 0.2 million (EUR -1.3 million). As the Company shifts from design to process activities, the number of modifications and improvements required decreases year by year.

Balance sheet

Balance sheet, million EUR

	2022	2021	∆	∆,%
Non-current assets	141.5	139.4	*2.1*	*2%*
Current assets	56.5	27	*29.5*	*109%*
TOTAL ASSETS	**198**	**166.4**	***31.6***	***19%***
Equity	77.9	44.2	*33.7*	*76%*
Total Liabilities	120.1	122.2	*(2.1)*	*(2%)*
Non-current liabilities	100.8	0	*100.8*	*n/a*
Current liabilities	19.2	122.1	*(102.9)*	*(84%)*
TOTAL EQUITY AND LIABILITIES	**198**	**166.4**	***31.6***	***19%***
Asset turnover APM	0.3	0.2	*0.1*	*72%*
ROA APM	15%	4%	*n/a*	*11 p. p.*
Gross liquidity ratio APM	2.9	0.2	*2.7*	*1250%*
Working capital / Revenues (LTM) APM	38%	37%	*n/a*	*1 p. p.*

Assets

In 2022, the value of the assets amounted to EUR 198 million (+ EUR 31.6 million). The net profit earned during the year strongly boosted the cash balance, which also increased the overall level of assets.

Equity

Shareholders’ equity at the end of 2022 amounted to EUR 77.9 million (+ EUR 33.7 million). The increase in equity is due to the net profit earned during the year.

Liabilities

Liabilities at the end of the year amounted to EUR 120.1 million (EUR -2.1 million). According to the new credit agreement, the company repays the balance of the loan within 10 years, which results in a year-on-year decrease in the amount of liabilities.

Financing

Net debt

In 2022, the net debt amounted to EUR 76.4 million (EUR -19.8 million). The net debt balance is significantly lower due to the cash generated during the year. Also, part of the Company's loan has been repaid in accordance with the loan repayment schedule.

Net debt, million EUR

	31/12/2022	31/12/2021	Δ	Δ,%
Total non-current financial liabilities	**100.8**	**0**	***100.8***	***n/a***
Long-term loans	100.8	0	*100.8*	*n/a*
Total current financial liabilities	**7.3**	**110.4**	***-103.1***	***-93.3%***
Current part of long-term loans	7.3	-	*7.3*	*n/a*
Short-term loans	-	110.1	*-110.1*	*-100.0%*
Payable interest (including accrued)	-	0.3	*- 0.3*	*-100.0%*
Financial liabilities APM	**108.2**	**110.4**	**-2.2**	**-2.0%**
Cash and cash equivalents and funds in the escrow account	**31.8**	**14.1**	***17.7***	***125.5%***
Cash and cash equivalents	31.8	14.1	*17.7*	*125.5%*
Net debt APM	**76.4**	**96.2**	**-19.8**	**-20.6%**
Net debt / adjusted EBITDA (LTM) APM	2.2	7.3	*(5.1)*	*(70.0%)*
Net debt / EBITDA (LTM) APM	2.2	7.3	*(5.1)*	*(70.0%)*
FFO (LTM) / Net debt APM	42%	13%	*n/a*	*29 p. p.*
Financial liabilities / Equity APM	139%	250%	*n/a*	*(111 p. p.)*
Equity level APM	40%	30%	*n/a*	*10 p. p.*

The FFO (LTM) / Net debt ratio increased slightly from 13% to 42%. Increasing free cash flow from operating activities and decreasing net debt led to an improved ratio.

Dividends

The rules for distributing the Company's profits are set out in the shareholders' agreement. The shareholders of the Company have agreed that 100% of the profits shall be allocated to dividends if the covenants in the agreement are met.

Shareholders have the right to allocate a smaller share of distributable profits to dividends, to donate part of the profits.

In 2023, the Company plans to pay dividends out of profits accumulated to the end of 2022.

Dividends for the year, EUR million

	2022	2021	Δ	Δ,%
Amount of dividends for the period	**29.2**	**0**	***29.2***	***n/a***

Key performance indicators

Indicator	Measure-ment unit	2022	2021	Δ	Δ,%
Key performance indicators					
Amount of waste handled	thousand t	209	200	*9.0*	*4.5%*
Heat energy produced (net	GWh	416	427	*(15.0)*	*(2.5%)*
Electricity produced (net)	GWh	160	155	*5.0*	*3.3%*
Fossil CO2 emissions	thousand t	122	112	*10.0*	*8.9%*

3.2 Summary for three years

Key financial indicators

		2022	2021	2020
Revenue	EUR million	59.4	29.1	7.2
Net profit	EUR million	26.8	7.2	(0.5)
Adjusted net profit	EUR million	26.8	7.2	(0.5)
Investments	EUR million	0.2	1.5	70.5
FFO	EUR million	32.5	13.1	2.9
FCF	EUR million	20.0	0.1	(51.4)
ROE	%	43.9%	17.8%	(1.4%)
Adjusted ROE	%	43.9%	17.8%	(1.4%)
ROCE	%	19.3%	5.2%	0.4%
Adjusted ROCE	%	19.3%	5.2%	0.4%
ROA	%	14.7%	4.4%	(0.4%)
Adjusted ROA	%	14.7%	4.4%	(0.4%)
		2022	2021	2020
Total assets	EUR million	198.0	166.4	159.4
Equity	EUR million	77.9	44.2	37.0
Net debt	EUR million	76.4	96.2	101.8
Net working capital	EUR million	22.5	10.6	(0.2)
Net debt / EBITDA	times	2.2	7.3	35.5
Net debt / adjusted EBITDA	times	2.2	7.3	35.5
FFO / Net debt	%	41.9%	12.9%	2.8%

Key performance indicators

Indicator	Measure-ment unit	2022	2021	2020
Key performance indicators				
Amount of waste handled	thousand t	209	200	142
Heat energy produced (net	GWh	416	427	226
Electricity produced (net)	GWh	160	155	71
Fossil CO2 emissions	thousand t	122	112	87

Governance report

4.1 Management board and CEO

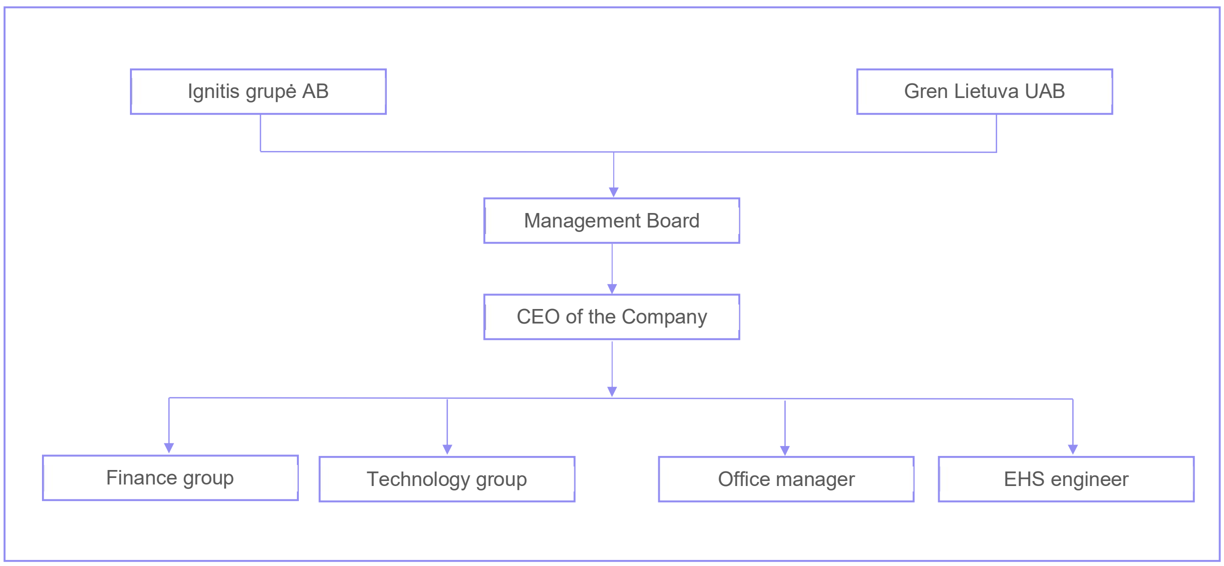
Governance model of the Company

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).

Structure



Organisation structure of the Company (as at 31 December 2022).

Shareholders, their rights and functions

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 2022, 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

Overview

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

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

- the Company's management structure and staff positions, and the maximum number of the Company's staff posts;
- the pricing principles applied on an ongoing basis for the Company's business-related energy services and commodities, and the pricing ranges for non-business-related services;
- conclusion, modification and/or termination of contracts for the supply of fuel needed to run the business;
- conclusion, modification and/or cancellation of contracts for the acquisition of non-current assets for a price exceeding EUR 2,500,000;
- conclusion, amendment and/or termination of other major contracts necessary for the implementation of business projects where the value of the contract in question exceeds EUR 300.00;
- 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 changed during the reporting period; on 31 March 2022, Mantas Mikalajūnas was elected to the Management Board of the Company until the end of the current term of office of the Management Board (until 29 April 2024).

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 during the reporting period

A total of 42 meetings of the Management Board of the Company were held in 2022. The table below provides an overview of the attendance at meetings.

Overview of attendance of Board members at Board meetings

Full name	
Andrius Vilkauskas	42 / 42
Vitalijus Žuta	42 / 42
Mantas Mikalajūnas[1]	30 / 30
Nerijus Rasburkis[2]	12 / 12

* The figures show how many of the meetings organised in 2022 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.

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	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;	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.

[1] On 31 March 2022, Mantas Mikalajūnas has been elected as a new member of the Management Board, which reflects difference in attendance

[2] On 31 March 2022, Nerijus Rasburkis has resigned from the Management Board, which reflects difference in attendance

	activities of the assessment of the compliance with the NATO Qualification Requirements for the products manufactured by the GGG, and the submission of the products to the Qualification Tests, and the preparation of the technical documentation. In 2005, he received his PhD degree in the field of technological sciences for his mechanical engineering thesis "Modelling and study of ballistic processes of small calibre bullets". In the 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.	2005 - Doctor of Science in the field of technological sciences for Mechanical Engineering.	Donelaičio St. 73, Kaunas, company code 111950581). Other managing positions: Vice President and member of the Presidium of the Lithuanian Engineering Industry Association LINPRA (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).

	**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. Member of the Board at the following companies: AB Ignitis grupė (Laisvės pr. 10, Vilnius company code 301844044) UAB Vilniaus kogeneracinė jėgainė (Laisvės pr. 10, Vilnius company code 303782367) Member of the Supervisory Board: UAB Ignitis (Laisvės pr. 10, Vilnius company code 303383884)
	**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)

Chief Executive Officer of the Company

Overview

The Chief Executive Officer is a single-person governing body of the Company. The competence, election and dismissal of the Company's Chief Executive Officer 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 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 of the Company** Term of office: from 01-01-2023 to 01-01-2028	He has been working in the energy sector since 2001, including 14 years in senior management positions. Since 2016, he has been working as the 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.

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

Ignitis grupės's strategy identifies the following strategic directions for People and Culture: engaged people, flexible teams, learning everywhere and always. Ignitis grupė's People and Culture Policy sets out the principles and defines the key attitudes that guide the Company's activities in managing its people and culture potential and in achieving its strategic objectives.

The Company's People and Culture policy aims to retain and attract the best people to professionally develop the organisation's existing activities and to create new business opportunities and innovations, thus building a traditional yet innovative organisation in a sustainable way. The aim is for employees to uphold the values of the organisation: open-minded, developmental, responsible and partnership-oriented.

Employees, their diversity and representation

As at 31 December 2022, the Company had 41 employees (39 employees at 31 December 2021).

In the Company, as in the whole Ignitis grupė, the nature of the job opportunities is not dependent on the gender of the employee. The Company ensures equal opportunities and diversity among its employees and does not tolerate direct or indirect discrimination in all areas of their activities. As at 31 December 2022, the Company's workforce was composed of 87.8% of men and 12.2% of women. In case of professionals, men accounted for 89% and women - 11%. Distribution of middle managers: 100% male, 0% female.

The Company offers job opportunities for people of all ages. As at 31 December 2022, the Company had the highest number of employees in the 25-36 age group (56%) and the lowest number of employees in the 17-24 age group (0%). More than 70% of the Company's employees have higher education. The Company promotes and maintains social dialogue with employee representatives. Employees are represented by a Labour Council, which consists of 3 employee representatives.

Remuneration 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 in order to remain 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 (link).

Remuneration policy

The key objective of the Remuneration Policy, applicable to all companies of Ignitis grupė, is to improve performance efficiency and to promote achievement of the strategic targets. Ignitis grupė has defined 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 (link).

Remuneration of the Company's employees

The Company's salary fund in 2022 amounted to EUR 1.6 million, compared to EUR 1.4 million in 2021. Average monthly salary (FBS and STI) for the period of 2021–2022 is provided in the following table.

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

Position category	2022		2021	
	Number of employees	Average salary	Number of employees	Average salary
Chief Executive Officer	1	8,907	1	8,171
Top level executives	2	6,810	2	5,821
Mid-level executives	2	5,030	2	4,653
Experts / Specialists	36	2,757	34	2,425
Qualified workers	-	-	-	-
Total	**41**	**2,952**	**39**	**2,919**

Remuneration of the Company's Management Board and CEO

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 CEO in 2021, EUR (before tax)

Name, surname	FBS	STI	PBM	Total
Ramūnas Paškauskas	85,733	12,329	-	98,062

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

Name, surname	FBS	STI	PBM	Total
Ramūnas Paškauskas	92,004	14,514	-	106,518

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

Name, surname (position)	FBS	STI	PBM	Total
Andrius Vilkauskas (Chairman of the Board)	-	-	13,112	13,112

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

Name, surname (position)	FBS	STI	PBM	Total
Andrius Vilkauskas (Chairman of the Board)	-	-	13,065	13,065

Objectives for 2022

Activity assessment criteria	Weight	Indicators	Implementation
Finances	35%	Ensured operating profit rate (adjusted EBITDA) (20%)	100%
		Operational costs are in line with the budget (OPEX) (15%)	
Green production	15%	Power plant availability ensured during continuous operation (15%)	100%
Sustainable development	40%	Environmental requirements under the Integrated Pollution Prevention Control (IPPC) permit are ensured (10%)	97%
		Occupational safety and health requirements are ensured (10%)	
		Integrated Pollution Prevention and Control permit for KKJ renewed and approved (20%)	
People and culture	10%	Improving the employee experience (eNPS Employee Experience Index improvement) in 2022 compared to 2021 (10%)	70%
		Overall implementation, %	**96%**

Objectives for 2023

Activity assessment criteria	Weight	Indicators
Finances	50%	Ensured operating profit rate (adjusted EBITDA)
		Operational costs are in line with the budget (OPEX)
		Impact of the regulatory environment on adjusted EBITDA
Green production	20%	Power plant availability ensured during continuous operation
Sustainable development	30%	Environmental requirements under the Integrated Pollution Prevention Control (IPPC) permit are ensured
		Improving safety at work*:

** Zero cases of deaths at work (workers and contractors), TRIR < 14 for workers and TRIR 0 for contractors. TRIR (Total Recordable Injury Rate) is the number of accidents per million hours worked. TRIR for contractors assesses contractors with a contract value of more than EUR 0.5 million..*

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

4.4 Risks and their management

Risk management framework

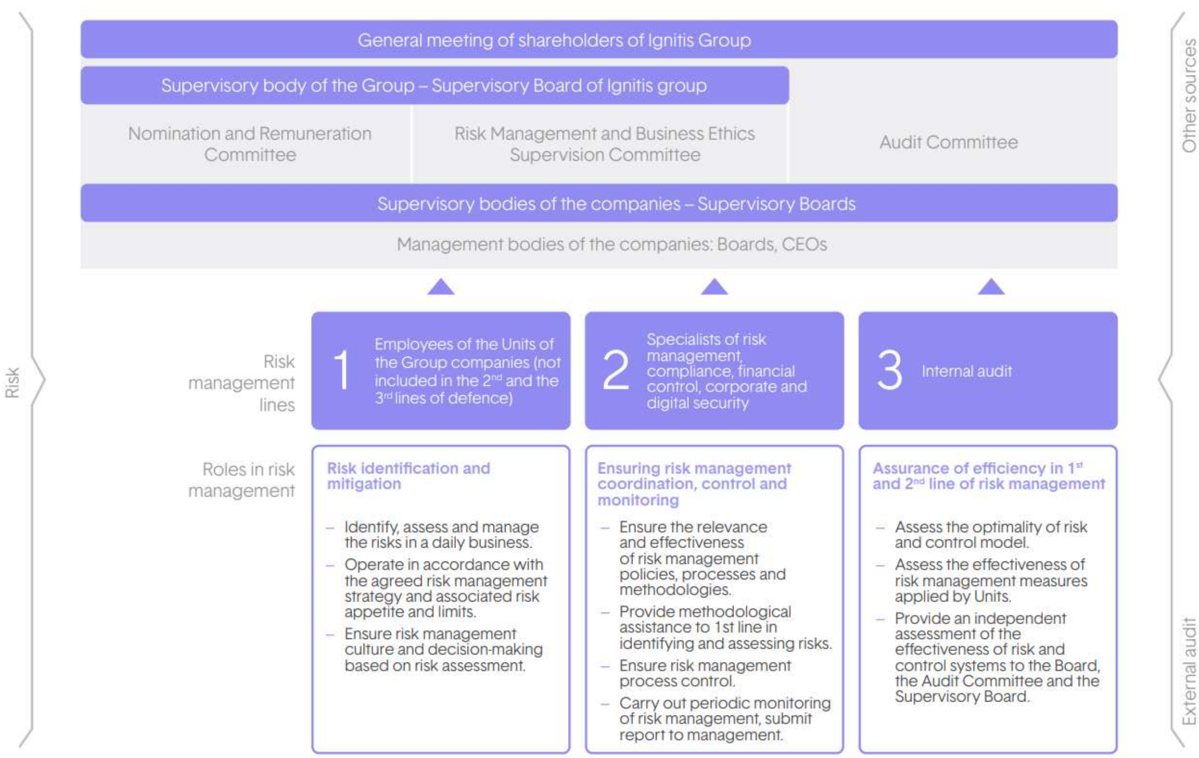
Overview

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

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

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

Three-lines risk management framework



Key risk management objectives:

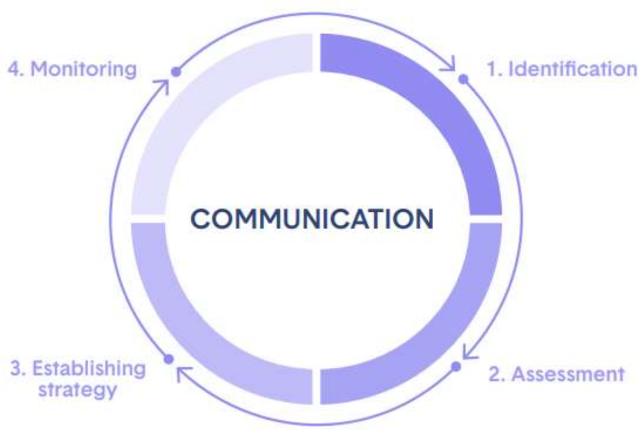
- to eliminate or reduce the impact of the materialised risks on the Company's goals for different periods as much as possible;
- to ensure that correct information is provided to decision-makers, shareholders, and other stakeholders in a timely manner;
- to protect and ensure the Company's reputation and reliability;
- to protect the interests of shareholders, employees, customers, stakeholders, and the public;
- to ensure the stability (including financial) and sustainability of the Company's activities.

Risk management process and key principles

In order to achieve strategic goals and respond to a dynamic operating environment, the Company pays special attention to proactive risk management. Therefore, on a quarterly basis, the Company reviews risk levels, plans new risk management measures as needed, refines key risk indicators, identifies new sources of risk or new risks. The ability to proactively react to changing risks is extremely important and ensures that the management receives the most relevant information to make necessary decisions in a timely manner.

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

Risk management process

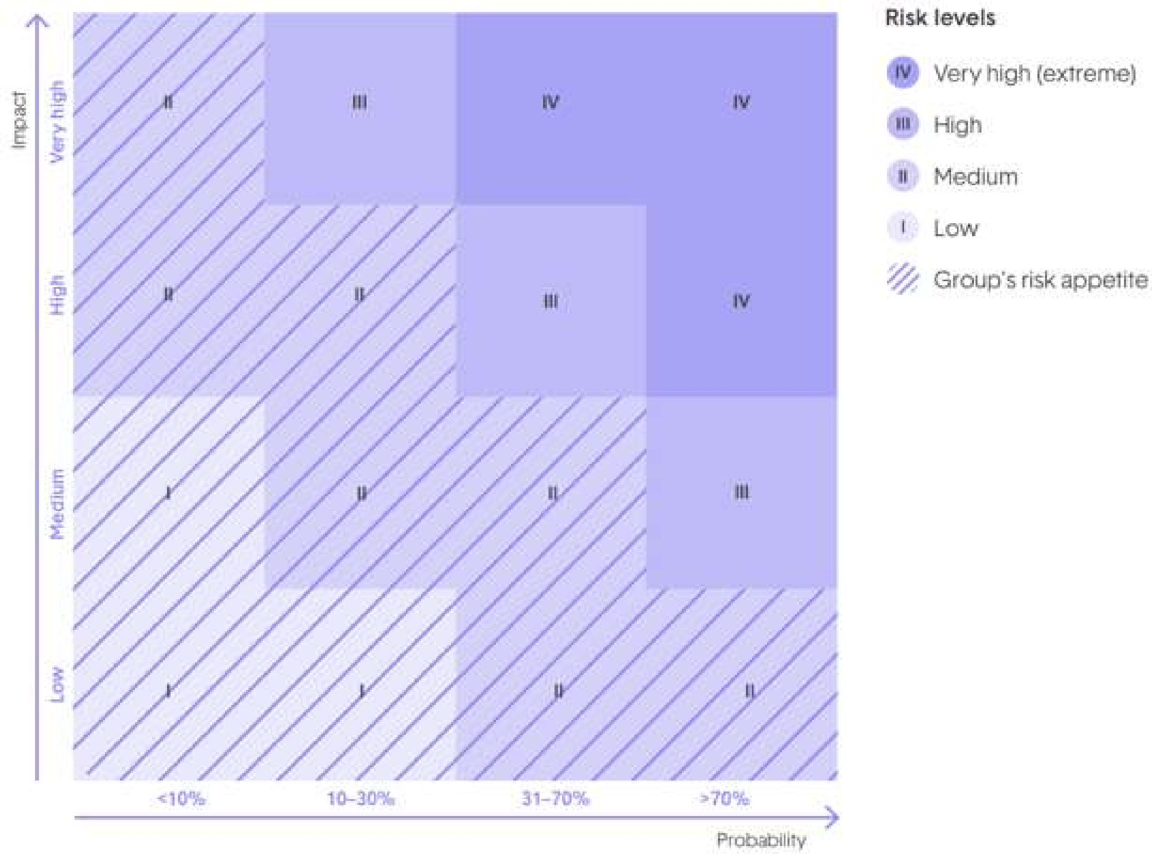


We classify the risks arising from a Company's activities into 4 different types. A description of them is given below.

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

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

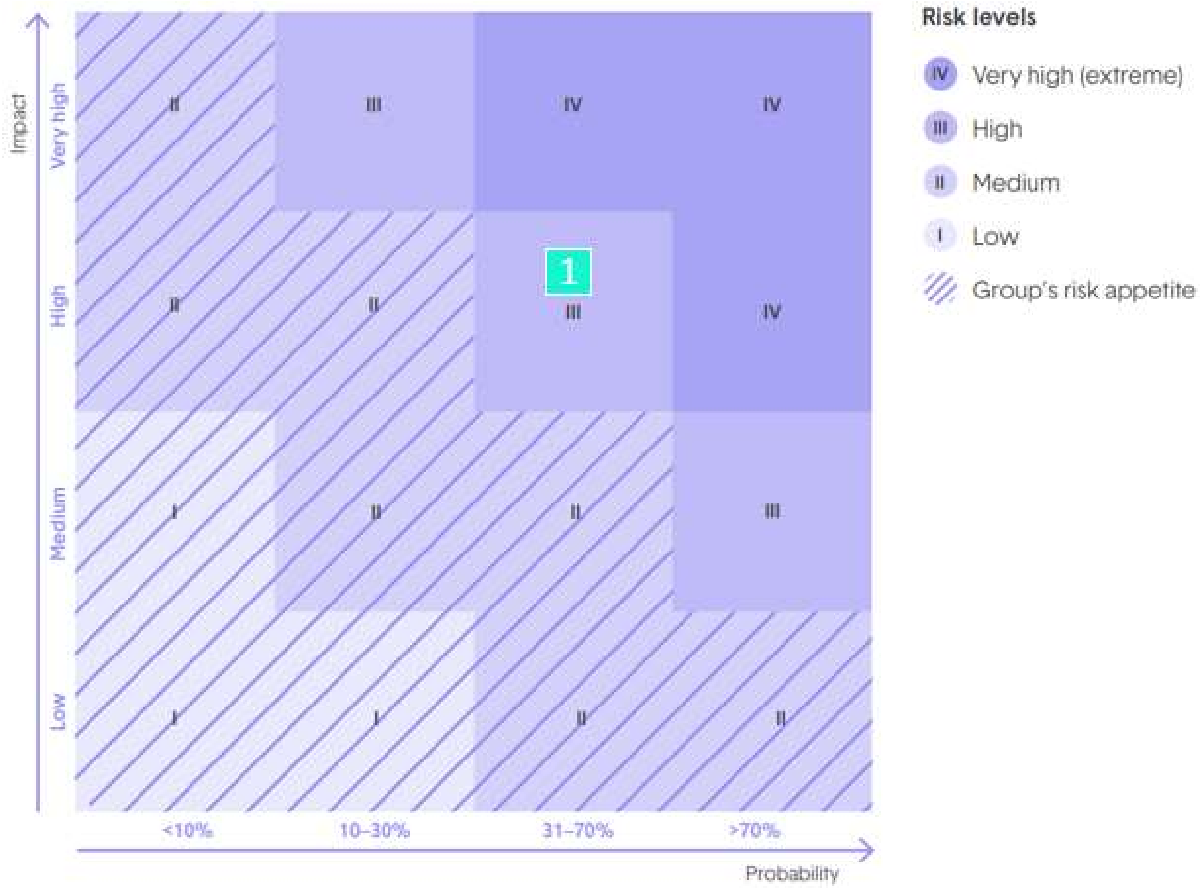
Risk assessment matrix



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

Map of the Company's key risks

The reassessment of the Company's risks at the end of 2022 has not identified any risks that exceed the Company's risk appetite, i.e. at a high or very high level. The risk map shows one high-level risk of the Ignitis Group, namely the risk of cyber-attack (No 1), the occurrence of which could have an impact on the Company. The Ignitis Group's high-level Accident risk (employees and contractors) is assessed as medium in the Company's activities and is not included in the Company's list of key risks.



ESG risks

As countries, international organizations pay more and more attention to various sustainability topics: climate change prevention, anti-corruption, promotion of transparency, implementation of good governance principles, the Company understands its responsibility and contributes to the implementation of sustainability goals. To achieve these goals, the Company focuses its risk management on areas important for environmental protection, social responsibility, and governance (ESG). Therefore, all risks in the Company are assessed while considering ESG factors, i.e., assigning the relevant risks under ESG risks. Below we reveal our main principles on ESG risks' information disclosure, management, and promoting awareness of these risks.

1. **Information related to ESG risks' disclosure:** transparency of sustainability related information is essential to maintain the trust of stakeholders. Therefore, the Company follows the recommendations of the TCFD for the disclosure of this type of information.
2. **ESG risks management:** climate change related risks and opportunities are addressed as an integral part of the Company's daily business and are fully integrated into the applied risk management process, i.e., processes for identifying and assessing risks related to climate change follow the same procedures as for assessing other risks (see "Risk management process" section above). The Company pays special attention in order to reveal a potential impact of climate

change and its related economic, transitional changes on the Company's activities. This impact may arise from physical (extreme) weather phenomena and from the aspiration of states to switch to the Green Deal, which could cause additional requirements for energy sector: to comply with new regulations, implement new technological solutions, manage reputational risks, respond to fast growing market demand for green solutions, etc. Climate change can be a negative factor in assessing the likelihood of materialisation of various risks and/or assessing the potential impact of risks on finance, reputation, compliance, people's health and safety.

3. **Promoting awareness of ESG risks:** the Company's employees are being trained and consulted on climate change and other ESG risks and their possible impact on achieving business goals. This increases the Company's ability to identify and manage climate related and other ESG risks in a timely manner and, at the same time, contribute to global sustainability goals.

The Company assesses all the risks if they meet ESG risks' criteria. Based on these criteria, ESG type is assigned to the risk. E type is assigned to risks including climate-related physical, transitional, and other environmental risks, S to social and G to governance related risks.

The reassessment of the Company's risks has not identified any risks at a high or very high level that would also be classified as ESG risks. The Company's exposure includes the high level of the risk of cyber-attack, which is relevant for the Ignitis Group as a whole, and which is also classified as an ESG – Governance risk type. Information on the management of the risk of cyber-attack at Ignitis Group level is provided below.

1 Risk of cyber-attack (Group)

Main source of risk
- Cyber-attacks against the Group companies organised by third parties
- Social engineering attacks, data theft
- Known vulnerabilities in systems have been removed late or improperly

Key risk indicators
- Number of internal and external critical vulnerabilities
- Average time to fix critical vulnerabilities

Risk category | Operational

ESG type | Governance

Period | Long-term

Impact on strategic direction
Organisation

Potential impact
– Reputational
– Compliance

Risk level

High

Main risk management directions
– Periodic preparation of vulnerability reports and submission to responsible persons
– Removal of internal and external cyber-vulnerabilities
– Internal audit
– Cooperation with external partners
– Developing digital security competencies by becoming accredited members of the CERT organization, participating in cyber security exercises with external partners
The Group-wide cybersecurity supervision is ensured 24/7

Sustainability

5.1 Sustainability

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 - Kaunas CHP), are summarised in the Group's consolidated Annual Report 2022 of AB Ignitis Grupė, of which the Sustainability Report of the Group as a whole is an integrated part. This report is available on www.ignitisgrupe.lt under "For Investors" and "Sustainability". We note that the terms 'coherence' and 'sustainability' are used interchangeably in the Group.

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

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

Sustainability in the Group and Kaunas CHP

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

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

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

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

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

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

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

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

Indicators

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

Key ESG indicators monitored by Kaunas CHP

Sustainable direction	Indicator	Unit of measure	2021	2022
Reducing climate impacts	GHG emissions	million t CO_2 equiv.	0.205	0.220
	Scope 1	million t CO_2 equiv.	0.115	0.126
	Scope 2	million t CO_2 equiv.	0.002	0.001
	Scope 3	million t CO_2 equiv.	0.002	0.002
	Other emissions (of biological origin)	million t CO_2 equiv.	0.086	0.090
Protection of natural resources	Proportion of green procurements within public procurements	%	-	99
Future-fit employees	Fatal accidents (total)	number	0	0
	Employees	number	0	0
	Contractors	number	0	0
	TRIR (indicator of overall occupational injuries of employees)	times	0	13.70
	eNPS (indicator of employee satisfaction)	%	48.60	37.01
	Proportion of women in management positions	%	-	16.67
	Proportion of employees having participated in voluntary initiatives at least once	%	-	43.9
Reliable organisation	Intolerance of corruption among employees	%	-	95.45
	Proportion of employees who has taken and passed a knowledge test on the Code of Ethics and anti-corruption	%	-	95.12

Stakeholder relations and assessment of ESG priorities

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

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

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

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

This grouping was chosen to more accurately reflect the specificity of the expectations of each group. Other stakeholders relevant at the level of the Group as a whole 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. In addition, focus groups were carried out with two communities that 8 community representatives participated in. On the basis of the survey results, a materiality assessment was carried out.

The expectations of stakeholders expressed during this process were aligned with existing goals and objectives of Kaunas CHP, which led to the identification of priority themes that are in line with both stakeholders' expectations and stated operational objectives of Kaunas CHP. 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 Kaunas CHP on its stakeholders and aligns the expectations expressed by the stakeholders with the strategic objectives.

Key facts on Kaunas CHP materiality assessment:

- We interviewed 47 stakeholder representatives;
- We identified 16 thematic ESG aspects that are most relevant to Kaunas CHP and its stakeholders;
- Stakeholders shared their views on which ESG aspects are most relevant to the Company;
- During the internal strategy sessions, the management of Kaunas CHP clarified the links between stakeholders' expectations and the operational strategy.

Kaunas CHP materiality assessment matrix 2022

ESG risks and their management

The key ESG risks and their management solutions are disclosed in more detail in the section 4.4. “Risk Management” in the Annual Report of the Group.

An overview of key effects of sustainability and implemented initiatives / measures of Kaunas CHP for 2022

Environmental area

Main environmental impacts of Kaunas CHP:

- Reduction of impact on environmental components (soil, water and air quality) - maintaining soil, water and air quality, preventing environmental pollution;
- Diverting waste from landfills, promoting circular economy - generation of energy from waste that is not suitable for recycling;
- Climate change impact and GHG emissions - reduction of greenhouse gases (CO2, etc.) generated by activities, production of electricity and thermal energy from less pollutant resources;
- Resource efficiency and waste reduction - use of secondary raw materials in operation of the power plant and reduction of waste generated by activities;
- Energy efficiency for society and customers - encouraging consumers to save energy and not waste it;

- Impact on biodiversity and ecosystems - preservation of fauna, flora, natural ecosystems;
- More sustainable self-consumption of energy - using green energy for self-consumption; reducing energy consumption in the power plant;

Reduction of impact on environmental components (soil, water and air quality) as well as biodiversity and ecosystems.

Key general provisions and principles of environmental protection applied by the Group to reduce environmental impact, manage environmental risks and foster a culture based on the principles of sustainable development within the Group and its environment are defined in the Environmental Policy of the Group, which is applicable to all Group companies.

In order to ensure continuous improvement of environmental protection effectiveness in the Group's activities, among the measures for implementing environmental protection principles, the Group's Environmental Policy includes encouraging the implementation of the environmental management system standard (ISO 14001) in companies and to continuous improvement of the implemented system. Currently, Kaunas CHP is making arrangements and planning to implement the environmental management system standard in 2024. Environmental audit in accordance with the standard has already been carried out at Kaunas CHP.

Kaunas CHP is operated in accordance with the conditions of the IPPC permits issued by the Environmental Protection Agency. The IPPC permit is a way to ensure that the activities of companies cause as little damage as possible to the environment, and not just to individual parts thereof – all possible types of environmental impact of economic activities are analysed, and the impacts are properly managed during operations. The purpose of IPPC is to prevent the release of pollutants into the air, water or soil wherever possible, and where it is impossible to prevent it, to minimise it in order to achieve a high level of environmental protection.

Kaunas CHP facilities meet the requirements of the Industrial Emissions Directive 2010/75/EU and the best available technologies (BAT) of large fuel-burning facilities.

Kaunas CHP closely monitors emissions. Monitoring of emissions of waste incineration emissions is carried out in coordination with the Environmental Protection Agency. In order to dispel the concerns of the communities located in the neighbourhood of Kaunas CHP concerning possible air pollution, we voluntarily carry out environmental air pollution measurement programmes coordinated with the communities and the Environmental Protection Agency. Observations have been carried out in the city and district of Kaunas since 2018. Air quality has been evaluated in studies not only during the operation of the power plants, but also before the operation of the power plants to obtain a reliable assessment. The studies use modern mobile equipment – mobile Environmental Protection Agency and Estonian environmental research laboratories, which measures solid particles, nitrogen dioxide, carbon monoxide, benzene, etc. several times a year in different seasons (furans and dioxins are measured twice a year – in cold and warm seasons). Such equipment allows obtaining reliable and independent data on the nature of air pollution and changes in their concentration. When performing ambient air quality measurements, instantaneous meteorological conditions that can determine the amount of pollution concentration in the air are also taken into account. Independent measurement results are publicly available on the website of Kaunas CHP.

In order to ensure the quality of water, we carry out monitoring programmes of groundwater and discharged wastewater, which are coordinated with the Environmental Protection Agency.

The territory of Kaunas CHP does not belong to the protected national or nature areas of the European ecological network Natura 2000 and does not border with them (the nearest protected territory is the Neris Special Area of Conservation (SAC) that is 2-3 km away from the territory of Kaunas CHP). There are no animal species included in the List of Protected Species of Animals, Plants and Fungi or in the Habitats Directive of the Republic of Lithuania. Poor biodiversity and vegetation prevails (grasslands, shrubs), which are periodically removed during the maintenance and management of the Kaunas FEZ territory. There are no key habitats in the Davalgonių Forest that is located in the neighbourhood of Kaunas CHP.

All the territories biologically important and protected by Natura 2000 that are in a close environment of Kaunas CHP are at such safe distance from Kaunas CHP that they do not incur adverse impact of its activities.

In order to prevent birds from getting into the facilities, Kaunas CHP has installed special duct grilles.

Diverting waste from landfills, generation of energy from waste that is not suitable for recycling

About a quarter of the municipal waste generated in Lithuania which is not fit for recycling is converted into energy at 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 re-use, recycling, other re-use (energy recovery) methods, while landfilling is the least desirable option. In implementing the principles of waste hierarchy, an important role is played by the development of the Group's combined heat and power plants as an alternative to landfills.

We have reached an agreement with the Environmental Protection Agency on an environmental impact assessment report, according to which Kaunas CHP will be able to convert 255,000 tonnes of non-hazardous waste unsuitable for further processing into energy per year (55,000 tonnes more than previously allowed).

For more information on the Group’s objectives and actions in the area of environmental protection and waste reduction measures, please refer to the section 5.5. “Protection of Natural Resources” of the Sustainability Report integrated into the Group’s Annual Report 2022 (the report is available here).

Reducing impacts on climate change

Climate change is one of the greatest human challenges of this century, and it requires action to be taken by everyone - by people, non-governmental organisations and countries. Although energy is the engine of the economy, its production and distribution accounts for a significant share of GHG emission. 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 change 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 the course of our activities, we will focus on operational emissions and will seek to engage our partners, suppliers and customers in this process in order to achieve our GHG emission reduction targets. 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, analysing the potential of carbon capture and storage technologies, etc.

For more information on the Group’s objectives and planned emission reduction measures, please refer to the section 5.4. “Climate Action” of the Sustainability Report integrated into the Group’s Annual Report 2022 (the report is available here).

Resource efficiency and waste reduction

Waste management in each Group company is carried out on the basis of the Group's Environmental Policy. In order to contribute to the protection of the environment and the reduction of pollution in Lithuania, all waste generated by the activities of Kaunas CHP is sorted, separating out secondary raw materials, hazardous waste, accounted for in the GPAIS (the Unified Product Packaging and Waste Information System) and transferred to licensed waste handlers under contract.

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

For more information on the Group's objectives and actions in the area of resource efficiency, please refer to the section 5.5. "Protection of Natural Resources" of the Sustainability Report integrated into the Group's Annual Report 2022 (the report is available here).

Staff and society (communities) area

The main impacts of Kaunas CHP 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, ensuring freedom of association;
- competent employees now and in the future - professional and personal development of employees, building the competences needed for the energy sector;
- local community welfare and relations with them - protection of natural environment and health of community members; listening to the needs of communities;
- involvement in community activities – participation in civic initiatives and NGOs; volunteering.

Health and safety of employees and contractors

Key provisions and principles of occupational safety and health are defined in the Policy of Occupational Safety and Health which applies to the entire Group, including Kaunas CHP. Prevention of accidents and ensuring of safety and health are a priority in the Company. Total recordable injury rate per million hours worked (TRIR) of Kaunas CHP was equal to 13.7 in 2022 as one accident had occurred. In 2021, TRIR was equal to 0.

In 2022, occupational risk assessment of Kaunas CHP was updated for new positions, while ergonomic factors were updated in the occupational risk assessment following the changes in national legislation. In 2022, safety and health representatives of Kaunas CHP employees were elected for whom certification training was provided. First aid trainings were provided in Kaunas CHP during which all its employees were trained how to use a defibrillator and apply a tourniquet effectively. Employees of Kaunas CHP also participated in civil safety training which covered such topics as collective security structures and preparation of an evacuation grab-and-go bag. Evacuation drills were provided to Kaunas CHP employees - evaluation of the response of employees and contractors who were working in the territory of the power plant to the fire alarm and assessment of its fire detection and extinguishing system were carried out. Additional visual OHS tools were implemented in Kaunas CHP to increase employees' awareness in the field of OHS (safety posters, videos).

OHS performance indicators of Kaunas CHP (2022)

Work incidents and accidents (minor, serious or fatal)	There was 1 accident in 2022.
OHS violations by contractors' employees in the Company's facilities, their nature and accidents	There were no accidents to contractors' staff in 2022 (based on the information provided by the contractors).

Detailed information on the measures and initiatives implemented by Group companies, including Kaunas CHP, to ensure safety and health of employees and contractors is provided in the section 5.6. "Future-fit Employees and Communities" of the Sustainability Report, integrated into the Group's Annual Report 2022 (the report is available here).

Well-being of employees and cooperation with them, ensuring of staff competence, welfare of local communities and relations with them, participation in social activities

As one of the largest employers in Lithuania, the Group develops and strives to maintain an organisational culture that fosters a long-term employer-employee partnership based on the values of the Group and the Code of Ethics, mutual understanding and the opportunity to work together to create an energetically intelligent future. The implementation of the Group's strategic goals is inseparable from the Group's success in attracting and retaining qualified employees, involving them in various activities, increasing their motivation, creating conditions for career development and at the same time encouraging them to improve. It is aimed that employees uphold the values of the organisation: openness, growth, responsibility and partnership. The Group cares about employees and pays particular attention to occupational safety and health, social dialogue, equal opportunities and diversity. As at the end of 2022, Kaunas CHP had 41 employees. The Company has the Labour Council.

Kaunas CHP respects the rights of employees and opposes child labour and discrimination of any kind, both in the recruitment of new employees and among existing employees. The Company has the Labour Council and the Committee of Occupational Safety and Health. Kaunas CHP Employee Satisfaction Index (eNPS) for 2022 has decreased by 11.6% compared to 2021, from 48.6% to 37.0%. 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, Kaunas CHP enables its employees to grow and develop, and to expand their professional, general and managerial competences.

Close relations with the communities where we operate and with non-governmental organisations are one of the key principles of our sustainable and responsible operations set out in the Code of Ethics and the Sustainability Policy. We operate in a consistent and transparent manner, taking responsibility for our activities and cooperating with various organisations. For more information on the air quality investigations carried out by Kaunas CHP, refer to the section „Mitigation of Impact on Environmental Components (soil, water and air quality), as well as Biodiversity and Ecosystems".

To improve relations with communities, Kaunas CHP and Kaunas district municipality concluded a cooperation agreement in 2021. According to the agreement, the order for financial support for companies located around Kaunas CHP is to be prepared and harmonised in the near future, which will provide for the amount of financial support and the specifics of its approval. This support will be distributed through a public tender for financial support published online.

The Group provides an opportunity to visit power plants and see how electricity is generated, learn about the history, operations, technology and main facilities of exceptional power plants. Mostly, students of engineering and energy studies as well as pupils, who are thinking about their future careers, are invited to these excursions. The excursions are carried out at Kaunas CHP as well.

Detailed information on how employee well-being and representation is ensured in Group companies, including Kaunas CHP, as well as information on the application of the Remuneration Policy and employee training and competence development initiatives, emotional health improvement measures, maintenance of relationships with communities and participation is social activities, is provided in the section 5.6. “Future-fit Employees and Communities” of the Sustainability Report, integrated in the Group’s Annual Report 2022 (the report is available here).

Human rights area

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

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

We value the diversity of our workforce and strive to ensure that all our employees have equal opportunities to be a full part of the organisation. This means equal opportunities for employment, smooth working, fair pay, well-being, development, career progression, work-life balance, skills and talents. A little more than two years ago Equal Opportunities and Diversity Policy was prepared within the Group, which applies to both companies and all employees. This policy is the Group's equal opportunities “code”, establishing the principles of equal opportunities and diversity that are binding on all, specifying how they are to be implemented and how, in the event of a violation of equal opportunities, reports are made and dealt with. It is important to emphasise that this policy stipulates that a person may confidentially report potential discrimination by contacting the Trust Line in different ways. The principles of equal opportunities and diversity are enshrined not only in a separate dedicated policy, but also integrated into our other internal legislation: Code of Ethics, Sustainability Report, People and Culture Policy, Remuneration Policy.

Kaunas CHP 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. At the end of 2022, men accounted for 88% of total employees of Kaunas CHP, while women accounted for 12%.

Breakdown of actual employees per positions, 2022	Men	Women	Total
Trainees	0	0	0
Workers	0	0	0
Experts / Specialists	32	4	36
Mid-level executives	2	0	2
Top-level managers	1	1	2
Key executives	1	0	1

For more information on the work and achievements in ensuring diversity, equality and human rights within Group companies, please refer to the section 5.6. “Future-fit Employees and Communities” of the Sustainability Report integrated into the Group’s Annual Report 2022 (the report is available here). Further details on the Group's actions and initiatives in ensuring diversity, equal opportunities and human rights are also available on the Group's website.

Governance and anti-corruption area

Main impacts of Kaunas CHP 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 your own use and reducing the negative impact of suppliers on the natural and social environment.

Ethical business, anti-corruption and transparency

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

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

The Group applies the same standard for conclusion, performance and implementation of contracts and other internal legal acts to all Group companies. The contracts stipulate that suppliers undertake to comply with the Group's Anti-corruption Policy and the Group’s Supplier Code of Ethics (hereinafter referred to as the CES) when performing contracts. All contracts include mechanisms for ensuring the performance of the contract (fines, interest on arrears, bank guarantees, etc.) and include provisions for the enforcement of environmental, safety standards and occupational safety requirements. A system for monitoring the performance of procurement contracts is being implemented in the Group companies, which facilitates proper management and control of the concluded procurement contracts in the Group.

After the Group approved the CES in 2021, all the suppliers of the Group are invited to contribute to the creation of a more sustainable future. To each public procurement document a memo to supplier is attached concerning the application of green public procurement requirements in the procurement of Group companies. In addition, the Group's website provides information on the Group's green public procurement and socially responsible procurement practices as well as the most common sustainability requirements applied in the Group's procurement. In 2022, we started inspecting how suppliers comply with the CES and what sustainability practices they apply in their operations.

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

Ensuring access to energy includes the following: preparation of reliable technical conditions, creation of physical connectivity, communication with customers, management of risks. All Group companies responsible for energy generation, distribution, supply and all ancillary functions are involved in ensuring adequate energy access.

In 2022, Kaunas CHP updated emergency management plans, set up Emergency Operations Centres, organised table and functional exercises.

Detailed information on achievements in the governance and anti-corruption area (application of transparency and anti-corruption principles, ensuring protection of personal data, ensuring access to energy and customer service, responsible procurement and supplier involvement) is provided in the section 5.7. “Robust Organisation” of the Sustainability Report integrated into the Group’s Annual Report 2022 (the report is available here).

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

Financial statements

6.1 Company’s financial statements

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

The Company's financial statements were prepared and signed by UAB Kauno kogeneracinė jėgainė management on 7 April 2023:

Ramūnas Paškauskas	**Aksana Stankevičienė**	**Paulius Žukovskis**
Chief Executive Officer	Head of Finance	Head of Financial Statements and Consultations of UAB Ignitis grupės paslaugų centras, acting under Order No 23_GSC_SP_0010 of 17 February 2023

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

EURk	Notes	2022	2021
Revenue from contracts with customers	6	58,809	28,592
Other income		562	514
Total revenue and other income		**59,371**	**29,106**
Purchase of electricity, natural gas and other services	7	(13,356)	(9,673)
Depreciation and amortisation	11, 12, 13	(5,968)	(5,917)
Wages and salaries and related expenses		(1,629)	(1,437)
Other expenses	8	(9,975)	(4,887)
Total expenses		**(30,928)**	**(21,914)**
Operating profit (loss)		**28,443**	**7,192**
Finance income		247	-
Finance expenses	9	(2,765)	(2,037)
Finance activity result, net		**(2,518)**	**(2,037)**
Profit (loss) before tax		**25,925**	**5,155**
Deferred tax (expenses)/benefit	10	880	2,070
Net profit for the year		**26,805**	**7,225**
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)
Total items that will not be reclassified to profit or loss in subsequent periods		**-**	**(2)**
Items that can be reclassified to profit or loss in subsequent periods (net of tax)			
Cash flow hedges - an effective component of fair value changes	23	6,889	-
Total items that can be reclassified to profit or loss in subsequent periods		**6,889**	**-**
Total other comprehensive income (expenses) for the year		**6,889**	**(2)**
Total comprehensive income (expenses) for the year		**33,694**	**7,223**

Statement of financial position

31 December 2022

EURk	Notes	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Intangible assets	11	1,912	2,091
Property, plant and equipment	12	127,733	133,303
Right-of-use assets	13	1,155	1,186
Non-current receivables		612	773
Deferred tax asset	10	2,950	2,070
Other non-current assets	23	7,136	-
Total non-current assets		**141,498**	**139,423**
Current assets			
Inventories	14	17,439	7,805
Prepayments and deferred expenses		101	917
Trade receivables	15	6,984	2,870
Other receivables		171	196
Other current assets	23	-	1,056
Cash and cash equivalents	16	31,794	14,125
Total current assets		**56,489**	**26,969**
TOTAL ASSETS		**197,987**	**166,392**
EQUITY AND LIABILITIES			
Equity			
Issued capital	17	40,000	40,000
Legal reserve	18	361	-
Hedging reserve	18	6,889	-
Retained earnings		30,666	4,222
Total equity		**77,916**	**44,222**
Liabilities			
Non-current liabilities			
Non-current loans	19	100,833	-
Non-current lease liabilities		-	12
Provisions	21	26	22
Total non-current liabilities		**100,859**	**34**
Current liabilities			
Loans	19	7,333	110,334
Lease liabilities		9	15
Trade payables		927	1,069
Prepayments received		24	22
Provisions	21	9,086	6,494
Other current amounts payable and liabilities	22	1,833	4,202
Total current liabilities		**19,212**	**122,136**
Total liabilities		**120,071**	**122,170**
TOTAL EQUITY AND LIABILITIES		**197,987**	**166,392**

Statement of changes in equity

For the year ended 31 December 2022

EURk	Notes	Issued capital	Legal reserve	Other reserves	Retained earnings (losses)	Total
Balance as at 1 January 2021		**40,000**	**-**	**-**	**(3,001)**	**36,999**
Net profit for the year		-	-	-	7,225	**7,225**
Other comprehensive income (expenses) for the year		**-**	**-**	**-**	**(2)**	**(2)**
Total comprehensive income (expenses) for the year		-	**-**	**-**	**7,223**	**7,223)**
Balance as at 31 December 2021		**40,000**	**-**	**-**	**4,222**	**44,222**
Balance as at 1 January 2022		**40,000**	**-**	**-**	**4,222**	**44,222**
Net profit for the year		-	**-**	**-**	26,805	**26,805**
Other comprehensive income (expenses)						
Cash flow hedges	23	-	**-**	6,889	**-**	**6,889**
Total other comprehensive income (expenses) for the year		**-**	**-**	6,889	**-**	**6,889**
Total comprehensive income (expenses) for the year		**-**	**-**	**6,889**	**-**	**33,694**
Transferred to reserves and changes in reserves	18.1	-	361	-	(361)	-
Balance as at 31 December 2022		**40,000**	**361**	**6,889**	**30,666**	**77,916**

Statement of cash flows

For the year ended 31 December 2022

EURk	Notes	2022	2021
Cash flows from operating activities			
Net profit for the year		26,805	7,225
Adjustments to reconcile net profit to net cash flows:			
Depreciation and amortisation	11, 12, 13	5,968	5,917
Fair value changes of derivatives	23	(2,563)	2,316
Impairment/(reversal of impairment) of financial assets		-	70
Income tax expenses (benefit)	10	(880)	(2,070)
Increase/(decrease) in provisions	21	2,596	4,433
Loss (gain) on disposal/write-off of property, plant and equipment	12	-	2
Interest expenses	22	2,771	2,060
Changes in other financing activities		(253)	(23)
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(3,681)	(903)
(Increase)/decrease in inventories, prepayments, deferred expenses, other current and non-current assets		(8,818)	(6,653)
Increase/(decrease) in trade payables, prepayments received, other current amounts payable and liabilities		956	(303)
Net cash flows from operating activities		**22,901**	**12,071**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(374)	(4,642)
Net cash flows from investing activities		**(374)**	**(4,642)**
Cash flows from financing activities			
Repayments of loans	20	(1,834)	(4,709)
Lease payments	20	(14)	(16)
Interest paid	20	(3,010)	(1,906)
Net cash flows from financing activities		**(4,858)**	**(6,631)**
Increase (decrease) in cash and cash equivalents		**17,669**	**798**
Cash and cash equivalents at the beginning of the period		14,125	13,327
Cash and cash equivalents at the end of the period		**31,794**	**14,125**

Explanatory Notes

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 Company was registered on 27 February 2015 with the Register of Legal Entities managed by the State enterprise the Centre of Registers. The registered address is: Jėgainės St. 6, Biruliškių willage., Kaunas region, Lithuania. The Company is a limited liability profit-oriented entity, registered on 27 February 2015. Company code is 303792888, VAT payer's code – LT100009225616. The Company has been founded for an indefinite period. The reporting period is one year ended 31 December 2022.

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

The shareholders of the Company were as follows:

	31 December 2022		31 December 2021	
	Number of shares held	Ownership interest (%)	Number of shares held	Ownership interest (%)
AB Ignitis grupė	20,400	51	20,400	51
UAB GREN Lietuva	19,600	49	19,600	49
Total	**40,000**	**100**	**40,000**	**100**

The Company's parent company is AB Ignitis grupė (company code 301844044, registered address Laisvės pr. 10, LT-04215 Vilnius, Lithuania), which owns 51% of shares of the Company as at 31 December 2022 and 2021. As at 31 December 2022, the shareholder structure of AB Ignitis grupė were the Ministry of Finance of the Republic of Lithuania (74.99%), retail and institutional investors (25.01%). As at 31 December 2021, the shareholders were the Ministry of Finance of the Republic of Lithuania (73.08%), and retail and institutional investors (25.25%), and treasury shares (1.67%).

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

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

These financial statements were signed by the management of UAB Kauno kogeneracinė jėgainė on 7 April 2023. The Company's share-holders have the right to approve the present financial statements, refuse to approve them and require that new financial statements are drawn up.

2 Basis of preparation

2.1 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as 'IFRS') issued by International Accounting Standards Board (hereinafter referred to as 'IASB') and endorsed for application in European Union.

The Company's financial statements as at and for the year ended 31 December 2022 (hereinafter – the financial statements) have been prepared on a going concern basis applying measurement based on historical acquisition cost, for certain financial instruments being measured at fair value.

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

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

2.2 Foreign currency

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

3 Summary of significant accounting policies

3.1 New standards, amendments to standards and interpretations

3.1.1 Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2021, with the exception of the new standards that became effective during 2022.

3.1.2 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 2022 had no significant effect on the financial statements:

Standards and/or amendments that became effective in 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
Annual Improvements to IFRS Standards for the cycle 2018-2020
Reference to Conceptual Framework

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

3.1.3 Standards issued but not yet effective and not early adopted

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

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

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. lease and maintenance termination 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.

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

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

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

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

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

Other standards

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

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

3.2 Revenue from contracts with customers

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

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

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

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

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

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

3.2.1 Revenue from the sale of electricity

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

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

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

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

3.2.2 Revenue from waste management

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

3.2.3 Revenue from distribution 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 part comprises the customer's payments for the actually delivered thermal energy.

3.3 Expense recognition

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

3.4 Dividend distribution

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

3.5 Corporate income tax and deferred tax

3.5.1 Income tax

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

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

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

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

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

3.5.2 Deferred tax

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

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

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

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

3.5.3 Corporate income tax and deferred tax for the reporting period

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

3.6 Intangible assets

3.6.1 Other intangible assets

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

3.7 Property, plant and equipment

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

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

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

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

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

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

3.8 Right-of-use assets

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

3.8.1 Initial measurement of right-of-use assets

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

3.8.2 Subsequent measurement of right-of-use assets

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

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

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

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

If, before the end of the lease term, ownership of the leased asset is transferred to the Company, or if the cost of the right-of-use asset indicates that the Company will exercise its option to purchase, the Company shall depreciate the right-of-use asset from the date of commencement to the end of the useful life of the leased asset. Otherwise, the Company shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

3.9 Impairment of non-financial assets

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

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 under profit or loss in to the statement of profit or loss and other comprehensive income.

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

3.10 Financial instruments

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

3.10.1 Financial assets

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

(i) financial assets subsequently measured at amortised cost;
(ii) financial assets subsequently measured at fair value recognising the change in fair value through other comprehensive income (hereinafter – "FVOCI"); and
(iii) financial assets subsequently measured at fair value 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 under profit or loss. Impairment loss is accounted for as the cost of receivables and impairment of loans in under profit or loss.

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

3.10.1.1 Financial assets at amortised cost

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

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

3.10.1.2 Financial assets at FVPL

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

3.10.1.3 Effective interest rate method

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

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

3.10.1.4 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.

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

3.10.1.5 Credit-impaired financial assets

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

3.10.1.6 Derecognition of financial assets

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

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

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

3.10.2 Financial liabilities and equity instruments issued

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

3.10.2.1 Initial recognition and measurement of financial liabilities

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

3.10.2.2 Subsequent measurement

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

3.10.2.3 Financial liabilities at FVPL

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

3.10.2.4 Financial liabilities at amortised cost

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

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

3.10.2.5 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.

3.10.2.6 Derecognition of financial liabilities

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

3.10.3 Derivatives and hedge accounting

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

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

- an economic relationship between the hedged object and the hedging instrument;
- the effect of credit risk does not have a significant impact on the changes in value resulting from this economic relationship;
- the hedge ratio for a hedging transaction is the ratio of the quantity of the hedged item that the Company actually hedges to the quantity of the hedging instrument that the Company actually uses to hedge that quantity of the hedged item.

3.10.3.1 Presentation

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

The result of the change in the fair value of derivatives that have been settled and are held for hedge accounting but do not meet the criteria for hedging accounting is disclosed in the statement of profit (loss) and other comprehensive income in 'Other financial income' if the aggregate result for the period of such a derivative is a gain, or in 'Other expense' if the aggregate result for the period of the derivative is a loss (note 22).

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

3.10.3.2 Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised under other comprehensive income in the statement of profit or loss and other comprehensive income, in the cash flow hedge reserve. Ineffective portion of profit or loss is recognised directly under profit or loss in the statement of profit or loss and other comprehensive income as 'Other income' or 'Other expenses' (accounting method is similar to derivatives that do not meet the hedging criteria – Note 3.3.4.1.) . The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

3.11 Inventories

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

3.12 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 shall ensure that, by 30 April of the following year, the operator of each polluting facility submits data on the facility's actual emissions for the current calendar year.

3.12.1 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.

3.12.2 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.

3.13 Cash and cash equivalents

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

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

3.14 Issued capital and share premium

Ordinary shares are classified as equity.

3.15 Lease liabilities

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

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

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

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

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

3.16 Provisions

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

3.17 Employee benefits

3.17.1 State plans

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

3.17.2 Termination benefits

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

3.17.3 Non-current employee benefits

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

3.18 Contingencies

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

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

3.19 Related parties

Related parties include:

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

3.20 Offsetting

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

3.21 Fair value

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

– in the principal market for the asset or liability

or

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

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

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

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

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

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

3.22 Events after the reporting period

All events occurring after the reporting period (adjusting events) are accounted for in the financial statements if they relate to the reporting period and have a material impact on the financial statements. All events that are material but are not adjusting events are disclosed in Note 27.

4 Financial risk management

4.1 Overview

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

4.2 Financial risk factors

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

4.2.1 Market risk

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

4.2.1.1 Currency risk

Foreign currency risk is the risk that 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.

4.2.1.2 Interest rate risk

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

As at 31 December 2022, the Company's income and cash flows from operating activities are not materially affected by changes in market interest rates as on 8 June 2022 the Company entered into interest rate swaps and options. As at 31 December 2022, the loans with variable interest rate amounted to EUR 108,166 thousand.

The Company’s income and cash flows were affected by fluctuations in market interest rates because the Company’s loans had variable interest rates as at 31 December 2021. Loans with variable interest rate amounted to EUR 110,000 thousand as at 31 December 2021.

4.2.2 Credit risk

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

The Company's credit risk arises from its operating activities (trade and other receivables) and its financing activities (loans, finance leases, derivatives). The Company's exposure to cash is limited as the Company only holds cash balances with reputable financial institutions.

The majority of the Company's receivables are held by two companies. Group company, from which receivables account for 43% of total receivables, and an external customer accounts for 34% of total receivables. The Company's credit risk related to receivables is low as the Company's main customers are financially stable companies.

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

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

EURk	Note	31 December 2022	31 December 2021
Financial assets measured at amortised cost:			
Non-current receivables		612	773
Trade receivables	15	6,984	2,870
Other receivables		171	196
Cash and cash equivalents	16	31,794	14,125
Financial assets at FVPL in the statement of profit or loss and other comprehensive income			
Derivatives	23	-	1,056
Total		**39,561**	**19,020**
Off-balance sheet commitments:			
Nominal value of the guarantees issued	24.2	1,812	1,431
Total		**41,373**	**20,451**

4.2.3 Liquidity risk

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

As at 31 December 2022, the Company's current liquidity ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 2.94 and 2.03 respectively (31 December 2021: 0.22 and 0.16 respectively).

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

EURk	Note	31 December 2022	31 December 2021
Amounts payable stated at amortised cost			
Loans and borrowings	19	108,166	110,334
Lease liabilities		9	27
Trade payables		927	1,069
Other current amounts payable and liabilities	22	203	535
Financial liabilities measured at FVPL or FVOCI			
Derivatives	22	-	3,372
Total		**109,305**	**115,337**

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

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

EURk	2021				Total
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	
Borrowings	527	110,130	-	-	110,657
Lease liabilities	4	11	12	-	27
Trade payables	1,069	-	-	-	1,069
Other payables	535	-	-	-	535
Derivatives	3,372	-	-	-	3,372
31 December 2021	**5,507**	**110,141**	**12**	**-**	**115,660**

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

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

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

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

5.1 Provision for emission allowances

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

5.2 Provision for plant dismantling and closure works

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

6 Revenue from contracts with customers

6.1 Disaggregated revenue information

EURk	2022	2021
Revenue from the sale of electricity	36,526	14,206
Revenue from distribution of thermal energy	12,282	6,104
Revenue from waste management	10,001	8,282
Total	**58,809**	**28,592**

6.2 Contract balances

EURk	2022	2021
Trade receivables	**6,984**	**2,870**
Contract liabilities	**24**	**22**
Prepayments received	24	22
Total	**7,008**	**2,892**

7 Purchase of electricity, natural gas and other services

EURk	2022	2021
Costs of utilised emission allowances	9,086	6,591
Cogeneration plants operating expenses	3,422	2,492
Electricity, balancing services and purchases of related services	568	337
Purchases of gas and related services	275	246
Biofuel	5	7
Total	**13,356**	**9,673**

8 Other expenses

EURk	2022	2021
Derivatives (Note 23)	7,604	3,254
Repair and maintenance expenses	915	495
Consultation services[1]	431	231
Telecommunications and IT services	175	159
Insurance expenses	158	140
Staff training and administrative expenses[2]	74	52
Taxes (other than income tax)	48	98
Other	570	458
Total	**9,975**	**4,887**

[1] In 2022, the Company classified the consultancy costs in the line "Consultancy services", therefore the comparative figures for 2021 have been changed accordingly by reclassifying EUR 174 thousand from the line "Business support services".

[2] In 2022, the Company classified staff training and administrative costs in the line "Staff training and administrative costs", therefore the comparative figures for 2021 have been changed accordingly by reclassifying EUR 28 thousand from the line "Business support services". and EUR 24 thousand from "Other".

9 Finance expenses

EURk	2022	2021
Interest expenses	2,771	2,060
Other finance expenses	(6)	(23)
Total	**2,765**	**2,037**

9.1 The Company's interest expense

As at 31 December 2022, the Company paid EUR 3,010 thousand of interest in cash (31 December 2021: EUR 1,906 thousand), which are presented in the cash flow statement under “Interest paid”.

10 Income taxes

10.1 Cognised under profit or loss:

EURk	2022	2021
Deferred tax expenses (benefit)	(880)	(2,070)
Income tax expenses (benefit) recognised in profit or loss	**(880)**	**(2,070)**

From 1 January 2022 and for ten tax periods (until 31 December 2031), the Company is subject to a corporate tax rate of 7.5% as it is located in a free economic zone. In 2021, the Company was subject to a preferential corporate tax rate of 0%.

10.2 Reconciliation of effective tax rate

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

EURk	2022	2022	2021	2021
Profit (loss) before tax		25,925		5,156
Income tax expenses (benefit) at tax rate of 15%	15.00%	3,889	15.00%	773
Expenses not deductible for tax purposes	2.15%	557	6.75%	348
Income tax relief for the investment project	(13.05)%	(3,382)	(36.42)%	(1,878)
Tax losses utilised	-	-	(10.47)%	(540)
Impact of the preferential tax rate	(7.50)%	(1,944)	(15.00)%	(773)
Income tax expenses (benefit)	**(3.4)%**	**(880)**	**(40.14)%**	**(2,070)**

10.3 Deferred tax

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

EURk	31 December 2020	Recognised in profit or loss	31 December 2021	Recognised in profit or loss	31 December 2022
Deferred tax assets					
Accrued expenses	-	29	29	(12)	17
Unrealised investment relief	-	1,878	1,878	1,082	2,960
Derivatives	-	174	174	(174)	-
Capitalised income	-	107	107	(5)	102
Other	-	7	7	-	7
Deferred tax asset, net	**-**	**2,195**	**2,195**	**891**	**3,086**
Deferred tax liability					
Capitalised interest	-	125	125	(7)	118
Derivatives	-	-	-	18	18
Deferred income tax liability, net	**-**	**125**	**125**	**11**	**136**
Net deferred tax	**-**	**2,070**	**2,070**	**880**	**2,950**

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

As at 31 December 2022, the Company did not have any temporary differences for which deferred tax was not recognized.
As at 31 December 2021, the Company did not recognise an additional deferred tax asset on the unused investment relief of EUR 39,097 thousand (the deferred income tax asset would have been EUR 2,932 thousand).

11 Intangible assets

EURk	Patents and licences	Other Intangible assets	Total
1 January 2021			
Acquisition cost	1	2,216	**2,217**
Accumulated amortisation	(1)	(67)	**(68)**
Carrying amount	**-**	**2,149**	**2,149**
Carrying amount as at 1 January 2021	**-**	**2,149**	**2,149**
Additions	-	-	**-**
Reclassified (to) / from property, plant and equipment	-	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**
Carrying amount as at 1 January 2022			
Additions	-	2	**2**
Amortisation charge	-	(181)	(181)
Carrying amount as at 31 December 2022	**-**	**1,912**	**1,912**
31 December 2022			
Acquisition cost	-	2,338	**2,338**
Accumulated amortisation	-	(426)	**(426)**
Carrying amount	**-**	**1,912**	**1,912**

11.1 Fully amortised intangible assets

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

11.2 Acquisition commitments

As at 31 December 2022 and 2021, the Company had no significant acquisition commitments of non-current intangible assets which will have to be fulfilled during the later years.

11.3 Pledged assets

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

12 Property, plant and equipment

12.1 Company's property, plant and equipment

EURk	Cogeneration plants and their installations	IT and telecommunication equipment	Vehicles	Other property, plant and equipment	Construction-in-progress	Total
1 January 2021						
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	**135,686**	**1,083**	**38**	**304**	**561**	**137,672**
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)	(45)	-	**(5,712)**
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)	(58)	-	**(8,035)**
Carrying amount	**131,881**	**1,078**	**35**	**289**	**20**	**133,303**
Carrying amount as at 1 January 2022						
Additions	-	-	-	66	123	**189**
Reclassifications between categories	54	-	-	10	(64)	**-**
Depreciation charge	(5,598)	(100)	(3)	(58)	-	**(5,759)**
Carrying amount as at 31 December 2022	**126,337**	**978**	**32**	**307**	**79**	**127,733**
31 December 2022						
Acquisition cost	139,770	1,216	39	423	79	**141,527**
Accumulated depreciation	(13,433)	(238)	(7)	(116)	-	**(13,794)**
Carrying amount	**126,337**	**978**	**32**	**307**	**79**	**127,733**

12.2 Acquisitions of property, plant and equipment

A at 31 December 2022 and 2021, the Company had no significant acquisition commitments of property, plant and equipment which will have to be fulfilled during the later years.

12.3 Fully depreciated property, plant and equipment

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

EURk	31 December 2022	31 December 2021
Information technologies and communication equipment	1	1
Total	**1**	**1**

12.4 Pledged property, plant and equipment

As at 31 December 2022, the Company has pledged to banks property, plant and equipment with a carrying amount of EUR 126,255 thousand. As at 31 December 2021, the Company had no pledged property, plant and equipment.

13 Right-of-use assets

13.1 The Company's right-of-use assets

EURk	Land	Other property, plant and equipment	Total
1 January 2021			
Acquisition cost	1,196	74	1,270
Accumulated depreciation	(24)	(32)	(56)
Carrying amount	**1,172**	**42**	**1,214**
Carrying amount as at 1 January 2021			
Additions			
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**
Carrying amount as at 1 January 2022			
Acquisitions	-	12	12
Write-offs	-	(16)	(16)
Depreciation charge	(14)	(14)	**(28)**
Carrying amount as at 31 December 2022	**1,146**	**9**	**1,155**
31 December 2022			
Acquisition cost	1,196	68	**1,264**
Accumulated depreciation	(50)	(59)	**(109)**
Carrying amount	**1,146**	**9**	**1,155**

13.2 Expenses related to lease agreements recognised in the statement of profit or loss and other comprehensive income

EURk	2022	2021
Depreciation	28	26
Expenses related to short-term leases (other expenses)	12	14
Write-off property, plant and equipment and liabilities)	16	-
Lease expenses, total	**56**	**40**

14 Inventories

EURk	31 December 2022	31 December 2021
Emission allowances	16,626	7,506
Consumables, raw materials and spare parts	388	125
Other	425	174
Carrying amount	**17,439**	**7,805**

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

EURk	2022	2021
Emission allowances	9,086	6,591
Natural gas	275	246
Biomass	5	7
Total	**9,366**	**6,844**

15 Trade receivables

EURk	31 December 2022	31 December 2021
Amounts receivable from contracts with customers		
Receivables for distribution of heat	2,350	1,404
Receivables for waste management	1,470	1,272
Receivables for distribution of electricity	3,077	81
Other receivables	87	113
Total	**6,984**	**2,870**
Less: loss allowance	-	-
Carrying amount	**6,984**	**2,870**

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

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

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

	31 December 2022		31 December 2021	
	Trade receivables	Provision for Impairment	Trade receivables	Loss allowance
Not past due	6,533	-	2,624	-
Up to 30 days	412	-	246	-
30-60 days	39	-	-	-
60-90 days	-	-	-	-
90-120 days	-	-	-	-
More than 120 days	-	-	-	-
Carrying amount	**6,984**	**-**	**2,870**	**-**

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

16 Cash and cash equivalents

The Company's cash and cash equivalents consisted of:

	31 December 2022	31 December 2021
Cash at bank	31,794	14,125
Carrying amount	**31,794**	**14,125**

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

Under the loan agreements signed with the banks, the Company has pledged current and future cash inflows. The balance of pledged funds as at 31 December 2022 amounted to EUR 26,815 thousand (31 December 2021: EUR 9,137 thousand).

17 Equity

17.1 Capital management

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

According to the Law on Companies of the Republic of Lithuania, the issued capital of a private limited liability company must not be less than EUR 2,500. The equity must be at least 50% of the company's issued capital. As at 31 December 2022 and 2021, the Company was in compliance with the capital requirements.

17.2 Issued capital

	31 December 2022	31 December 2021
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 2022 and 2021, the Company's issued capital amounted to EUR 40,000,000 and was divided into 40,000,000 registered ordinary shares with par value of EUR 1 each.

18 Reserves

18.1 Legal reserve

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

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

18.2 Hedging reserve

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

19 Loans

EURk	31 December 2022	31 December 2021
Non-current		
Bank loan	100,833	-
Current		
Current part of the non-current loan	7,333	110,000
Accrued interest	-	334
Total	**108,166**	**110,334**

The repayment terms of non-current loans:

EURk	31 December 2022	31 December 2021
From 1 to 2 years	7,333	-
From 2 to 5 years	29,333	-
After 5 years	64,167	-
Total	**100,833**	**-**

All the Company’s loans are denominated in EUR.

19.1 Movement of loans

On 24 March 2022, the Company signed an agreement with Swedbank, AB for the refinancing of a EUR 110 million loan concluded on 31 May 2017. The loan matures on 31 May 2032. The loan bears a variable interest rate.

19.2 Commitments

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

20 Net debt

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

This note sets out an analysis of net debt, a non-IFRS measure for the purposes of these financial statements presentation defined by management as presented below. Only debts to financial institutions and related interest payable and lease liabilities are included in the calculation of net debt.

Net debt balances:

EURk	31 December 2022	31 December 2021
Cash and cash equivalents	(31,794)	(14,125)
Non-current loans payable after one year	100,833	-
Current loans payable within one year (including accrued interest)	7,333	110,334
Lease liabilities	9	27
Net debt	**76,381**	**96,236**

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

EURk	Assets	Lease liabilities		Loans		
	Cash	Non-current	Current	Non-current	Current	Total
Net debt as at 1 January 2021	**(13,327)**	**28**	**15**	**114,709**	**349**	**101,774**
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 payable interest	-	-	-	-	32	**32**
Net debt as at 31 December 2021	**(14,125)**	**12**	**15**	**-**	**110,334**	**96,236**
Net debt as at 1 January 2022						
Cash changes						
(Increase) decrease in cash and cash equivalents	(17,669)	-	-	-	-	**(17,669)**
Repayments of loans					(1,834)	**(1,834)**
Lease payments	-	-	(14)	-		**(14)**
Interest paid	-	-	-	-	(3,010)	**(3,010)**
Non-cash changes						
Lease contracts concluded	-	-	12	-	-	**12**
Write-off of lease liabilities	-	-	(16)	-		**(16)**
Accrual of interest payable	-	-	-	-	2,623	**2,623**
Reclassifications between items	-	(12)	12	100,833	(100,833)	**-**
VAT on interest payable	-	-	-	-	53	**53**
Net debt as at 31 December 2022	**(31,794)**	**-**	**9**	**100,833**	**7,333 76**	**76,381**

21 Provisions

EURk	31 December 2022	31 December 2021
Non-current	26	22
Current	9,086	6,494
Total	**9,112**	**6,516**

Movement of the Company's provisions was as follows:

EURk	Emission allowance Liabilities (Note 5.1)	Provisions for employee benefits	Total
Balance as at 1 January 2021	**2,069**	**12**	**2,081**
Increase during the year	6,592	8	**6,600**
Utilised during the year	(2,167)	-	**(2,167)**
Result from change in assumptions	-	2	**2**
Balance as at 31 December 2021	**6,494**	**22**	**6,516**
Balance as at 1 January 2022			
Increase during the year	9,086	4	**9,090**
Utilised during the year	(6,494)	-	**(6,494)**
Balance as at 31 December 2022	**9,086**	**26**	**9,112**
Non-current portion	-	26	**26**
Current portion	9,086	-	**9,086**
Balance as at 31 December 2022	**9,086**	**26**	**9,112**

22 Other current amounts payable and liabilities

EURk	31 December 2022	31 December 2021
Taxes (other than income tax)	959	233
Costs of the electricity excess revenue cap	413	-
Accrued expenses	226	35
Amounts payable for property, plant and equipment	85	305
Employment related liabilities	32	27
Derivatives (Note 23)	-	3,372
Other amounts payable and liabilities	118	230
Carrying amount	**1,833**	**4,202**

Financial liabilities amount to EUR 203 thousand (31 December 2021: EUR 535 thousand). Taxes (other than income tax), employment-related liabilities, electricity revenue cap excess costs and accrued expenses are not financial liabilities.

23 Derivatives

The Company's derivative financial instruments consist mainly of:

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

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

As at 31 December 2022, the Company has purchased all emission allowances, against which the emission allowance futures were accounted for.

23.1 Derivatives in the statement of financial position

EURk	Note	Movement in 2022
Derivatives		
Other current assets		1,056
Other current payable amounts and liabilities	22	(3,372)
Carrying amount as at 31 December 2021		**(2,316)**
Change in carrying amount		
Change in fair value of derivatives recognised in 'Financial income'		247
Change in fair value of derivatives recognised in ‚Other expenses'		2,316
Change in fair value of derivatives recognised in ‚Other comprehensive income'		6,889
Total change in 2022		**9,452**
Derivatives		
Carrying amounts as at 31 December 2022		**7,136**
Other non-current assets		7,136

23.2 Derivatives in the statement of profit or loss

EURk	2022	2021
Other contracts - interest rate option derivatives	247	-
Contracts relating to electricity commodities (realised)	(9,920)	(938),,,
Contracts relating to electricity commodities (unrealised)[1]	3,372	(3,372)
Other contracts - derivatives of emission allowance futures	(1,056)	1,056
Total recognised in the statement of profit or loss	**(7,357)**	**(3,254)**

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

24 Contingent liabilities

24.1 Litigations

As at 31 December 2022 and 2021, the Company was not involved in any legal procedures which, in the opinion of Management, could have a significant influence on the financial statements.

24.2 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 656 thousand. 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 27 January 2022, the Company provided a guarantee of EUR 360 thousand for a contract on the provision of services for the recovery of waste for heat and energy production. The Company undertakes to provide waste-to-energy services in the specified scope, conditions and procedure. The term of the guarantee is 12 February 2023 (Note 27).

On 6 March 2020, the Company provided a guarantee of EUR 300 thousand as a result of a contract regarding sale of electricity on the power exchange. The Company undertakes to provide electricity in accordance with the volumes set. The guarantee will expire on 31 May 2023.

On 25 March 2022, the Company issued a guarantee of EUR 225 thousand as a result of a public contract on the sale and purchase of waste incineration/utilisation services. The Company undertakes to provide incineration/utilisation services after the treatment of mixed municipal waste at the mechanical biological treatment facility in the specified scope, conditions and procedure. The term of the guarantee is 25 March 2023 (Note 27).

24.3 Evaluation of Russia's invasion of Ukraine on Company's financial statements

The Company has evaluated current and, to the extent possible, expected impact of Russia's invasion of Ukraine on the financial position, performance, cash-flows and the principal risks and uncertainties to which the Company is exposed. As the Company does not have any significant operations in the affected markets, the management of the Company has concluded that: no significant impact of Russia's invasion of Ukraine on Company's financial statements was identified. However, it should be noted that, due to the ongoing uncertainty, impact of the Russia's invasion of Ukraine on the business of the Company companies is being constantly reviewed.

25 Related-party transactions

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

Related parties, EURk	Amounts receivable 31 December 2021	Amounts payable 31 December 2021	Sales 2021	Purchases 2021	Finance income (expenses) 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)**

The Company purchases services related to lease of property, IT and telecommunications, procurement organisation and implementation, accounting and personnel administration from related parties. It also entered into derivative transactions related to electricity (Note 24).

25.1 Terms and conditions of transactions with related parties

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

25.2 Related party guarantees

On 18 October 2017, the Company received a guarantee from the parent company and UAB GREN Lietuva to secure a loan agreement signed with AB Swedbank on 31 May 2017. The guarantee was valid until 31 May 2022.

25.3 Compensation to key management personnel

	2022	2021
Wages and salaries and other current benefits to key management	123	116
Whereof:		
Short-term benefits	123	116
Number of key management personnel	4	4

In 2022 and 2021, the key management personnel of the Company were considered to be the CEO and the members of the Management Board. Further information on key management personnel is provided in the "Governance report" section in the Annual Report.

26 Fair values of financial instruments

26.1 Financial instruments measured at fair value

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

As at 31 December 2022, the Company held interest rate swap and option derivatives. The net value is calculated using exchange rates published by the European Central Bank. Level 2 of the hierarchy is used to determine the fair values of these derivatives as they are not traded in the direct markets and the calculations are based on information publicly available in the markets.

As at 31 December 2022, there were no derivative transactions related to electricity purchase and sale prices (Note 23).

As at 31 December 2021, the Company had derivative transactions relating to the purchase and sale prices of electricity. The fair values of these derivatives are determined using valuation models with observable variables.

As at 31 December 2022, the Company did not hold any derivatives on emission allowance futures. As at 31 December 2021, the Company held derivatives on emission allowance futures. These derivatives are valued on the basis of data from the European Energy Exchange (EEX).

26.2 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 4.80% as at 31 December 2022 (31 December 2021: 2.76%). The measurement of financial liabilities related to the debts is attributed to Level 2 of the fair value hierarchy.

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

EURk	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	23	7,136	-	7,136	-	**7,136**
Financial instruments for which fair value is disclosed						
Liabilities						
Bank loans	19	108,166	-	96,929	-	**96,929**

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

EURk	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	23	1,056	-	1,056	-	**1,056**
Liabilities						
Derivatives	23	3,372	-	3,372	-	**3,372**
Financial instruments for which fair value is disclosed						
Liabilities						
Bank loans	19	110,334	-	110,334	-	**110,334**

27 Events after the reporting period

27.1 Issued guarantees

On 13 February 2023, the Company issued a new guarantee of EUR 360 thousand in relation to liabilities mentioned in Note 24. The guarantee matures on 12 February 2024.

On 24 March 2023, the Company issued a new guarantee of EUR 225 thousand in relation to liabilities mentioned in Note 24. The guarantee matures on 23 March 2024.

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

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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 profit or loss and other comprehensive income as at 31 December 2022,
- the statement of financial position for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

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

Other Information

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

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

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

Company code: 111494971
VAT code: LT114949716

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

On behalf of KPMG Baltics, UAB

EDVINAS ŽUKAUSKAS
Digitally signed by EDVINAS ŽUKAUSKAS
Date: 2023.04.07 14:20:26 +03'00'

Edvinas Žukauskas

Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
7 April 2023

The electronic auditor's signature applies only to the Independent Auditor's Report on pages 81 to 83 of this document.

6.3 Information on the auditor

Independent auditor’s selection

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

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

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

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

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

Services and fees

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

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

Independent auditor’s services and fees

EURk	2022	2021
Audit of the annual financial statements under the agreement	27	27
Other services[1]	1	1
Total	**28**	**28**

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

Further information

7.1 Other 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 2022.

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.

7.2 Compliance with the Guidelines for Ensuring the Transparency of State-Controlled enterprises

Information on compliance with the Guidelines for Ensuring the Transparency of State-Controlled enterprises

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

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

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

Abbreviations

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

Certification statement

7 April 2023

We, Ramūnas Paškauskas, Chief Executive Officer at UAB Kauno kogeneracinė jėgainė, and Aksana Stankevičienė , Director of Finance at UAB Kauno kogeneracinė jėgainė, and Paulius Žukovskis, Head of Financial Statements and Consultations of UAB Ignitis grupės paslaugų centras, acting under Order No 23_GSC_SP_0010 of 17 February 2023, hereby confirm that, to the best of our knowledge, UAB Vilniaus kogeneracinė jėgainė financial statements for the year ended 31 December 2022, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of UAB Kauno kogeneracinė jėgainė assets, liabilities, financial position, profit or loss and cash flows for the period, and the Annual Report 2022 includes a fair review of the development and performance of the business as well as the condition of UAB Kauno kogeneracinė jėgainė together with the description of the principle risks and uncertainties it faces.

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 23_GSC_SP_0010 of 17 February 2023

UAB Kauno kogeneracinė jėgainė
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