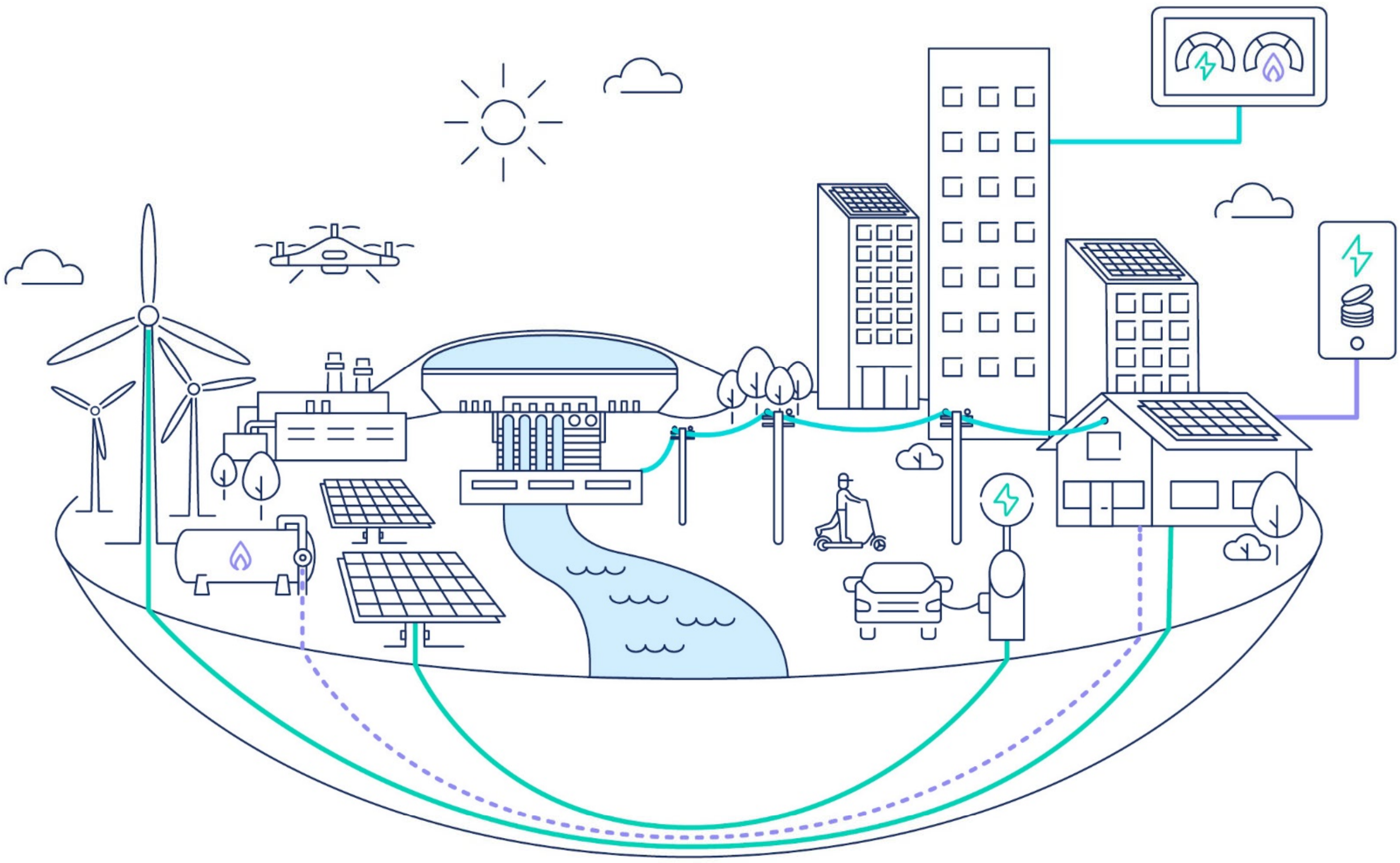
Vilniaus kogeneracinė jėgainė

# UAB VILNIAUS KOGENERACINĖ JĖGAINĖ

# Annual report 2021

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



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ignitis grupė

# Contents

# Overview

# 1.1 CEO’s statement

Ladies and Gentlemen:

The year 2021 was particularly intensive for Vilniaus kogeneracinė jėgainė. Over the years, the waste-to-energy unit has been producing electricity at full capacity, whereas the team has made every effort to complete the construction of the biomass-energy unit as soon as possible. All of it took place in the context of the COVID-19 pandemic and enormous energy market changes.

The previous year was the first one when the waste-to-energy unit of Vilniaus kogeneracinė jėgainė has supplied thermal energy to the capital for the entire year. Activities of this unit are especially important in the view of increase in use of natural gas on international markets - in the capital, high quantity of heat is still produced from this fossil fuel; thus, each megawatt-hour generated from waste contributes significantly to reduction of energy prices in the city.

Having produced heat and electricity during the entire year, we have estimated that Vilniaus kogeneracinė jėgainė is able to manage even higher amounts of waste than before - 200 thousand tons in a year instead of currently managed 160 thousand tons. In this way we would not only contribute to lower heat prices for residents of the capital city but we would also ensure decrease in the flow of waste going to landfills. That is why, in December 2021, we started preparing a new programme of environmental impact assessment - this is the first step towards ensuring the ability of the power plant to manage higher amounts of waste. I believe that we will have this goal implemented by the end of 2022.

In the previous year, the team of Vilniaus kogeneracinė jėgainė focused its efforts on completion of the project related to the biomass-energy unit successfully and as soon as possible. In 2021, we focused mainly on public procurements in order to select all necessary contractors and suppliers. In the first quarter of 2022, we concluded contracts basically with all principal contractors who have already started working. We expect that thermal energy generated from biomass will be supplied to Vilnius for the first time by the end of 2022, and commercial activities of the waste-to-energy unit will be started in the first half of 2023.

Activities of the waste-to-energy-unit is reflected in the financial results for 2021. In 2021, adjusted EBITDA reached EUR 9.9 million, whereas in 2020, adjusted EBITDA was negative and amounted to EUR 3.1 million of loss. In the previous year, adjusted net profit amounted to EUR 13.3 million (EUR 2.8 million of loss in 2020) - this has also resulted mainly from commercial operation of the waste-to-energy plant and has been also influenced by deferred income tax of EUR -6.7 million which was calculated on investments incentive and will be used over the coming periods (over five years).

With the view towards 2022, we will seek for more efficient use of the waste-to-energy-unit by generating competitive electricity and thermal energy and thus contributing to amortisation of prices. And we will make every effort to complete the biomass-energy unit in a timely manner and thus reduce the capital city’s dependence on natural gas.

# 1.2 Business highlights

### During the reporting period

April

- Trial operation of a waste-to-energy power plant was completed, the asset of the waste-to-energy power plant was put into service.

August

- An agreement regarding installation of a biomass site was signed.

September

- Procedures for recognition of the waste-to-energy power plant as appropriate for use were completed.
- An agreement regarding installation of a railway for access of the biomass site was signed.
- A trade agreement of financial instruments was signed with UAB Ignitis.

November

- A permanent authorisation to produce electricity was received.
- The main sales contract of heat was signed with AB Vilniaus šilumos tinklai.

December

- The National Commission for Energy Control (NERC) recognised UAB Vilniaus kogeneracinė jėgainė as a regulated independent heat producer.

### Subsequent to the reporting period

February

- A contract for construction of a biomass power plant and biomass harvesting farm was concluded.

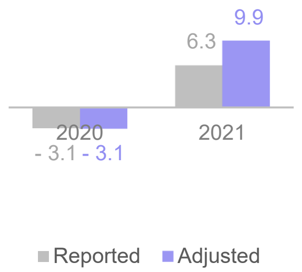
March

- Contracts for installation of electro-technical systems, installation of cabling systems for process management and automation as well as testing were signed.
- Preparatory works of construction of the biomass plant were started.
- On the 31$^{st}$ of March new Chairman of the Management Board was elected. Mantas Mikalajūnas changed former Chairman of the Management Board – Nerijus Rasburskis. The term of office of newly elected Chairman is from 31 March 2022 to 20 October 2023.

# 1.3 Performance highlights

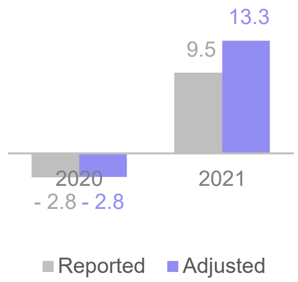
## Financial performance

**EBITDA, Adjusted EBITDA** APM
EUR million




The main reason for the increase in EBITDA as compared to the year 2020 is the start of commercial activities of the waste-to-energy power plant in March 2021.

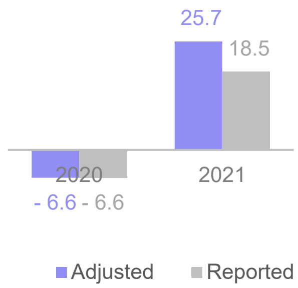
**Net profit, Adjusted net profit** APM
EUR million




The increase in net profit as compared to 2020 resulted mainly from the commencement of operation of the waste-to-energy power plant as of 30 April 2021 and the start of receipt of income as of 1 May 2021.

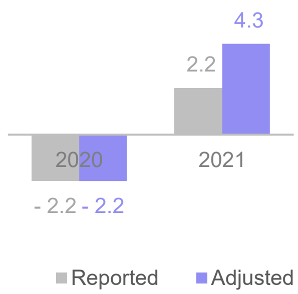
It has also been affected by a positive change in deferred income tax (EUR 6.7 million) calculated applying investment incentive. The deferred income tax will be used over five years.

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




A high level of ROE has resulted from large profitability of the company which was caused by the deferred income tax on investment incentive.

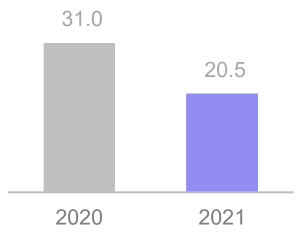
**ROCE (12-month), Adjusted ROCE (12-month)** APM
%




ROCE increased due to higher level of profitability which has been influenced by the deferred income tax on investments incentive (EUR 6.7 million).

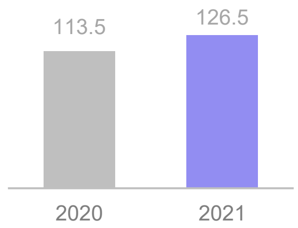
APM *Alternative Performance Measure - adjusted figures used in this report refer to measures used for internal performance management. As such, they are not defined or specified under International Financial Reporting Standards (IFRS), nor do they comply with IFRS requirements. Definitions of alternative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

**Investments** APM
EUR million



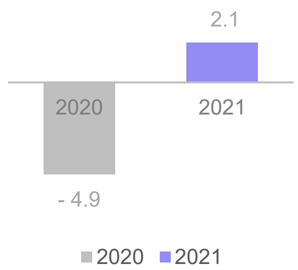

After restructuring of the main contractor, construction of a biomass power plant did not take place in 2021; in the same year, construction of the waste-to-energy power plant was completed, and final settlements with contractors were made. In 2020, investments were reduced by the received guarantee of EUR 15 million.

**Net debt** APM
EUR million



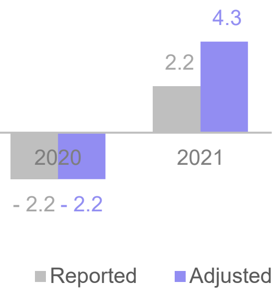

Net debt increased due to the decrease in the balance of net cash as a result of the final settlements with contractors of the waste-to energy power plant.

**FFO (12-month) / Net debt** APM
%




FIFO / Net debt increased due to the increase in net debt as a result of decrease in the net cash balance.

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




ROCE increased due to higher level of profitability which was influenced by the deferred income tax on investments incentive (EUR 6.7 million).

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

## Operating performance

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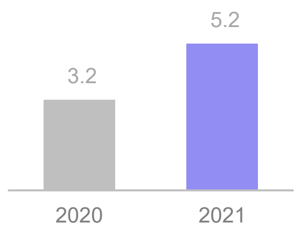
**OPEX**
EUR million

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The main reasons for the increase in expenses are as follows:

- Building and training of the team necessary for operation of the power plant (increase in salaries and related taxes, training costs);
- Increase in business support costs as a result of the growth of the number of employees and preparation for operation of the power plant;
- Increase in legal expenses due to disputes being resolved by arbitration.
- Increase in expenses of business services due to increase in their demand as a result of carrying out project-based activities alongside operation of the power plant.

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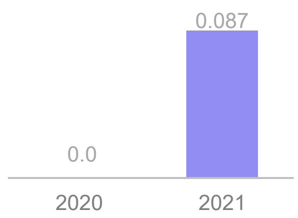
**Production of electricity (net), TWh**

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The waste-to-energy power plant was started to be operated on 30 April 2021, and income started to be received as of 1 May 2021.

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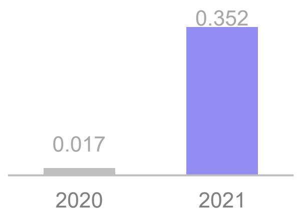
**Production of thermal energy (net), TWh**

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The waste-to-energy power plant was started to be operated on 30 April 2021, and income started to be received as of 1 May 2021. In 2020, thermal energy was produced during the trial operation of the power plant.

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# Business overview

# 2.1 Business profile

### Description of the Company's activities

The main activity of the Company is operation of a high-efficiency combined heat and power (CHP) plant in Vilnius, production of local and competitive electricity and heat from waste. Thermal energy produced by the combined heat and power (CHP) plant is supplied to the centralised heating network of Vilnius, and the produced electricity is supplied to the operator's LITGRID network of electricity distribution grid of 110 kV. With its production capacities, the Company will be able to ensure one fifth of the demand during the coldest period and approximately 40% of total thermal energy necessary for Vilnius over the year.

### Key customers of the Company

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

- Management of sorted municipal waste - waste management centres and other waste managers;
- Sale of electricity - electricity is realised in the exchange of Nord Pool AS;
- Sale of thermal energy and water refilling - supplier of centralised heating in Vilnius AB Vilniaus šilumos tinklai.

# 2.2 Business environment

### Regulation and competitive environment

Sale of thermal energy

On 23 February 2021, the National Commission for Energy Control (hereinafter - NERC) recognised UAB Vilniaus kogeneracinė jėgainė as a regulated independent heat producer. The Company has provided NERC with projects of investments and 3-year base price adjustments. It is expected that the base price will be approved and the maximum level of annual income will be established in QII 2022. Regardless of the level of the base price establishment, thermal energy must be sold at a heat auction according to the provisions of Article 10 of the Law on Heat.

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

Sale of electricity

The Company realises electricity in the exchange Nord Pool AS. Regarding sale of part of electricity, the Company has concluded an agreement in respect of fixing future price of electricity in order to ensure a steady flow of income.

Waste management services

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

# 2.3 Strategy

### Overview

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

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

In the Strategy, Ignitis grupė focuses on four key strategic priorities. Firstly, it is creating sustainable future where there is no place for coal or nuclear energy. Environmental, social, and governance (ESG) criteria are an integral part of the strategic goals with strong commitment to a more sustainable future. Ignitis grupė aligns its business targets with the United Nations' Sustainable Development Goals (SDG) and it is committed to reducing net carbon dioxide (CO2) emissions to zero by 2050. Ignitis grupė also thrives to align its businesses with science-based targets to a 1.5°C-compliant business model. Second, it is ensuring resilience and flexibility of the energy system, as well as enabling energy transition and evolution. Third, it is growing renewables to meet regional energy commitments. It targets to reach 4 GW of the installed green generation capacity by 2030. Fourth, it is capturing growth opportunities and developing innovative solutions to make life easier and energy-smart.

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

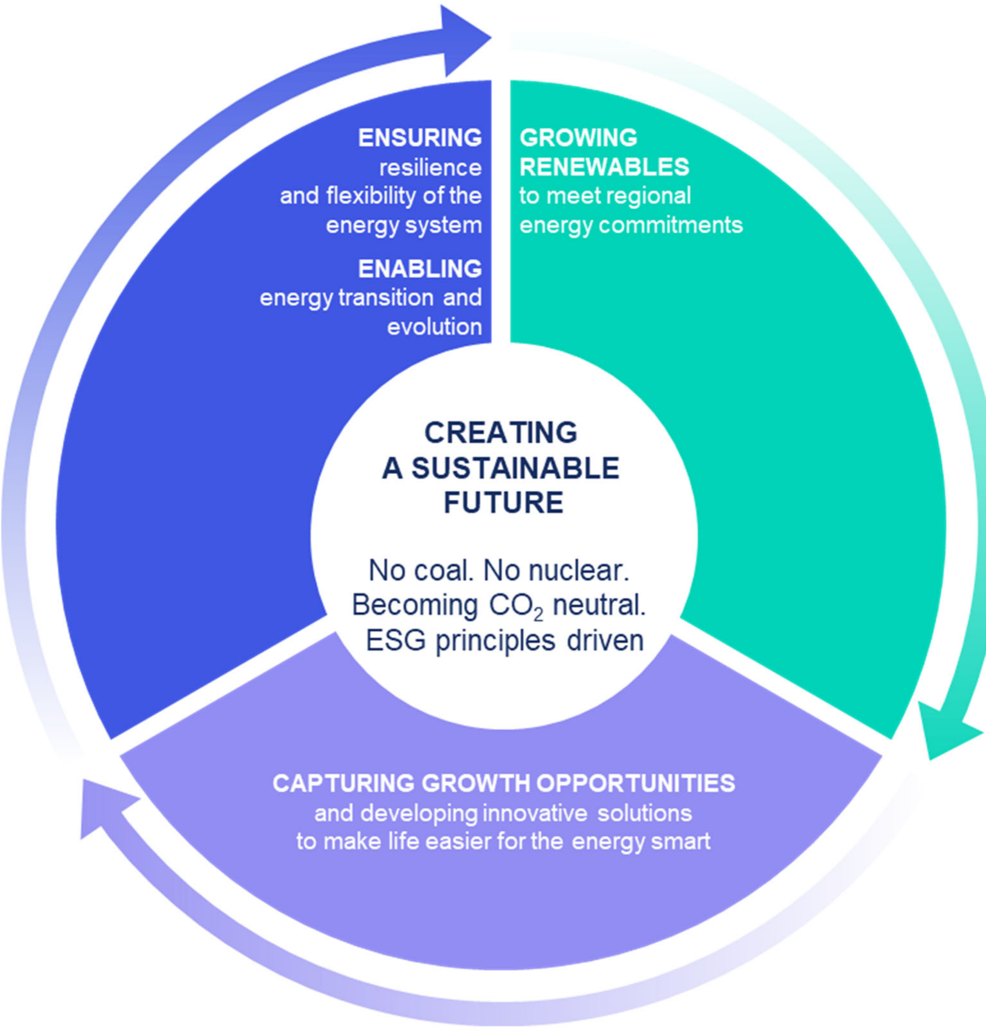
We pursue our strategic priorities with a strong focus on financial discipline. Engaged employees, agile teams, learning culture, organisation with a strong governance model and digital approach are the integral parts of the Strategy of Ignitis grupė.

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

### Our values

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

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




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

## Activity plans

The Company's strategy is prepared and updated and activity plans for their implementation are drawn up on the basis of the Strategy of the group of companies Ignitis grupė. The Company prepares its long-term financial plans and the annual budget that is reviewed every year in accordance with the strategy, strategic and activity plans which are prepared for a period of 4 years.

The Company reviews its strategic plans and estimates the status of implementation of strategic objectives on a regular basis. It submits reports on implementation of strategic initiatives and activity management results to the group of companies Ignitis grupė on a regular basis. In the event of change in circumstances that adjust the Company's structure, areas of activity, have a significant impact on the operating results forecast, strategic directions or targets, the strategies are updated.

Target indicators, 2021

| Performance assessment criteria | Weight | Items |
|---|---|---|
| Financial targets | 40% | EBITDA |
| | | All funds declared for EU support are recognised as appropriate for funding. |
| Strategic projects and key milestones | 50% | Process management has been installed, and a digital performance monitoring system has been automated |
| | | Commercial operation of the waste-to-energy power plant |
| | | Preparation for construction of the biomass power plant: (1) the team has been formed, 2) tenders have been initiated, 3) activity is carried out in accordance with the approved LOT3 project plan. |
| | | Occupational safety and health (OSH) has been ensured in a construction site and throughout the activity of VKJ |
| Sustainability targets | 10% | Environmental protection requirements have been ensured according to the permit of Integrated Pollution Prevention and Control (IPPC) |

Target indicators, 2022

| Performance assessment criteria | Weight | Items |
|---|---|---|
| Financial targets | 25% | Adjusted EBITDA, EUR million |
| Strategic projects and key milestones | 55% | Start of the trial operation of the biomass plant (thermal energy produced from biomass, 31/12/2022) |
| | | Availability of a waste treatment plant |
| | | Environmental Impact Assessment (EIA) has been carried out |
| Sustainability targets | 20% | Safety at workplace: TRIR and 0 work-related fatal accidents |
| | | Employee Net Promoter Score: eNPS |
| | | Ensuring of environmental protection requirements according to the permit of Integrated Pollution Prevention and Control (IPPC): the average daily IPPC emission values were exceeded during commercial operation |

## Investments

### Overview

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

The project is at the implementation stage, works and service contracts have been concluded with a construction manager, construction designer, contractor, contractors of cables for automation and electricity. Critical design files have been prepared and provided to the contractor. Preparation for construction has been started: construction village, preparation of concrete paving, installation of field engineering networks.

### Ongoing and planned investments

| | The amount planned for investments, EUR million | |
|---|---|---|
| **EUR million** | **The plan for 2022-2023** | **Sources of funding** |
| Biomass CHP plant | 95.5 | – Equity<br>– Borrowings<br>– EU support |

# Results

# 3.1 Annual results

## Revenue

The Company's revenue amounted to EUR 16.6 million in 2021 and EUR 0.1 million in 2020. The change in revenue resulted mainly from the waste-to-energy power plant being operated as of 1 May 2021 and, consequently, income have started to be received from this activity.

### Revenue by nature of activity, EUR million

| | 2021 | 2020 | Δ | Δ,% |
|---|---|---|---|---|
| Electricity | 7.7 | 0 | *7.7* | - |
| Thermal energy | 5.0 | 0 | *5.0* | - |
| Waste management | 3.7 | 0 | *3.7* | - |
| Other | 0.2 | 0.1 | *0.1* | *100%* |
| **Sales** | **16.6** | **0.1** | ***16.5*** | ***16,500%*** |

In 2021, the major portion of revenue comprises sale of electricity (47%) as a result of increase in electricity prices in the power exchange. Sale of thermal energy comprises 30%, waste management revenue comprises 22% and other revenue, received from contractors of the waste-to-energy power plant for consumption of water and electricity during work, comprises 1%.

### Revenue by country, EUR million

| | 2021 | 2020 | Δ | Δ,% | 2021 |
|---|---|---|---|---|---|
| Lithuania | 16.4 | 0 | *16.4* | - | *99%* |
| Other[1] | 0.2 | 0.1 | 0.1 | *100 %* | *1%* |
| **Revenue** | **16.6** | **0.1** | ***16.5*** | ***16,500 %*** | ***100.0%*** |

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

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

## Expenses

### Purchases of electricity, gas and other services

In 2021, the Company's purchases of electricity and gas amounted to EUR 2.6 million. In 2020, there were no purchases of electricity and gas as the Company started operating the waste-to-energy power plant on 30 April 2021.

### OPEX

In 2021, OPEX amounted to EUR 5.2 million and increased by 62.5% (EUR +2.0 million). Such a change was influenced by building of the team necessary for operation of the waste-to-energy power plant (higher expenses arising from salaries and related taxes amounting to EUR +0.8 million), by the incurred costs related to repair and maintenance of the electricity network and facilities of electricity and heat production amounting to EUR - 0.3 million (such type of expenses were not incurred in 2020). Also, the increase in other expenses by EUR 0.8 million (or +65.2%) mainly as a result of the increase in expenses of business support services in 2021 (EUR +0.2 million), the major part thereof consists of procurement service expenditures (EUR +0.1 million).

### Other

In 2021, expenses arising from derivative financial instruments which resulted from the increase in market prices of electricity and gas amounted to EUR 2.5 million. According to the accounting policies of the Group, positive results from derivative financial instruments for the period are disclosed in other revenue, and negative results - in other expenses from derivative financial instruments. In 2020, the Company did not have any transactions of derivative financial instruments.

Depreciation and amortisation expenses increased as a result of the commencement of activities of the waste-to-energy power plant in April 2021 (EUR +2.4 million).

In 2021, expenses of financing activity amounted to EUR 0.9 million. Financial expenses incurred in 2020 were capitalised.

## Expenses, EUR million

| | 2021 | 2020 | Δ | Δ,% |
|---|---|---|---|---|
| **Purchases of electricity, gas and other services** | **2.6** | **0** | ***2.6*** | **-** |
| Electricity expenses, balancing services and purchases of related services | 0.9 | 0 | *0.9* | - |
| Purchases of gas and related services | 0.2 | 0 | *0.2* | - |
| Operating costs of CHP plants | 1.5 | 0 | *1.5* | - |
| **OPEX** APM | **5.2** | **3.2** | ***2.0*** | ***63%*** |
| Remuneration and related costs | 2.6 | 1.8 | *0.8* | *44%* |
| Repair and maintenance expenses | 0.3 | 0 | *0.3* | - |
| Other | 2.3 | 1.4 | *0.9* | *64%* |
| **Other** | **6.0** | **0.2** | ***5.8*** | ***2,900%*** |
| Depreciation and amortisation | 2.6 | 0.2 | *2.4* | *1200%* |
| Derivative financial instruments | 2.5 | 0 | *2.5* | - |
| Financial expenses | 0.9 | 0 | *0.9* | - |
| **Total expenses** | **13.8** | 3.4 | *10.4* | ***306%*** |

## EBITDA

In 2021, the Company's adjusted EBITDA amounted to EUR 9.9 million and was higher by 313.0% or EUR 6.8 million compared to 2020. Adjusted EBITDA margin amounted to 60% (20.4% in 2020).

## EBITDA adjustments

During 2021, profit earned before the start of commercial activities of the waste-to-energy unit (EUR 3.6 million) (and possible formal completion procedures after the commencement of the commercial activities) is included because it reflects cash inflows which have been capitalised according to IAS. According to the adjustments to IAS 16, revenue before use will be accounted for in the income statement instead of being capitalised in the balance sheet.

## Net profit

Adjusted net profit amounted to EUR 13.3 million in 2021 and was higher than in 2020 by EUR 16.1 million.

Reported net profit amounted to EUR 9.5 million in 2021. The Company incurred loss of EUR 2.8 million in 2020. The increase in net profit as compared to 2020 resulted mainly from the commencement of operation of the waste-to-energy power plant as of 30 April 2021, and income started to be received as of 1 May 2021.

Net profit adjustments are consistent with EBITDA adjustments.

It was also affected by deferred income tax of EUR -6.7 million calculated on investments incentive, which will be used during the coming periods (over five years).

## Investments

In 2021, investments amounted to EUR 20.5 million and was lower by EUR 10.5 million compared to 2020. In 2021, after the restructuring of the main contractor, construction of the biomass power plant did not take place; construction of the waste-to-energy power plant was completed, and final settlements with contractors were made.

## Balance sheet

### Assets

As of 31 December 2021, total assets reached EUR 313.5 million (an increase of EUR 11.5 million since 31 December 2020). The growth was mainly influenced by increase in non-current assets due to completion of construction of the waste-to-energy power plant (EUR +23.5 million), deferred income tax asset on investments incentive (EUR +6.7 million) and decrease in net cash (EUR -13.3 million).

### Equity

As of 31 December 2021, equity amounted to EUR 56.6 million and has increased by EUR 10 million since 31 December 2020 mainly due to net profit for 2021.

### Liabilities

Liabilities increased by 1% or EUR 1.95 million in 2021. There was an increase in the received grants (EUR +4 million) within the non-current liabilities, non-current financial debts decreased because a part of the loan received for construction of the power plant was transferred to current liabilities, and the first instalment of the loan was repaid.

Investments, EUR million

| | 31/12/2021 | 31/12/2020 | Δ | Δ,% |
|---|---|---|---|---|
| Non-current assets | 293.8 | 270.4 | *23.4* | *9 %* |
| Current assets | 19.7 | 31.66 | *(11.96)* | *(38%)* |
| **TOTAL ASSETS** | **313.5** | **302.1** | ***11.4*** | *4%* |
| Equity | 56.5 | 46.9 | *9.6* | *20%* |
| Total liabilities | 257.1 | 255.1 | *2.0* | *1%* |
| Non-current liabilities | 247.6 | 247.7 | *(0.1))* | *(0.4%)* |
| Current liabilities | 9.4 | **7.4** | ***2.0*** | *21.73%* |
| **TOTAL EQUITY AND LIABILITIES** | **313.5** | **302.1** | ***11.4*** | *4%* |
| *Asset turnover APM* | 0.05 | 0.0 | *0.05* | **-** |
| *ROA APM* | 3.0% | -1.0% | *4 pp* | - |
| *Common liquidity ratio APM* | 2.05 | 4.29 | *(2.24)* | *(52%)* |
| *Working capital / Revenue (12-month) APM* | 5.2 % | -4,153.8% | n/a | 4,159.0 pp |

## Financing

### Net debt

As of 31 December 2021, net debt amounted to EUR 126.5 million, an increase of 10.28% or EUR 13.0 million, as compared to 31 December 2020.

FFO (12-month) / Net Debt ratio increased from -4.9% to 2.1% due to the increase in net debt.

## Net debt, EUR million

| | 31/12/2021 | 31/12/2020 | Δ | Δ,% |
|---|---|---|---|---|
| **Total non-current financial liabilities** | **135.6** | **139.9** | ***(4.3)*** | ***(3.1%)*** |
| Non-current loans | 135.3 | 139.6 | *(4.3)* | *(3.1%)* |
| Lease liabilities (IFRS 16) | 0.3 | 0.3 | *0* | *0%* |
| **Total current financial liabilities** | **4.7** | **0.6** | ***4.1*** | ***683.3%*** |
| Current portion of non-current loans | 4.2 | 0.4 | *3.8* | *950%* |
| Interest payable (including accrued interest) | 0.4 | 0.2 | *0.2* | *100%* |
| Lease liabilities (IFRS 16) | 0.1 | 0 | *0.1* | - |
| Financial debt APM | **140.3** | **140.5** | ***(0.2)*** | ***(0.1%)*** |
| **Cash, cash equivalents and cash in escrow account** | **13.7** | **27.0** | ***(13.3)*** | ***(49.3%)*** |
| **Net debt** APM | **126.5** | **113.5** | ***13.0*** | ***11.5%*** |
| EPSO-G receivable amount | 0.2 | 0.1 | *0.1* | *100%* |
| **Net debt, excluding the EPSO-G amount** | **126.3** | **113.4** | ***12.9*** | ***11.4%*** |
| Net debt / adjusted EBITDA (12-month) APM | *12.72* | *(36.67)* | *49.39* | - |
| Net debt / EBITDA (12-month) APM | *19.99* | *(36.67)* | *56.66* | - |
| FFO (12-month) / Net debt APM | 2.1% | (4.9)% | *n/a* | *7.0 pp* |
| Financial debt / Equity APM | *2.48* | *2.99* | *(0.51)* | *(17.06%)* |
| Equity level APM | *0.18* | 0.16 | *0.02* | *12.5%* |

## Dividends

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

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

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

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

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

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

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

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

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

Dividends for the years 2021 and 2020 were not distributed.

## Key performance indicators

| | | 2021 | 2020 | *Δ* | *Δ,%* |
|---|---|---|---|---|---|
| **Electricity** | | | | | |
| Installed capacity of the green generation[1] | MW | 20 | - | - | - % |
| Green generation capacity under construction | MW | 73 | 20 | *60* | *300%* |
| Production of electricity *(net)* | TWh | 0,087 | - | - | - % |
| Production of green energy (net) | TWh | 0,087 | - | - | - % |
| Portion of the green generation | % | 100% | - | - | - |
| Sale of electricity | TWh | 0,090 | - | - | - % |
| **Thermal energy** | | | | | |
| Installed capacity of the green generation[1,2] | MW | 70 | 60 | - | - % |
| Green generation capacity under construction | MW | 169 | 169 | - | - % |
| Production of thermal energy *(net)* | TWh | 0,352 | 0,017 | *0,335* | 1,949% |

[1] According to the certificate of inspection of the technical condition of energy facilities of the National Commission for Energy Control.

[2] During the process of electricity production, heat supply capacity amounts to 60 MW in co-generation mode.

# 3.2 Summary for three years

## Key financial indicators

| | | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Sales | EUR million | 16.57 | 0.1 | 0 |
| EBITDA APM | EUR million | 6.33 | -3.1 | -1.22 |
| Adjusted EBITDA APM | EUR million | 9.94 | -3.1 | -1.22 |
| Adjusted EBITDA margin APM | % | 60% | -2.602% | 0% |
| EBIT APM | EUR million | 3.73 | -3.27 | -1.31 |
| Adjusted EBIT APM | EUR million | 7.35 | -3.27 | -1.31 |
| Net profit | EUR million | 9.55 | -2.80 | -1.08 |
| Adjusted net profit APM | EUR million | 13.31 | -2.8 | -1.08 |
| Investments APM | EUR million | 20.47 | 31.04 | 161.34 |
| FFO APM | EUR million | 2.68 | -5.59 | -2.36 |
| ROE APM | % | 18% | -7% | -3% |
| Adjusted ROE APM | % | 26% | -7% | -3% |
| ROCE APM | % | 2% | -2% | -1% |
| Adjusted ROCE APM | % | 4% | -2% | -1% |
| ROA APM | % | 3% | -1% | -1% |
| Adjusted ROA APM | % | 4% | -1% | -1% |
| | | **31/12/2021** | **31/12/2020** | **31/12/2019** |
| Total assets | EUR million | 313,54 | 302,05 | 239,48 |
| Equity | EUR million | 56.48 | 46.94 | 38.43 |
| Net debt APM | EUR million | 126,5 | 113,52 | 104,44 |
| Net working capital APM | EUR million | 0.87 | -4.94 | -6.54 |
| Net debt / EBITDA APM | times | 19.99 | -36.67 | -85.89 |
| Net debt/Adjusted EBITDA APM | times | 12.72 | -36.67 | -85.92 |
| FFO/Net debt APM | % | 2.1% | -4.9% | -2.3% |
| Common liquidity ratio APM | % | 208% | 429% | 5% |
| Asset turnover APM | times | 0.054 | 0 | 0 |

## Key performance indicators*

| | | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| **Electricity** | | | | |
| Installed capacity of the green generation | MW | 20 | - | - |
| Green generation capacity under construction | MW | 73 | 80 | - |
| Production of electricity (net) | TWh | 0,087 | - | - |
| Production of green energy (net) | TWh | 0,087 | - | - |
| Portion of the green generation | % | 100 % | - | - |
| Sale of electricity | TWh | 0,091 | - | - |
| **Thermal energy** | | | | - |
| Installed capacity of the green generation | MW | 70 | 60 | - |
| Green generation capacity under construction | MW | 169 | 169 | - |
| Production of thermal energy (net) | TWh | 0,352 | 0,017 | - |

** Commercial activity of the waste-to-energy power plant was started in March 2021.*

# Management report

# 4.1 Governance model

## Governance model of the Company

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

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

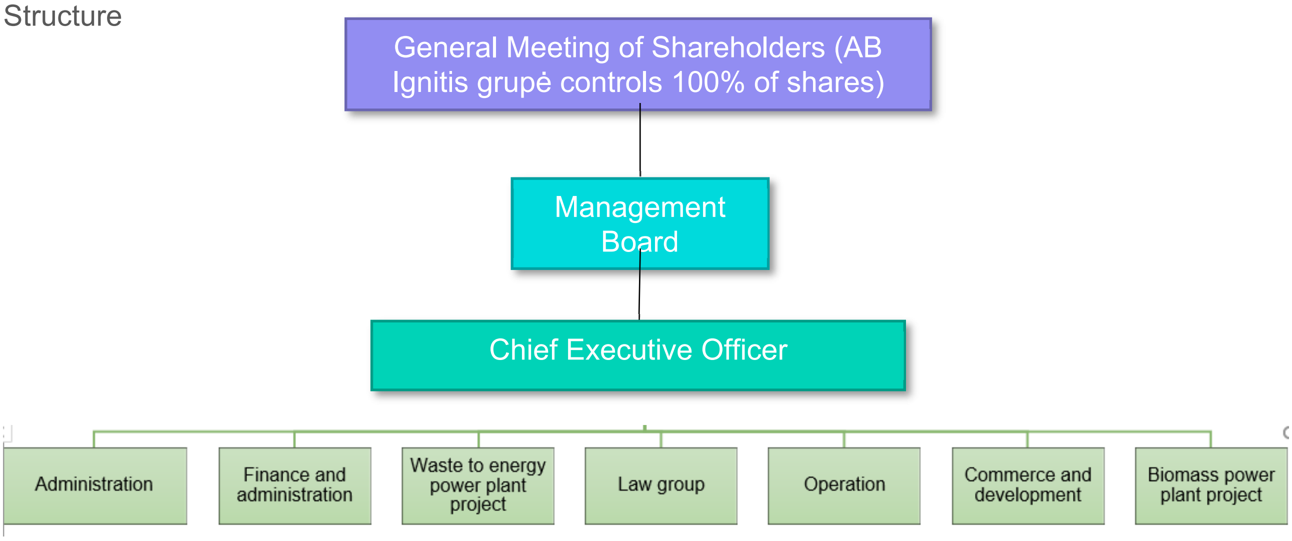
- General Meeting of Shareholders
- Collegial governing body - Management Board
- Single-person governing body - Chief Executive Officer.

The General Meeting of Shareholders is the supreme governing body of the Company. The General Meeting of Shareholders consists of the sole shareholder - AB Ignitis grupė, company code 301844044, registered office at Laisvės ave. 10, Vilnius, holding 100% of the Company's shares. The competence of the General Meeting of Shareholders, the procedure for convening and taking decision is determined by the laws, other legal acts and the Company's Articles of Association.

The Management Board is a collegial governing body of the Company. The Company's Management Board consists of 3 members elected under the decision of the General Meeting of Shareholders for a 4-year term of office. The Management Board elects the chairman of the Management Board from among its members. The competence of the Management Board, the procedures of decision-making, election and revocation of members are determined by the laws, other legal acts and the Company's Articles of Association as well as the Regulation of the Management Board.

The Chief Executive Officer is a single-person governing body of the Company. The Chief Executive Officer organises, directs, acts on behalf of the Company and concludes transactions unilaterally, except for cases provided for in legislation and the Articles of Association. The competence of the Chief Executive Officer, election and recalling procedures are establish by laws, other legal acts and the Articles of Association of the Company.

Structure



## Shareholders, their rights and functions

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

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

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

| Shareholder of the Company | Number of shares | Par value per share, EUR | Share capital, EUR | Owned share, % |
|---|---|---|---|---|
| AB Ignitis grupė | 180,344,828 units | EUR 0.29 | EUR 2,300,000.12 | 100 |

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

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

# 4.2 Management Board

## Overview

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

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

The Management Board of the Company:

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

The competence of the Management Board, the procedures of decision-making, election and revocation of members are also determined by the laws, other legal acts, the Company's Articles of Association and the Labour Regulation of the Management Board.

## Activities during the reporting period

Overall 34 meetings of the Management Board were held in 2021, all members of the Management Board voted in writing at 4 (four) of the meetings. Overview of attendance of meetings is provided in the table below:

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

| Name, surname | Participated in |
|---|---|
| Dominykas Tučkus | 15/17 |
| Nerijus Rasburkis | 2/34 |
| Paul K. Dainora | 1/34 |
| Jonas Rimavičius | 17/17 |

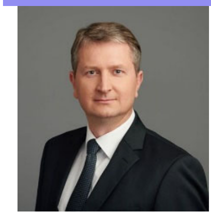
** The numbers indicate how many meetings in 2021 the members have attended out of total meetings during the reporting period.*

The Management Board has implemented all measures anticipated in the preliminary activity plan for 2021. Activities of the Management Board covered the following key areas in 2021:

- confirmation of the Company's strategic plan for 2021-2024;
- approval of the Company's annual report, financial statements for the year 2020, and draft appropriation project of profit (loss);
- decisions in respect of participation of the Company in a heat auction and determination of the proposal price;

- confirmation of the substantive conditions of the Company's operating agreements;
- approval of conclusion of contracts essential for the going concern of the Company;
- decisions in respect of determination of limits for mutual borrowing and lending of the Company and the Group;
- Performance of other supervisory functions as anticipated in the Law on Companies of the Republic of Lithuania.

## Board members

| | Description | Experience | Education | Other current place of employment, position |
|---|---|---|---|---|
|  | **Nerijus Rasburskis**<br>Chairman<br>Term of office: from 30/04/2020 to 31/03/2022 | Since 1999, he has been participating in national and international projects related to energetics and the environment. Majority of the projects are related to energy efficiency, supply safety and environmental protection.<br>He worked as an energy consultant for consulting firms in Lithuania and Sweden for more than 15 years. When he was an advisor to the President of the Republic of Lithuania on energy, he cooperated closely with European and Lithuanian legislative and executive authorities in implementing such strategic energy infrastructure projects of Lithuania and the Baltic region as Klapėda LNG Terminal, NordBalt, etc., power connectors LitPol Link. | He has graduated from Kaunas University of Technology and has gained a Bachelor's degree in Management and Economics and has defended his doctoral dissertation in Energetics and Thermal Engineering.<br>He has graduated from Aalborg University in Denmark and gained a degree in Environmental Management. | UAB Ignitis grupė, Head of Heat and Power Solutions |
|  | **Paul k. Dainora**<br>Independent member<br>Term of office: from 21/06/2019 to 20/10/2023 | He has more than 25 years of experience in the energy sector. | He has studied mechanical engineering in Villanova University in the USA and has gained a Master's degree in Economics and Finance in West Chester University in the USA. | A Board member at UAB Vilkaviškio šilumos tinklai, a member of the organisations Global Lithuanian Leaders and American Society of Mechanical Engineers. Vice President of Business Development for Atlantic Gulf and Pacific Company (AG&P). |
|  | **Jonas Rimavičius**<br>Member<br>Term of office: from 27/07/2021 to 20/10/2023 | UAB Ignitis grupė, Head of Finance and Investments; he has worked for the Group since 2016. | Bachelor's degree in Accounting and Finance, University of Warwick<br>Master's degree in Business Administration, University of Cambridge | A Board member at AB Ignitis grupė and UAB Ignitis renewables. Head of Finance and Investment Management at AB Ignitis grupė. |
|  | **Dominykas Tučkus**<br>Member<br>Term of office: from 21/10/2019 to 27/07/2021 | | L. Bocconi University, Master's degree in Finance | A member of the Supervisory Board of UAB Ignitis |

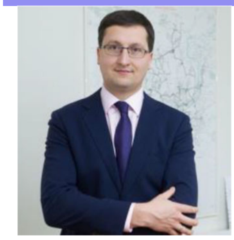
## Chief Executive Officer

### Overview

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

The competence of the Chief Executive Officer, election and recalling procedures are establish by laws, other legal acts and the Articles of Association of the Company.

### Profile

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

# 4.3 People and Remuneration

## People and culture

### Overview

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

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

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

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

### Employees, their diversity and representation

As at 31 December 2021, the Company employed 88 employees (87 employees as at 31 December 2020).

Both in the Company and in the entire Ignitis grupė, job opportunities do not depend on an employee's gender. The Company ensures diversity and equal opportunities for employees and does not tolerate direct or indirect discrimination in all their areas of activity. As at 31 December 2021, men accounted for 77% of all employees. Women comprised 23%. Male specialists accounted for 74%, and female - for 26%. Distribution of mid-level executives: men accounted for 86%, and women - for 14%.

The Company provides job opportunities to people of various ages. As at 31 December 2021, most employees of the Company belonged to the age group of 25-36 years (56%), and the lowest number of employees belonged to the age group of 57-76 years (1%). More than 86% of employees have gained higher education.

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

## Remuneration within the Company

### Overview

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

### Remuneration Policy

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

#### Key Remuneration Policy principles of the Group

| | |
|---|---|
| **Internal fairness** | We ensure that similar or same-value-creating work is compensated equally throughout the organisa-tion. |
| **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 2021 amounted to EUR 2.6 million compared to EUR 1.8 million in 2020. Average monthly salary (FBS and STI) for the period of 2020–2021 is provided in the following table.

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

| Position category | 2021 | | 2020 | |
|---|---|---|---|---|
| | Number of employees | Average salary | Number of employees | Average salary |
| Chief Executive Officer | 1 | 6,993 | 1 | 7,732 |
| Top level executives | 4 | 5,866 | 4 | 5,475 |
| Mid-level executives | 7 | 4,170 | 6 | 4,032 |
| Experts / Specialists | 74 | 2,513 | 76 | 2,295 |
| Employees | 2 | 1,299 | 0 | 0 |
| **Total** | **88** | **2,832** | **87** | **2,713** |

### Remuneration of the Company's CEO and the Management Board

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

## Remuneration structure for the CEO and the Management Board

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

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

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

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

| Name, surname (position) | FBS | STI | PBM | Total |
|---|---|---|---|---|
| Paul Kęstutis Dainora | - | - | 23,296 | 23,296 |

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

# 4.4 Risks and risk management

## Risk management framework

In its activities Ignitis grupė is exposed to internal and external risks that may have impact on the results. In order to reduce the risks to an acceptable level, Ignitis grupė applies uniform risk management principles to all its subsidiaries, including the Company. The risk management principles are based on market best practices, including the main principles of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and AS/NZS ISO 31000:2009 (Risk management – Principles and guidelines).

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

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

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

## Risk assessment and risk control

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

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

# 5.1 Sustainability

# 5.1 Overview of sustainability

The sustainability performance and results of AB Ignitis grupė as a whole (hereinafter - the Group), including its subsidiary UAB Vilniaus kogeneracinė jėgainė (hereinafter - Vilnius CHP), are summarised in the consolidated Annual Report 2021 of AB Ignitis grupė, of which the Sustainability (social responsibility) Report (hereinafter - Sustainability Report) of the Group as a whole is an integrated part. This report is available on www.ignitisgrupe.lt under 'For Investors' and 'Sustainability'. This report is available on www.ignitisgrupe.lt under 'For Investors' and 'Sustainability'. We note that the terms 'coherence' and 'sustainability' are used interchangeably in the Group.

The Sustainability Report of the Group, which covers the period from 1 January 2021 to 31 December 2021, is prepared in accordance with the Global Reporting Initiative (GRI) Standard Core Model (GRI Core). Disclosures are made on the basis of materiality and reflect the progress of the Group in implementing the United Nations Global Compact (UNGC) and the contribution of the Group and its companies to the achievement of the United Nations Sustainable Development Goals (SDGs). This report meets the requirements for sustainability / social responsibility reports as set out in Lithuanian legal acts.

In this context, Vilnius CHP does not prepare a separate report on this topic but provides below a summary of its sustainability activities and links to the relevant sections of the sustainability report of the Group.

## Sustainability in the Group and Vilniaus kogeneracinė jėgainė

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

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

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

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

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

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

| MAIN THEMATIC AREAS | GOVERNANCE AND PROCESSES | ACCOUNTABILITY |
|---|---|---|
| We aim 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 Vilnius CHP are available on the Group's website www.ignitisgrupe.lt under 'Sustainability', and on the website of Vilnius CHP.

### Stakeholder relations and assessment of ESG priorities

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

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

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

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

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

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

Key facts on Vilnius CHP materiality assessment:

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

Vilnius CHP materiality assessment matrix 2021

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

### *Environmental area*

Main environmental impacts of Vilnius CHP:

- climate change impact and GHG emissions - reduction of greenhouse gases (CO2, etc.) generated by activities, production of electricity and thermal energy from less pollutant resources;
- reduction of impact on environmental components (soil, water, and air quality) - maintenance of soil, water, and air quality, prevention of environmental pollution;
- contribution to circular economy, generation of energy from the waste not fit for recycling, promotion of circular economy principles;
- more sustainable self-consumption of energy - use of green energy for self-consumption; reduction of energy consumption in the power plant;
- use of secondary raw materials in the activities of the power plant and reduction of operational waste.
- impact on biological diversity and ecosystems - protection of flora, fauna, natural ecosystems.

*Reducing impacts on climate change*

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

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

Vilnius CHP promotes efficient energy use, contributes to education of employees and implements measures improving efficiency of energy consumption. The Company contributes to seeking for the Group’s GHG emission reduction targets, and in order achieve them, the Group will focus on operational emissions throughout the year and will seek to involve its partners, suppliers and customers in this process. The planned emission reduction measures of the Group and its companies include increasing green generation capacity, increasing the share of green electricity sold to consumers and consumed by Group companies, promoting the phase-out of natural gas, reducing losses in the distribution network, adding electric vehicles to the vehicle fleet, etc.

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

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

Environment-related issues at the Group’s level are coordinated in accordance with the Environmental Protection Policy of the Group that sets general environmental protection provisions and principles within the Group. It is aimed at ensuring compliance and reducing overall environmental impact of the Company as efficiently as possible.

Effects of activities on the environment are monitored. All reports on environmental monitoring are available on the website of Vilnius CHP. The ISO 14001 management system has been implemented in Vilnius CHP. The certificate was received in February 2022.

More about the Group’s aims and actions in the area of environmental protection is available in the ‘Protection of natural resources’ section of the Sustainability Report integrated into the Annual Report 2021 of the Group (link).

*Contribution to circular economy, generation of energy from waste not fit for recycling, promotion of circular economy principles*

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. The development of the Group's cogeneration plants, which are an alternative to landfills, plays an important role in the implementation of the principles of circular economy.

In 2021, we prepared a tour program and, after the restrictions of COVID-19 are lifted, we will invite the public to participate in excursions in Vilnius CHP, during which visitors will be introduced to the principles of circular economy, waste sorting benefits and other topics.

For more information on the Group's objectives and actions in the area of waste reduction measures, please refer to the 'Protection of natural resources' section of the Sustainability Report integrated into the Annual Report 2021 of the Group (link).

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

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

In 2021, the largest part of the Group's waste was generated by cogeneration power plants of Vilnius and Kaunas - mostly ash and slag. Fly ash generated is used for restoration of the landscape of the Langoya Island of Norway. Using modern technology, fly ash is mixed with water and acid from industrial waste. It this way, a gypsum-like material is made which is used to fill craters resulting from limestone extraction, and the recovered part of the island will be returned to the society.

For more information on the Group's objectives and actions in the area of use of secondary raw materials in the activities of the power plant, and reduction of operational waste, please refer to the 'Protection of natural resources' section of the Sustainability Report integrated into the Annual Report 2021 of the Group (link).

***Staff and society/communities area***

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

*Occupational safety and health*

Vilnius CHP adheres to the general provisions and principles of occupational safety and health and the Zero Tolerance towards Accidents at Work Policy of the Group which defines the main guidelines for their implementation. The prevention of accidents and ensuring safety and health is a major focus of the Company. Total recordable injury rate per million hours worked, (TRIR) of Vilnius CHP was equal to 6.03 in 2021.

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

Health and safety performance indicators of the Company’s employees (2021)

| | |
|---|---|
| **Employee incidents and accidents (minor, serious or fatal)** | There was 1 accident in 2021. |
| **Occupational safety and health violations, their nature and accidents of contractors' workers on the Company's sites** | According to information provided by the contractors, there were 0 accidents involving contractors' workers. |

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

The Group is one of the largest employers in Lithuania, and as such, it is committed to creating and maintaining an organisational culture that fosters a long-term partnership between employer and employee based on the values of the Group and the Code of Ethics, a mutual understanding and the opportunity to build an energy-smart future together. We conduct our activities and achieve our goals with respect not only for the environment, but also for the well-being of our employees: for us, this is a prerequisite for sustainable performance. This is why the Group is constantly developing, researching and testing different measures that can contribute to the well-being of employees. At the end of 2021, Vilnius CHP had 88 employees, and all of these principles are implemented with the utmost scrutiny.

Vilnius CHP respects the rights of employees and opposes child labour and discrimination of any kind, both in the recruitment of new employees and among existing employees. The Company has the Labour Council and the Committee of Occupational Safety and Health. Employee Satisfaction Index (eNPS) of Vilnius CHP for 2021 accounted for 26.7%. 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, Vilnius CHP enables its employees to grow and develop, and to expand their professional, general and managerial competences.

Close relations with the communities where we operate and with non-governmental organisations are one of the key principles of our cohesive and responsible operations set out in the Code of Ethics and the Sustainability Policy. We operate in a consistent and transparent manner, taking responsibility for our activities and cooperating with various organisations.

Detailed information on how employee well-being and representation is ensured in Group companies, including Vilnius CHP, as well as information on the application of the Remuneration Policy and employee training and competence development initiatives, maintenance of relationships with communities and participation is social activities, is provided in the section ‘Future-fit Employees and Communities’ of the Sustainability Report, integrated in the Annual Report 2021 of the Group (link).

### *Human rights area*

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

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

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

The Group regularly collects and publishes data on the diversity of its workforce: the distribution of employees by gender, age, education, occupation and country of employment. Diversity data is a way of getting to know the people of the Group and, taking into account the fact that we are different, of creating a supportive and inclusive work culture for all. In 2021, men accounted for 77% of total employees of Vilnius CHP, while women accounted for 23%. For more information on the work and achievements in ensuring diversity, equality and human rights within Group companies, please refer to the section 'Future-fit Employees and Communities' of the Sustainability Report integrated in the Annual Report 2021 of the Group (link).

| Actual number of employees by position, 2021 | Men | Women | Total |
|---|---|---|---|
| Trainees | 0 | 0 | 0 |
| Workers | 2 | 0 | 2 |
| Experts / Specialists | 55 | 19 | 74 |
| Mid-level executives | 6 | 1 | 7 |
| Top level executives | 4 | 0 | 4 |
| Key executives | 1 | 0 | 1 |

***Governance and anti-corruption area***

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

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

*Ethical business, anti-corruption and transparency*

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

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

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

More information on actions and achievements in ensuring security and uninterrupted operation of the energy system as well as ensuring access to energy is available in the section 'Robust Organisation' within the Sustainability Report integrated in the Annual Report 2021 of the Group (link).

*Sustainable financial instruments*

Due to its size and unique position in the Lithuanian capital market and the wider Baltic region, we promote the development of a sustainable financial market. For the Group, green financing is one of the strategic transformation tools to secure investments in sustainable energy solutions in the future.

The Group has completed a total of three bond issues of EUR 300 million each. The first two – in 2017 and 2018 – were green bond issues. The Independent Norwegian Centre for International Climate and Environmental Research (CICERO) and the Swedish Environmental Institute have awarded the Group's green bond programme the highest green category.

The funds received from the green bonds have been allocated for the implementation of various projects that will contribute to the development of the Green Generation segment, as well as increase the resilience and reliability of the network including construction of Vilnius CHP. The implementation of these projects will contribute to the reduction of carbon dioxide emissions. The projects meet the eligibility criteria set out in the Green Bond Framework.

Information on the compliance of the Group's investments and other financial indicators with the currently available version of the EU Taxonomy Regulation and the planned actions related to it are discussed in the 'Overview' section of the Group's Annual report 2021 (link).

*Responsibility and sustainability in the company's supply chain*

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

Detailed information on achievements in the application of the principles of responsibility and sustainability to the supply chain is provided in the section 'Robust Organisation' within the Sustainability Report integrated in the Annual Report 2021 of the Group (link).

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

# Financial statements

# 6.1 Company’s financial statements

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



The Company’s financial statements were prepared and signed by UAB Vilniaus kogeneracinė jėgainė management on 15 April 2022:

| **Mantas Burokas** | **Rūta Šaltmerytė** | **Paulius Žukovskis** |
|---|---|---|
| Chief Executive Officer | Director of Finance and Treasury | Head of Financial Statements and Consultations of UAB Ignitis grupės paslaugų centras, acting under Order No IS-22-22 of 4 April 2022 |

# Statement of financial position

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

| | Notes | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 5 | 4,074 | 934 |
| Property, plant and equipment | 6 | 281,617 | 268,267 |
| Right-of-use assets | | 403 | 357 |
| Prepayments for non-current assets | | 144 | 37 |
| Non-current receivables | | 205 | 100 |
| Deferred tax asset | 22 | 7,432 | 695 |
| **Total non-current assets** | | **293,875** | **270,390** |
| **Current assets** | | | |
| Inventories | 8 | 413 | - |
| Prepayments and deferred expenses | | 190 | 71 |
| Trade receivables | 9 | 2,258 | 1,162 |
| Other receivables | | - | 484 |
| Loans granted | 7 | 3,064 | 2,922 |
| Cash and cash equivalents | 10 | 13,740 | 27,023 |
| **Total current assets** | | **19,665** | **31,662** |
| **TOTAL ASSETS** | | **313,540** | **302,052** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Issued capital | 11 | 52,300 | 52,300 |
| Retained earnings (loss) | | 4,180 | (5,362) |
| **Total equity** | | **56,480** | **46,938** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Non-current loans | 13 | 135,261 | 139,633 |
| Non-current lease liabilities | | 324 | 324 |
| Grants and subsidies | 15 | 112,019 | 107,774 |
| Provisions | | 12 | 2 |
| **Total non-current liabilities** | | **247,616** | **247,733** |
| **Current liabilities** | | | |
| Loans and borrowings | 13 | 4,571 | 543 |
| Lease liabilities | | 85 | 41 |
| Trade payables | | 869 | 387 |
| Prepayments received | | - | 1,300 |
| Other current amounts payable and liabilities | 16 | 3,919 | 5,110 |
| **Total current liabilities** | | **9,444** | **7,381** |
| **Total liabilities** | | **257,060** | **255,114** |
| **TOTAL EQUITY AND LIABILITIES** | | **313,540** | **302,052** |

# Statement of profit or loss and other comprehensive income

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

| | Notes | 2021 | 2020 |
|---|---|---|---|
| Revenue from contracts with customers | 17 | 16,373 | - |
| Other income | | 203 | 119 |
| **Total revenue and other income** | | **16,576** | **119** |
| Electricity and heat production costs | 18 | (2,629) | - |
| Wages and salaries and related expenses | | (2,629) | (1,760) |
| Depreciation and amortisation | 5, 6, 15 | (2,596) | (174) |
| Other expenses | 18 | (4,990) | (1,455) |
| **Total expenses** | | **(12,844)** | **(3,389)** |
| **Operating profit (loss)** | | **3,732** | **(3,270)** |
| Finance income | | 28 | 113 |
| Finance costs | 20 | (947) | (8) |
| **Finance activity, net** | | **(919)** | **105** |
| **Profit (loss) before tax** | | **2,813** | **(3,165)** |
| Deferred tax income (expenses) | 21 | 6,736 | 362 |
| **Net profit (loss) for the year** | | **9,549** | **(2,803)** |
| **Other comprehensive income (expenses)** | | | |
| **Items that will not be reclassified to profit or loss in subsequent periods (net of tax)** | | | |
| Change in actuarial assumptions | | (7) | - |
| **Items that will not be reclassified to profit or loss in subsequent periods, total** | | **(7)** | **-** |
| **Total other comprehensive income (expenses) for the year** | | **(7)** | **-** |
| **Total comprehensive income (expenses) for the year** | | **9,542** | **(2,803)** |

# Statement of changes in equity

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

| | Notes | Issued capital | Retained earnings (loss) | Total |
|---|---|---|---|---|
| **Balance as at 1 January 2020** | | **40,986** | **(2,559)** | **38,427** |
| Net profit (loss) for the year | | - | (2,803) | **(2,803)** |
| Payment of share capital | | 11,314 | - | **11,314** |
| **Balance as at 31 December 2020** | | **52,300** | **(5,362)** | **46,938** |
| **Balance as at 1 January 2021** | | **52,300** | **(5,362)** | **46,938** |
| Net profit (loss) for the year | | - | 9,549 | **9,549** |
| **Other comprehensive income (expenses)** | | | | |
| Result of change in actuarial assumptions | | **-** | (7) | **(7)** |
| **Total other comprehensive income (expenses) for the year** | | **-** | **(7)** | **(7)** |
| **Balance as at 31 December 2021** | | **52,300** | **4,180** | **56,480** |

# Statement of cash flows

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

| | Notes | 2021 | 2020 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit (loss) for the year | | 9,549 | (2,803) |
| **Adjustments to reconcile net profit to net cash flows:** | | | |
| Depreciation and amortisation | 5, 6 | 4,088 | 174 |
| Fair value changes of derivatives | 19 | 2,447 | - |
| Income tax expenses | 21 | (6,736) | (362) |
| Depreciation and amortisation of grants | 15 | (1,492) | - |
| Increase/(decrease) in provisions | | 2 | 2 |
| Interest income | | (28) | (113) |
| Interest expenses | 20 | 943 | 8 |
| Other finance costs | 20 | 4 | - |
| **Changes in working capital:** | | | |
| (Increase)/decrease in trade and other receivables | | (717) | (1,580) |
| (Increase)/decrease in inventories, prepayments and deferred expenses | | (532) | 34 |
| Increase/(decrease) in trade payables, prepayments received, other current amounts payable and liabilities | | (1,296) | (192) |
| **Net cash from/(used in) operating activities** | | **6,232** | **(4,832)** |
| **Cash flows used in investing activities** | | | |
| Acquisition of property, plant and equipment and intangible assets | | (21,391) | (28,040) |
| Grants received | 15 | 5,737 | 18,529 |
| Interest received | | 28 | 109 |
| Other increases/(decreases) in cash flows from investing activities | | (142) | (2,918) |
| **Net cash flows from/(used in) investing activities** | | **(15,768)** | **(12,320)** |
| **Cash flows from/(used in) financing activities** | | | |
| Increase in share capital | | - | 11,314 |
| Loans received | 14 | - | 40,000 |
| Repayments of borrowings | 14 | (339) | (4,421) |
| Lease payments | 14 | (110) | (114) |
| Interest paid | 14 | (3,298) | (2,871) |
| **Net cash flows from/(used in) financing activities** | | **(3,747)** | **43,908** |
| **Increase (decrease) in cash and cash equivalents** | | **(13,283)** | **26,756** |
| Cash and cash equivalents at the beginning of the period | 10 | 27,023 | 267 |
| **Cash and cash equivalents at the end of the period** | | **13,740** | **27,023** |

All amounts in thousands of euro unless otherwise stated

# Notes to the financial statements

**For the year ended 31 December 2021**

## 1 General information

UAB Vilniaus kogeneracinė jėgainė (hereinafter "the Company") is a private limited liability company registered in the Republic of Lithuania. The registered address is: Jočionių g. 13, LT-02300 Vilnius, Lithuania. The Company is a limited liability profit-oriented entity registered on 26 February 2015 in the Register of Legal Entities managed by the public institution the State Enterprise Centre of Registers. Company code is 303782367, VAT payer's code – LT100009225717. The Company has been founded for an indefinite period. Reporting period is one year ended 31 December 2021.

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

Shareholder of the Company:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Number of shares held | Ownership interest (%) | Number of shares held | Ownership interest (%) |
| AB Ignitis grupė | 52,300 | 100 | 52,300 | 100 |
| **Total** | **52,300** | **100** | **52,300** | **100** |

The Company's parent company is AB Ignitis grupė (company code 301844044, registered address Laisvės pr. 10, LT-04215 Vilnius, Lithuania), which owns 100% of shares of the Company as at 31 December 2021 and 2020. On 5 October 2020, AB Ignitis grupė increased its issued capital, and on 7 October 2020, has executed initial public offering (hereinafter "IPO") of new shares. In December 2021, AB Ignitis grupė acquired own shares; as at 31 December 2021, the shareholders were the Ministry of Finance of the Republic of Lithuania (73.08%), retail and institutional investors (25.25%) and own shares (1.67%). As at 31 December 2020, the shareholders were the Ministry of Finance of the Republic of Lithuania (73.08%), and retail and institutional investors (26.92%).

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 2021 and as at 31 December 2020, the Company did not have any subsidiaries.

These financial statements were signed by the management of UAB Vilniaus kogeneracinė jėgainė on 15 April 2022. The Company's shareholders have a right to approve the present financial statements, refuse to approve them and require that new financial statements are drawn up.

# 2 Summary of significant accounting policies

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

## 2.1 Basis of preparation of the financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

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

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

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

## 2.2 New standards, amendments to standards and interpretations

### 2.2.1 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the new standards which became effective as at 1 January 2021 (Note 2.2.2).

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

The following new standards and/or amendments, as approved by the International Accounting Standards Board (IASB) and adopted by the European Union for the year ended 31 December 2021, had no material effect on the financial statements:

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

### 2.2.3 Standards issued but not yet effective and not early adopted

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

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

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

The Company's management has assessed the impact of the amendments on the acquisition cost of property, plant and equipment, which were made available for use in 2021, and determined that the acquisition cost of such items should be increased by EUR 3,616 thousand.

The ultimate effect will be determined in 2022 and recognised in the financial statements for the year ended 31 December 2022.

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

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

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

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

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. Amendments are not yet endorsed for application in the EU.

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

All amounts in thousands of euro unless otherwise stated

### Other standards

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

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

## 2.3 Foreign currency

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

## 2.4 Intangible assets

### 2.4.1 Patents, licences

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

Amortisation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be available for operating in the manner intended by management. Amortisation is calculated using a straight-line basis over the estimated useful life of 4 years or a specific validity term of a license and/or patent, if any. Useful life is reviewed on year-by-year basis.

### 2.4.2 Computer software

Computer software is stated at cost, less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be available for operating in the manner intended by management. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3 to 13 years.

### 2.4.3 Other intangible assets

Intangible assets expected to provide economic benefits in future periods are measured at acquisition cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 4 years. Amortisation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be available for operating in the manner intended by management.

## 2.5 Property, plant and equipment

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

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

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

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

For accounting of borrowing costs - see Note 2.8.2.5.

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

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

All amounts in thousands of euro unless otherwise stated

Depreciation periods (number of years):

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

## 2.6 Right-of-use assets

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

### 2.6.1 Initial measurement of right-of-use assets

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

### 2.6.2 Subsequent measurement of right-of-use assets

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

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

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

| Group of right-of-use assets | Depreciation period (in years) |
|---|---|
| Land | 50-80 |
| Buildings | 2-3 |
| Vehicles | 2-5 |
| Other property, plant and equipment | 2-3 |

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

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

## 2.7 Impairment of non-financial assets

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

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

If the recoverable amount of an asset (or cash generating unit - hereinafter "CGU") is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in SPLOCI.

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

## 2.8 Financial instruments

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

### 2.8.1 Financial assets

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

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

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

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

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

#### 2.8.1.1 Financial assets at amortised cost

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

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

#### 2.8.1.2 Financial assets at FVPL

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

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

#### 2.8.1.3 Effective interest rate method

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

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

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

The Company recognised ECL for all debt instruments not at FVPL. ECL incurred by the Company are calculated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. Expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

#### 2.8.1.5 Credit-impaired financial assets

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

#### 2.8.1.6 Derecognition of financial assets

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

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

### 2.8.2 Financial liabilities and equity instruments issued

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

#### 2.8.2.1 Initial recognition and measurement of financial liabilities

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

#### 2.8.2.2 Subsequent measurement

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

#### 2.8.2.3 Financial liabilities at FVPL

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

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

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

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

#### 2.8.2.4 Financial liabilities at amortised cost

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

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

#### 2.8.2.5 Classification and borrowing costs

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

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

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

#### 2.8.2.6 Derecognition of financial liabilities

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

### 2.8.3 Derivatives

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

#### 2.8.3.1 Presentation

Fair value of derivative financial instruments is presented In the statement of financial position as “Other current amounts payable and liabilities” (Note 16).

Changes in fair value and result of settled derivatives for hedges that do not meet the qualifying criteria for hedge accounting are disclosed in SPLOCI either as “Other income”, if result for a period of such derivatives is profit, or “Other expenses” if result of such derivatives for a period is loss (Note 19).

## 2.9 Inventories

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

## 2.10 Cash and cash equivalents

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

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

## 2.11 Issued capital

Ordinary shares are classified as equity.

## 2.12 Lease liabilities

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

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

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

### 2.12.1 Short-term leases and leases of low-value assets

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

## 2.13 Grants and subsidies

### 2.13.1 Asset-related grants

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

## 2.14 Current and deferred tax

### 2.14.1 Corporate income tax

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

Current income tax is calculated on profit before tax. The standard income tax rate in Lithuania was 15% in 2021 and 2020.

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.

### 2.14.2 Deferred tax

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

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

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

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

### 2.14.3 Current and deferred tax for the reporting period

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

### 2.14.4 Acquisition and transfer of accrued tax losses

Upon transfer of the accumulated tax losses, the Company derecognises deferred tax attributable to tax loss carried forward and recognises the consideration receivable in SPLOCI under 'Deferred income tax expenses' caption.

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

For the purposes of the statement of cash flows, the consideration paid for the tax losses acquired is recorded in the line item 'Paid income tax' in the cash flows from operating activities.

## 2.15 Provisions

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

## 2.16 Employee benefits

### 2.16.1 Social security contributions

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

### 2.16.2 Termination benefits

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

### 2.16.3 Non-current employee benefits

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

## 2.17 Contingencies

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

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

## 2.18 Revenue from contracts with customers

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

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

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

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

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

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

### 2.18.1 Revenue from the sale of electricity

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

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

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

### 2.18.2 Revenue from supply of thermal energy

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

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

### 2.18.3 Revenue from waste management

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

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

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

## 2.19 Expense recognition

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

## 2.20 Dividend distribution

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

## 2.21 Events after the reporting period

All events after the reporting period (adjusting events) are accounted for in the financial statements provided that they are related to the reporting period and have a significant impact on the financial statements. Events after the reporting period that are significant but are not adjusting events are disclosed in Note 25.

## 2.22 Related parties

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

## 2.23 Offsetting

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

## 2.24 Fair value

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

– in the principal market for the asset or liability

or

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

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

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

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

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

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

All amounts in thousands of euro unless otherwise stated

# 3 Financial risk management

## 3.1 Financial risk factors

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

### 3.1.1 Market risk

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

#### 3.1.1.1 Currency risk

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

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

#### 3.1.1.2 Interest rate risk

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

The Company’s income and operating cash flows are not substantially dependent of changes in market interest rate. As at 31 December 2021 and 2020, the Company's issued and received loans were subject to fixed interest rates.

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

### 3.1.2 Credit risk

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

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

The Company is exposed to significant credit risk concentration related to the main customer, the liabilities of which account for approximately 62% of the Company’s trade receivables. The Company’s credit risk related to amounts receivable is limited as main customers are reliable customers. As at 31 December 2021 and 2020, the Company has no receivables that are overdue or impaired. More details on credit risk related to receivables is presented in Note 9.

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

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

| | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| **Financial assets measured at amortised cost:** | | | |
| Non-current receivables | | 205 | 100 |
| Trade receivables | 9 | 2,258 | 1,162 |
| Loans granted | 7 | 3,064 | 2,922 |
| Other receivables | | - | 484 |
| Cash and cash equivalents | 10 | 13,740 | 27,023 |
| **Off-balance sheet commitments:** | | | |
| Guarantees issued | 23.2 | 3,051 | 1,452 |
| **Total** | | **22,318** | **33,143** |

### 3.1.3 Liquidity risk

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

As at 31 December 2021, the Company’s current liquidity ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 2.08 and 2.04 respectively (31 December 2020: 4.29 and 4.29 respectively).

All amounts in thousands of euro unless otherwise stated

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

| | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| **Amounts payable measured at amortised cost** | | | |
| Loans and borrowings | 13 | 139,832 | 140,176 |
| Lease liabilities | | 409 | 365 |
| Trade payables | | 869 | 387 |
| Other current amounts payable and liabilities | 16 | 623 | 4,435 |
| **Financial liabilities measured at FVPL in SPLOCI** | | | |
| Derivatives | 16 | 2,447 | - |
| **Total** | | **144,180** | **145,363** |

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

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | 3 months to 1 year | From 1 to 5 years | After 5 years | Total |
| Borrowings and lease liabilities | 737 | 4,995 | 43,494 | 102,486 | **151,712** |
| Trade payables | 869 | - | - | - | **869** |
| Other payables | 752 | - | - | - | **752** |
| Derivatives | 2,447 | - | - | - | **2,447** |
| **31 December 2021** | **4,805** | **4,995** | **43,494** | **102,486** | **155,780** |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | 3 months to 1 year | From 1 to 5 years | After 5 years | Total |
| Borrowings and lease liabilities | 557 | 1,472 | 31,935 | 119,690 | 153,654 |
| Trade payables and non-current amounts payable to suppliers | 387 | - | - | - | 387 |
| Other payables | 4,435 | - | - | - | 4,435 |
| Derivatives | - | - | - | - | - |
| **31 December 2020** | **5,379** | **1,472** | **31,935** | **119,690** | **158,476** |

### 3.2 Capital risk management

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

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

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

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

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

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

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

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

## 4.1 COVID-19 pandemic

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

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

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

## 4.2 Useful life

On 30 April 2021, waste incineration plant was put into operation. Useful life was established based on the valuation of internal and external experts. More details on useful lifes are presented in Note 2.4 and 2.5.

## 4.3 Provision for plant dismantling and closure works

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

All amounts in thousands of euro unless otherwise stated

# 5 Intangible assets

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

| | Patents and licences | Computer software | Other intangible assets | Total |
|---|---|---|---|---|
| **1 January 2020** | | | | |
| Acquisition cost | 84 | 167 | - | **251** |
| Accumulated amortisation | (4) | - | - | **(4)** |
| **Carrying amount** | **80** | **167** | **-** | **247** |
| **Carrying amount as at 1 January 2020** | | | | |
| Additions | - | 407 | 328 | **735** |
| Amortisation charge | (21) | - | (27) | **(48)** |
| **Carrying amount as at 31 December 2020** | **59** | **574** | **301** | **934** |
| **31 December 2020** | | | | |
| Acquisition cost | 84 | 574 | 328 | **986** |
| Accumulated amortisation | (25) | - | (27) | **(52)** |
| **Carrying amount** | **59** | **574** | **301** | **934** |
| **Carrying amount as at 1 January 2021** | | | | |
| Additions | - | 64 | - | **64** |
| Reclassified (to) from property, plant and equipment | - | 3,362 | - | 3,362 |
| Amortisation charge | (21) | (183) | (82) | (286) |
| **Carrying amount as at 31 December 2021** | **38** | **3,817** | **219** | **4,074** |
| **31 December 2021** | | | | |
| Acquisition cost | 84 | 3,999 | 328 | **4,411** |
| Accumulated amortisation | (46) | (182) | (109) | **(337)** |
| **Carrying amount** | **38** | **3,817** | **219** | **4,074** |

## 5.1 Fully amortised intangible assets

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

## 5.2 Acquisition commitments

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

## 5.3 Pledged assets

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

## 5.4 Impairment of non-current intangible assets

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

All amounts in thousands of euro unless otherwise stated

# 6 Property, plant and equipment

## 6.1 Company's property, plant and equipment

| | Cogeneration plants | Other property, plant and equipment | Construction-in-progress | Total |
|---|---|---|---|---|
| **1 January 2020** | | | | |
| Acquisition cost | - | 210 | 237,775 | **237,985** |
| Accumulated depreciation | - | **(7)** | - | **(7)** |
| **Carrying amount** | **-** | **203** | **237,775** | **237,978** |
| **Carrying amount as at 1 January 2020** | **-** | **203** | **237,775** | **237,978** |
| Additions | - | 15 | 30,286 | **30,301** |
| Depreciation charge | - | (12) | - | **(12)** |
| **Carrying amount as at 31 December 2020** | **-** | **206** | **268,061** | **268,267** |
| **31 December 2020** | | | | |
| Acquisition cost | - | 225 | 268,061 | **268,286** |
| Accumulated depreciation | - | (19) | - | **(19)** |
| **Carrying amount** | **-** | **206** | **268,061** | **268,267** |
| **Carrying amount as at 1 January 2021** | | | | |
| Additions | 108 | 69 | 20,231 | **20,408** |
| Reclassifications between categories | 122,120 | 23,429 | (145,549) | **-** |
| Reclassified (to) from property, plant and equipment | - | - | (3,362) | **(3,362)** |
| Depreciation charge | (3,081) | (615) | - | **(3,696)** |
| **Carrying amount as at 31 December 2021** | **119,147** | **23,089** | **139,381** | **281,617** |
| **31 December 2021** | | | | |
| Acquisition cost | 122,228 | 23,723 | 139,381 | **285,332** |
| Accumulated depreciation | (3,081) | (634) | - | **(3,715)** |
| **Carrying amount** | **119,147** | **23,089** | **139,381** | **281,617** |

## 6.2 Additions of property, plant and equipment

The Company has significant acquisition commitments of property, plant and equipment which will have to be fulfilled during the later years. Liabilities related to the acquisition of property, plant and equipment amounted to EUR 3,249 thousand as at 31 December 2021 (31 December 2020: EUR 17,761 thousand).

In 2021, the Company capitalised EUR 2,352 thousand of interest on loans intended to finance the development of non-current assets (2020: EUR 3,033 thousand). The average capitalised interest rate was 1.44% in 2021 and 1.40% in 2020.

## 6.3 Fully depreciated property, plant and equipment

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

## 6.4 Pledged property, plant and equipment

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

## 6.5 Impairment of property, plant and equipment

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

All amounts in thousands of euro unless otherwise stated

# 7 Loans granted

The Company's loans granted comprised as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Loans to Group companies | 3,062 | 2,918 |
| Receivable loan interest | 2 | 4 |
| **Total** | **3,064** | **2,922** |
| Less: allowance | - | - |
| **Carrying amount** | **3,064** | **2,922** |

As at 31 December 2021 and 2020, the Company did not identify any impairment indications of loans granted. Fair values of loans granted are presented in Note 25.

# 8 Inventories

The Company's inventories comprised as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Consumables, raw materials and spare parts | 413 | - |
| **Total** | **413** | **-** |
| Less: write down to net realisable value | - | - |
| **Carrying amount** | **413** | **-** |

The Company's inventories expensed were as follows:

| | 2021 | 2020 |
|---|---|---|
| Consumables, raw materials and spare parts | 222 | - |
| **Total** | **222** | **-** |

As at 31 December 2021 and 2020, the Company had no inventories pledged.

# 9 Trade receivables

The Company's trade receivables comprised as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Amounts receivable from contracts with customers** | | |
| Receivables for supply of heat | 1,402 | 382 |
| Receivables for waste management | 757 | 395 |
| Receivables for supply of electricity | 99 | - |
| **Amounts receivable from other contracts** | | |
| Other receivables | - | 385 |
| **Total** | **2,258** | **1,162** |
| Less: impairment of trade receivables | - | - |
| **Carrying amount** | **2,258** | **1,162** |

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

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

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

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Trade receivables | Impairment | Trade receivables | Impairment |
| Not past due | 2,258 | - | 1,143 | - |
| Up to 30 days | - | - | 19 | - |
| 30-60 days | - | - | - | - |
| 60-90 days | - | - | - | - |
| 90-120 days | - | - | - | - |
| More than 120 days | - | - | - | - |
| **Carrying amount** | **2,258** | **-** | **1,162** | **-** |

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

# 10 Cash and cash equivalents

The Company's cash and cash equivalents consisted of:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cash balances in bank accounts | 13,740 | 27,023 |
| **Carrying amount** | **13,740** | **27,023** |

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

Under the loan agreements signed with the banks, the Company has pledged current and future cash inflows. As at 31 December 2021, the balance of cash pledged amounted to EUR 4,246 thousand (31 December 2020: EUR 16,024 thousand).

All amounts in thousands of euro unless otherwise stated

# 11 Equity

## 11.1 Issued capital

Issued capital of the Company consisted of:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Issued capital** | | |
| Ordinary shares, EUR | 52,300,000 | 52,300,000 |
| **Ordinary shares issued and fully paid, EUR** | **52,300,000** | **52,300,000** |

As at 31 December 2021 and 2020, the Company's issued capital comprised EUR 52,300,000 and was divided in to 180,344,828 registered ordinary shares with par value of EUR 0.29 of each. As at 31 December 2021, all issued shares were paid fully.

# 12 Reserves

## 12.1 Legal reserve

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

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

# 13 Loans

Loans received by the Company comprised:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Non-current** | | |
| Bank loans | 135,261 | 139,633 |
| **Current** | | |
| Bank loans | 4,211 | 351 |
| Accrued interest | 360 | 192 |
| **Total** | **139,832** | **140,176** |

Non-current loans by maturity:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| From 1 to 2 years | 9,098 | 4,211 |
| From 2 to 5 years | 49,059 | 22,456 |
| After 5 years | 77,104 | 112,966 |
| **Total** | **135,261** | **139,633** |

On 5 December 2016, UAB Vilniaus kogeneracinė jėgainė and the European Investment Bank (EIB) signed the agreement for the loan of EUR 190 million designated for the funding of the construction of a cogeneration power plant in Vilnius. The EIB loan for this project is allocated from the European Strategic Investment Fund also referred to as the European Commission President Jean-Claude Juncker Plan. As at 31 December 2021, the unused balance of the loan was EUR 50 million (31 December 2020: EUR 50 million), which is not planned to be used. The loan has to be paid until 7 April 2037. The loan is subject to a fixed interest rate.

## 13.1 Covenants and unwithdrawn balances

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

All amounts in thousands of euro unless otherwise stated

# 14 Net debt

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

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

Net debt balances:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cash and cash equivalents | (13,740) | (27,023) |
| Non-current loans payable after one year | 135,261 | 139,633 |
| Current loans payable within one year | 4,571 | 543 |
| Lease liabilities | 409 | 365 |
| **Net debt** | **126,501** | **113,518** |

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

| | | Lease payments | | Loans | | |
|---|---|---|---|---|---|---|
| | Cash | Non-current | Current | Non-current | Current | Total |
| **Net debt as at 1 January 2020** | **(267)** | **255** | **126** | **99,881** | **4,443** | **104,438** |
| **Cash changes** | | | | | | |
| (Increase) decrease in cash and cash equivalents | (26,756) | - | - | - | - | **(26,756)** |
| Loans received | - | - | - | 40,000 | - | **40,000** |
| Repayments of borrowings | - | - | - | - | (4,421) | **(4,421)** |
| Lease payments | - | - | (126) | - | - | **(126)** |
| Interest paid | - | - | - | - | (2,863) | **(2,863)** |
| **Non-cash changes** | | | | | | |
| Accrual of interest payable | - | - | 8 | - | 3,033 | **3041** |
| Lease contracts concluded | - | 69 | 33 | - | - | **102** |
| Reclassifications between items | - | - | - | (248) | 351 | **103** |
| **Net debt as at 31 December 2020** | **(27,023)** | **324** | **41** | **139,633** | **543** | **113,518** |
| **Net debt as at 1 January 2021** | **(27,023)** | **324** | **41** | **139,633** | **543** | **113,518** |
| **Cash changes** | | | | | | |
| (Increase) decrease in cash and cash equivalents | 13,283 | - | - | - | - | **13,283** |
| Repayments of borrowings | - | - | - | - | (339) | **(339)** |
| Lease payments | - | - | (110) | - | - | **(110)** |
| Interest paid | - | - | (10) | - | (3,288) | **(3,298)** |
| **Non-cash changes** | | | | | | |
| Accrual of interest payable | - | - | 12 | - | 3,283 | **3,295** |
| Lease contracts concluded | - | 72 | 80 | - | - | **152** |
| Reclassifications between items | - | (72) | 72 | (4,372) | 4,372 | **-** |
| **Net debt as at 31 December 2021** | **(13,740)** | **324** | **85** | **135,261** | **4,571** | **126,501** |

# 15 Grants and subsidies

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

| | Other projects |
|---|---|
| **Carrying amount as at 1 January 2020** | **89,245** |
| Grants received | 18,529 |
| **Carrying amount as at 31 December 2020** | **107,774** |
| **Carrying amount as at 1 January 2021** | **107,774** |
| Depreciation and amortisation | (1,492) |
| Grants received | 5,737 |
| **Carrying amount as at 31 December 2021** | **112,019** |

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

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

In 2021, the Company received EUR 5,737 thousand from EU structural funds (the Cohesion fund) (2020: EUR 18,529 thousand). In total, until 31 December 2021, the amount of EUR 113,511 thousand was received.

As at 31 December 2021, the Company has received an advance of EUR 1,500 thousand as a part of grant from EU structural funds.

All amounts in thousands of euro unless otherwise stated

# 16 Other current amounts payable and liabilities

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

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Derivatives | 2,447 | - |
| Amounts payable for property, plant and equipment | 607 | 4,435 |
| Employment related liabilities | 545 | 482 |
| Taxes (other than income tax) | 175 | - |
| Accrued expenses | 129 | 193 |
| Other current amounts payable | 16 | - |
| **Carrying amount** | **3,919** | **5,110** |

Financial liabilities comprise EUR 3,070 thousand from Total other current amounts payable and liabilities (EUR 4,435 thousand as at 31 December 2020). Taxes (other than income tax), payroll related liabilities and accrued expenses are not financial liabilities.

## 16.1 Derivatives

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

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

# 17 Revenue from contracts with customers

## 17.1 Disaggregated revenue information

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

| | 2021 | 2020 |
|---|---|---|
| **Electricity related revenue** | | |
| Revenue from the sale of electricity | 7,437 | - |
| Revenue from supply of thermal energy | 5,048 | - |
| Revenue from waste management | 3,705 | - |
| Revenue from electricity balancing and regulation | 183 | - |
| **Total** | **16,373** | **-** |

## 17.2 Contract balances

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

| | 2021 | 2020 |
|---|---|---|
| **Trade receivables** | **2,258** | **1,162** |
| **Contract liabilities** | **5** | **1** |
| Prepayments received | 5 | 1 |

## 17.3 Rights to returned goods assets and refund liabilities

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

# 18 Electricity and heat production costs

Purchases of electricity, gas and other services are presented below:

| | 2021 | 2020 |
|---|---|---|
| Cogeneration plants operating costs | 1,513 | - |
| Electricity, balancing services and purchases of related services | 894 | - |
| Purchases of gas and related services | 222 | - |
| **Total** | **2,629** | **-** |

All amounts in thousands of euro unless otherwise stated

# 19 Other expenses

The Company's other expenses were as follows:

| | 2021 | 2020 |
|---|---|---|
| Derivatives | 2,447 | - |
| Business support services | 576 | 391 |
| Utilities | 453 | 111 |
| Repair and maintenance costs | 287 | 1 |
| Telecommunications and IT services | 247 | 171 |
| Legal fees | 199 | 274 |
| Consultation services | 158 | 150 |
| Taxes | 94 | 27 |
| Other | 529 | 330 |
| **Total** | **4,990** | **1,455** |

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

| | 2021 | 2020 |
|---|---|---|
| Gain (loss) of unrealised financial derivatives[1]: | (2,447) | - |
| **Total profit (loss)** | **(2,447)** | **-** |

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

# 20 Finance costs

The Company's finance costs are as follows:

| | 2021 | 2020 |
|---|---|---|
| Interest expenses | 931 | - |
| Interest and discount expense on lease liabilities | 12 | 8 |
| Other finance costs | 4 | - |
| **Total** | **947** | **8** |

### 20.1 The Company's interest expense

The Company incurs interest expenses on non-current loans payable. In 2021, the Company paid EUR 3,298 thousand of interest in cash (2020: EUR 2,871 thousand), which are presented in the cash flow statement under "Interest paid".

# 21 Income tax expense

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

| | 2021 | 2020 |
|---|---|---|
| Deferred income tax expenses (benefit) | (6,736) | (362) |
| **Income tax expenses (benefit) recognised in profit or loss** | **(6,736)** | **(362)** |

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

| | 2021 | 2021 | 2020 | 2020 |
|---|---|---|---|---|
| Profit (loss) before tax | | 2,813 | | (3,165) |
| Income tax expenses (benefit) at tax rate of 15% | 15.00% | 422 | (15.00)% | (475) |
| Non-deductible expenses | 0.39% | 11 | - | - |
| Investment relief | (220.56)% | (6,205) | - | - |
| Adjustments in respect of prior years | - | - | 3.57% | 113 |
| Tax loss utilised | (34.27)% | (964) | - | - |
| **Income tax expenses (benefit)** | **(239.44)%** | **(6,736)** | **(11.43)%** | **(362)** |

In 2021, the Company used investment relief and paid no income tax.

All amounts in thousands of euro unless otherwise stated

# 22 Deferred tax

| | 31 December 2019 | Recognised in profit or loss | 31 December 2020 | Recognised in profit or loss | Impact from utilised tax losses | Recognised in other comprehensive income | 31 December 2021 |
|---|---|---|---|---|---|---|---|
| **Deferred tax asset** | | | | | | | |
| Accrued expenses | 37 | (8) | 29 | 27 | - | - | 56 |
| Unrealised investment relief | - | - | - | 6,096 | - | - | 6,096 |
| Tax losses carry forward | 296 | 769 | 1,065 | - | (22) | - | 1,043 |
| Derivatives | - | - | - | 367 | - | - | 367 |
| Capitalised income | - | 150 | 150 | 616 | - | - | 766 |
| Other | - | 1 | 1 | 3 | - | 1 | 5 |
| **Deferred tax asset** | **333** | **912** | **1,245** | **7,109** | **(22)** | **1** | **8,333** |
| **Deferred income tax liability** | | | | | | | |
| Differences in depreciation rates | - | - | - | (2) | - | - | (2) |
| Capitalised interest | - | 550 | 550 | (349) | - | - | (899) |
| **Deferred tax liability** | **-** | **550** | **550** | **(351)** | **-** | **-** | **(901)** |
| **Deferred tax, net** | **333** | **362** | **695** | **6,758** | **(22)** | **1** | **7,432** |

The Company did not recognise additional deferred tax asset on unrealised investment relief of EUR 60,936 thousand (deferred tax asset would comprise EUR 9,140 thousand). Deferred tax asset was not recognised as the Company does not hold sufficient evidence that it will be able to use investment relief. This investment relief shall be used by the end of 2025.

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

# 23 Contingent liabilities and commitments

## 23.1 Litigations

### 23.1.1 Litigation with Rafako S.A.

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

In accordance with the schedule approved by the Arbitral Court in 2021 the parties have submitted to the Arbitral Court their procedural documents. The hearings of the Arbitration Court shall be held, and other proceedings of the parties shall be conducted in accordance with the schedule approved by the Arbitral Court.

The Company considers the claimant's claim to be unfounded. According to the Company's management, this dispute will not have significant financial consequences for the implementation of the project.

### 23.1.2 Litigations with subcontractors

As at 31 December 2021, the Company, as a defendant or a third party, has been involved in litigations with subcontractors regarding potential liabilities, although it has paid the main contractor in full for the contract and its work.

The outcome of litigation should not create additional obligations for the Company in relation to subcontractors (Note 26).

## 23.2 Guarantees

As at 31 December 2021, the Company had issued guarantees to secure its liabilities for the amount of EUR 3,051 thousand (31 December 2020: EUR 1,452 thousand). Significant guarantees are described below.

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

On 31 March 2020, the Company has issued a guarantee of EUR 772 thousand to Litgrid, AB, as it had entered into an agreement on connection of cogeneration power plant of 103MW to electricity transmission grids operated by LITGRID AB. The Company is committed to complete the works of construction and installation of electrical equipment of biofuel plant. The guarantee expires on 25 March 2022.

On 10 April 2020 and 14 June 2021 the Company issued guarantees of EUR 650 thousand and EUR 120 thousand to the Environmental Protection Department under the Ministry of Environment. When generating power from waste incineration, the Company must hold an integrated pollution prevention and control (IPPC) permit. One of preconditions for the permit is to hold a plan for the cessation of waste handling or disposal operations and the statement of expenditure for the implementation of the plan. The guarantee secures the financing of measures specified in the operations cessation plan in case of bankruptcy or in other circumstances when the Company must cease waste handling or disposal operations. The guarantees expire on 26 March 2022.

All amounts in thousands of euro unless otherwise stated

# 24 Related-party transactions

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

| Related parties | Amounts receivable 31 December 2021 | Amounts payable 31 December 2021 | Sales 2021 | Purchases 2021 | Finance income (costs) 2021 |
|---|---|---|---|---|---|
| Parent company AB Ignitis grupė | - | 203 | - | 146 | (1,841) |
| Other Group companies | 3,064 | 2,647 | - | 3,715 | 26 |
| State-controlled UAB EPSO-G group companies | 175 | 1 | 243 | 438 | - |
| **Total** | **3,239** | **2,851** | **243** | **4,299** | **(1,815)** |

| Related parties | Amounts receivable 31 December 2020 | Amounts payable 31 December 2020 | Sales 2020 | Purchases 2020 | Finance income (costs) 2020 |
|---|---|---|---|---|---|
| Parent company AB Ignitis grupė | - | 215 | - | 144 | (1,728) |
| Other Group companies | 2,938 | 434 | - | 1,022 | 112 |
| State-controlled UAB EPSO-G group companies | 121 | 14 | - | 67 | - |
| **Total** | **3,059** | **663** | **-** | **1,233** | **(1,616)** |

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

## 24.1 Compensation to key management

| | 2021 | 2020 |
|---|---|---|
| Wages and salaries and other current benefits to key management | 33 | 57 |
| Whereof: | | |
| *Current benefits* | 33 | 42 |
| *Termination benefits* | - | 15 |
| Number of key management personnel | 4 | 4 |

In 2021, the Company’s Chief Executive Officer and Board Members were considered to be management. In 2020, the Company’s Chief Executive Officer and senior management were considered to be management. Therefore, comparative figures were adjusted.

All amounts in thousands of euro unless otherwise stated

# 25 Fair values of financial instruments

## 25.1 Financial instruments measured at fair value

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

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

## 25.2 Financial instruments for which fair value is disclosed

The fair value of the loans granted by the Company to the Group companies was determined by discounting cash flows with reference to the interest rate observable in the market. The cash flows were discounted using a weighted average discount rate of 2.76% as at 31 December 2021 (31 December 2020: 2.45%). The measurement of financial liabilities related to the debts is attributed to Level 2 of the fair value hierarchy.

The fair value of the Company's financial liabilities related to debt liabilities to commercial banks is calculated by discounting future cash flows with reference to the interest rate observable in the market. The cash flows were discounted using a weighted average discount rate of 2.76% as at 31 December 2021 (31 December 2020: 2.45%). The measurement of financial liabilities related to the debts is attributed to Level 2 of the fair value hierarchy.

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

| | Note | Carrying amount | Level 1 Quoted prices in active markets | Level 2 Other directly or indirectly observable inputs | Level 3 Unobservable inputs | Total |
|---|---|---|---|---|---|---|
| **Financial instruments at FVPL** | | | | | | |
| **Liabilities** | | | | | | |
| Derivatives | 19 | **2,447** | - | 2,447 | - | **2,447** |
| **Financial instruments for which fair value is disclosed** | | | | | | |
| **Assets** | | | | | | |
| Loans to Group companies | 7 | **3,064** | - | 3,064 | - | **3,064** |
| **Liabilities** | | | | | | |
| Bank loans | 12 | **139,832** | - | 111,415 | - | **111,415** |

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

| | Note | Carrying amount | Level 1 Quoted prices in active markets | Level 2 Other directly or indirectly observable inputs | Level 3 Unobservable inputs | Total |
|---|---|---|---|---|---|---|
| **Financial instruments for which fair value is disclosed** | | | | | | |
| **Assets** | | | | | | |
| Loans to Group companies | **7** | **2,922** | - | 2,922 | - | **2,922** |
| **Liabilities** | | | | | | |
| Bank loans | 12 | **140,176** | - | 112,711 | - | **112,711** |

# 26 Events after the reporting period

## 26.1 Events related to cases and claims

In one of litigations with subcontractors (UAB Ulava) mentioned in Note 23, on 1 February 2022 Vilnius Regional Court fully dismissed all claims of the subcontractor as unfounded.

## 26.2 Other events:

### War in Ukraine

In February 2022, the Russian Federation invaded Ukraine. The military actions affect not only the economy in Ukraine, Russia or Belarus, but also the EU and global economy. As at the date these financial statements were authorised for issue, the situation in Ukraine is extremely volatile and inherently uncertain. In the wake of the ongoing and dynamic nature of the military operations management concluded that a reliable estimate of the financial impact cannot be presently made.

### Changes in the Management Board

New Chairman of the Management Board was elected on 31 March 2022. Mantas Mikalajūnas changed former Chairman of the Management Board – Nerijus Rasburskis. The term of office of newly elected Chairman is from 31 March 2022 to 20 October 2023.

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

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# Independent Auditor's Report

To the Shareholders of UAB Vilniaus kogeneracinė jėgainė

## Opinion

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

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

## Basis for Opinion

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

## Other Matter

The financial statements of UAB Vilniaus kogeneracinė jėgainė as at and for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 9 March 2021.



Company code: 111494971
VAT code: LT114949716

## Other Information

The other information comprises the information included in the Company's annual management report on pages 4 to 32, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

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

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

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

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

On behalf of KPMG Baltics, UAB

EDVINAS ŽUKAUSKAS

Digitally signed by EDVINAS ŽUKAUSKAS
Date: 2022.04.15 16:29:06 +03'00'

Edvinas Žukauskas
Certified Auditor

Vilnius, the Republic of Lithuania
15 April 2022

*The electronic auditor's signature applies only to the Independent Auditor's Report on pages 71 to 73 of this document.*

# 6.3 Information on the auditor

### Independent auditor's selection

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

Due to increased workload and needs of the Group, on 26 February 2021 a decision not to extend the agreement of financial audit services with EY for 2019–2021 was adopted. Therefore, on 30 April 2021, new public procurement of audit services was started for the reporting periods 2021 and 2022. After the tender, KPMG Baltics, UAB was appointed as the new auditor by the General Meeting of Shareholders on 5 October 2021.

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

Independent auditors

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

### Independent auditor's services and fees

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

Independent auditor's services and fees, EUR thousand

| | 2021 | 2020 |
|---|---|---|
| Audit of the annual financial statements under the agreements (KPMG Baltics, UAB) | 31 | - |
| Audit of the annual financial statements under the agreements (Ernst&Young Baltic, UAB) | - | 13 |
| Other | 1 | 1 |
| **Total** | **32** | **14** |