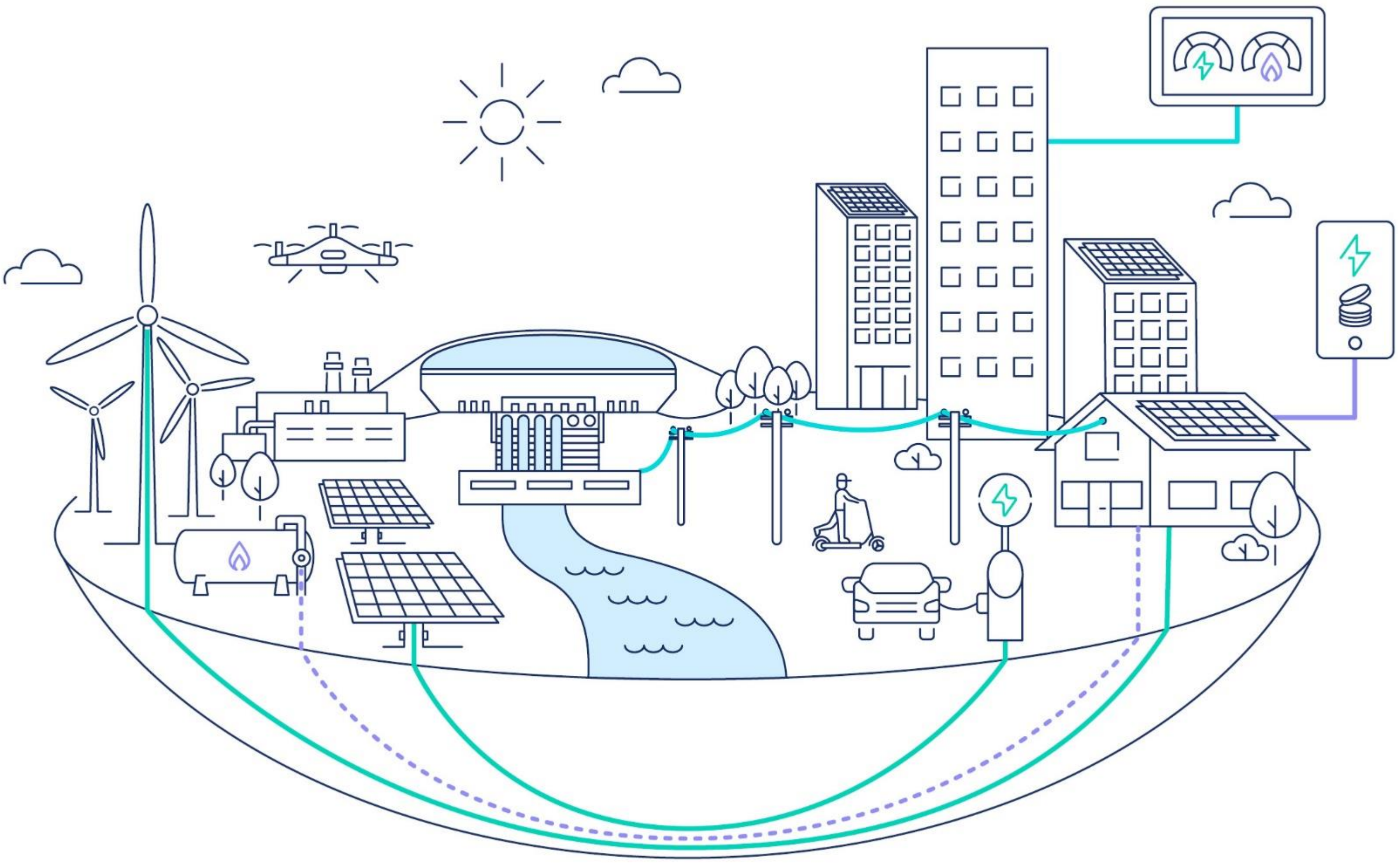
UAB Ignitis annual report for the year 2022

UAB "Ignitis" company group (hereinafter referred to as Ignitis) consolidated annual report for the year ended 31 December 2022 and consolidated and the parent company's financial statements for the year ended 31 December 2022, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, presented together with independent auditor's report for the year ended 31 December 2022



UAB Ignitis
Laisvės pr. 10, LT-04215, Vilnius, Lithuania
www.ignitis.lt
Company code: 303383884

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1. Overview

1.1 CEO's statement

Before the world has recovered from the effects of the COVID-19 pandemic, Europe was rocked by Russia's invasion of Ukraine in 2022. Russia's invasion has destabilised the security situation across the region and exacerbated the uncertainty of gas and electricity supplies as energy prices reach new record highs. Operating in a challenging environment, Ignitis has successfully coped with the challenges and continues to implement its strategy of offering innovative and environmentally friendly products and services, maintaining its leadership in Lithuania, and strengthening its position in neighbouring markets.

Shortly after the onset of the war in Ukraine, Ignitis suspended natural gas purchases from Gazprom and replaced it with LNG cargoes from the USA and Scandinavia. The newly opened GIPL pipeline linking Lithuania and Poland and the larger than usual natural gas reserves at the Inciukalns storage facility not only helped to meet the needs of our customers, but also contributed to ensuring security of supply in the region by expanding our trade volumes to neighbouring countries (Latvia, Estonia, Finland and Poland). All this required increased working capital, which led to an active search for financing options and the conclusion of several short-term loan agreements amounting to EUR 430 million.

In mid-2022, Lithuania entered the second stage of liberalisation of the electricity retail market. Private consumers between 1,000 and 5,000 kWh/year have mostly opted for fixed-price plans, which allowed them to avoid large and unplanned costs in the second half of the year, when electricity prices on the power exchange reached record highs. Competitive prices and the reliability of Ignitis in delivering on its commitments allowed the Company to maintain its market leadership in Lithuania, with a market share of 78% at the end of the year. Such customer confidence inspires and energises Ignitis to maintain its leadership in the third stage of liberalisation, which was postponed by the Parliament of the Republic of Lithuania in October 2022 for three years, until the end of 2025. Electricity supply will remain one of our top priorities, which in the future, due to the growing energy consumption, regional expansion and the rapid development of renewable energy, will not only pose new challenges, but also create opportunities to better respond to the growing needs of customers and to enable them to find optimal and energy-smart solutions.

Customer confidence is also evident in foreign markets. In Finland, where Ignitis has earned a reputation as a trusted supplier, the market share has increased 3-fold in 2022 to around 30%. In Poland, the number of B2B customers increased by more than 3 times, and in Latvia by a quarter, resulting in increased sales of both electricity and natural gas.

Despite all the challenges, 2022 also brought a lot of pride for the employees in the results of their long and consistent work: Ignitis was the first company in the world to offer the Lithuanian residents the possibility to lease a part of a remote wind power plant, the first company in Lithuania to start importing biomethane as an environmentally friendly alternative to natural gas, and the development of the Ignitis ON electric vehicle charging network gained momentum. In 2022, Ignitis will focus on strategically important activities that create high added value for the customer and Lithuania.

UAB Ignitis General Manager, Chairman of the Management Board

1.2 Business highlights

During the reporting period

January

- An additional LNG cargo from USA was purchased in order to guarantee stability for supply of natural gas.

February

- Russia's invasion of Ukraine, which started on 24 February, led to uncertainties in commodity prices, especially natural gas, and challenges related to physically ensuring the supply of natural gas.
- Another unscheduled LNG cargo from USA was purchased.

March

- Two overdraft agreements were concluded with Swedbank, AB for up to EUR 150 million.

April

- In response to the Russian invasion of Ukraine, Natural gas purchases from Gazprom were stopped and replaced with LNG cargoes.

May

- The Baltic States stopped importing electricity from Russia after Russian electricity trading on Europe's Nord Pool power exchange was suspended. This led to the discontinuation of operations of market participants with links to Russia such as AB INTER RAO Lietuva.
- The gas interconnection between Poland and Lithuania (GIPL) started commercial operation, allowing natural gas exchange between Lithuania and Poland, which strengthens the energy independence of the region and increases trading opportunities.
- NERC approved the new natural gas supply prices for B2C for H2 2022.

June

- NERC approved the new public electricity supply prices for B2C for H2 2022.

July

- An amendment to the Law on Natural Gas of the Republic of Lithuania was adopted, which prohibited transmission and distribution system operators from granting the right to use their systems to supply natural gas directly to the territory of Lithuania from countries that pose a threat to national security, including Russia.
- The Parliament of the Republic of Lithuania amended all legal acts related to providing customers with partial compensation due to increasing prices of energy resources. During H2 2022, increasing prices as well as regulatory differences of regulated supply customers accumulated by the end of H1 2022 will be partially compensated directly from the State budget through a tariff. Out of the planned EUR 570 million to be allocated from the budget, the State will use a significant portion of the funds to compensate the regulatory differences (EUR 365 million) accumulated by the end of H1 2022 while EUR 205 million will be allocated to compensate H2 2022 energy prices for the customers of all independent suppliers.
- Ignitis received a platinum medal (previously a silver medal) for its sustainability practices from EcoVadis, and now falls among the top 1% of all companies assessed.

August

- Because of skyrocketing power prices, an independent Lithuanian power supplier UAB Perlas energija announced that it is quitting the Lithuanian power retail business. UAB Perlas energija, founded in 2020, had approximately 180,000 customers and was the only large power supplier in Lithuania without any production assets. UAB Ignitis made a special offer to residents and many customers of UAB Perlas energija instead chose UAB Ignitis.
- A decision was made to replace a two-tier management model applied in Ignitis with a one-tier management model.

September

- To meet customer needs, a spot for 6 additional LNG cargoes per year until the end of 2032 at the Lithuanian LNG terminal in Klaipėda was secured.
- As expected, the European Commission initiated an in-depth investigation regarding the designated supplier (Ignitis) activities in terms of compensation for incurred costs in relation to application of state aid scheme during the period 2016–2018. The Company is working with the European Commission closely in providing all the necessary information.

October

- The 3rd stage of electricity market liberalisation was postponed to the end of 2025 (from the end of 2022).
- Ignitis offered a world's first online service, where residents can rent a part of a wind farm. A new green energy platform www.eparkai.lt was introduced.

November

- The Government of the Republic of Lithuania extended the partial compensation for all B2C and B2B customers in 2023 by allocating around EUR 1.2 billion from the state budget. EUR 714 million would be allocated to amortise the increased electricity and natural gas prices to all B2C customers in 2023, while EUR 446 million would be allocated to B2B customers.
- Poland approved the 2023 cap on the purchase price of electricity for residential customers (785 PLN/MWh) and small businesses (693 PLN/MWh).

December

- NERC approved new prices for natural gas and public supply of electricity to B2C customers for H1 2023.
- A decision was taken to withdraw from some of the services provided – solar power plant installation services for B2C customers, heat pump solutions for B2C customers, lighting retrofitting and ESCO services for B2B customers – in order to focus attention and capacities on quality assurance, development and innovation of services of strategic importance.
- On 14 December 2022, the Government of the Republic of Lithuania passed a resolution to continue the provision of partial compensation of electricity and natural gas prices to all B2C customers until the end of H1 2023 as well as regulatory differences of regulated supply customers accumulated throughout the H2 2022. These measures had a positive impact on Ignitis working capital and net debt ratio.
- A floating LNG terminal was opened in Finland. The second terminal in the region will help ensure energy independence in Finland and the Baltic States.

After the reporting period

January

- With the fall in electricity prices on the wholesale market and the resulting reduction in costs, it was decided to offer a one-off discount to the top-paying customers.

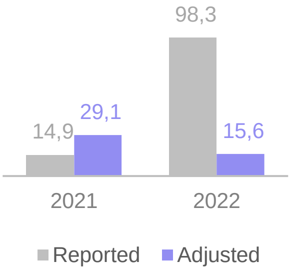
February

- New public electricity prices for March-June 2023 and the procedure for their application were approved and will enter into force on 1 March 2023.
- Ignitis introduced a new *smart hourly* electricity supply plan for its customers, under which the price of electricity will change hourly according to the Nord Pool exchange.
- Ignitis made it possible for B2C customers to change their electricity plans within Ignitis without penalty.

1.3 Performance highlights

Financial

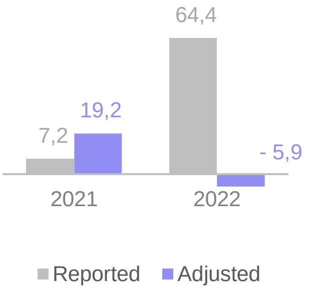
EBITDA, Adjusted EBITDA APM
EURm



EBITDA amounted to EUR 98.3 million in 2022 and was 558% or EUR 83.4 million higher, and adjusted EBITDA amounted to EUR 15.6 million and was 46% or EUR 13.5 million lower compared to the same period of 2021:

- Adjusted EBITDA decreased due to negative result of electricity business (EUR -38.7 million), which was driven by underhedged volumes of fixed-price electricity product (EUR -17.4 million), and changes in the market value of ineffective derivatives (EUR -12.6 million). This result was offset by improved gas activity result (EUR +26.3 million), which was driven by the result of natural gas wholesale trading – after the suspension of natural gas purchases from the East at the beginning of the year, Ignitis successfully traded natural gas on the wholesale market and in neighbouring markets, using the available capacity at the Klaipėda LNG terminal.
- The main reason for the EBITDA increase in 2022 was the recovery of the difference between the regulated and the actual purchase prices for the supply of natural gas to B2C customers in the previous reporting periods (EUR +70.9 million). Accordingly, the increase in EBITDA was also due to the improved performance of the gas business segment, which was achieved by profitable gas sales in wholesale markets.

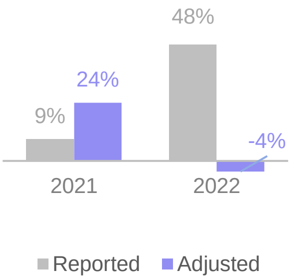
Net profit, Adjusted net profit APM
EURm



In 2022, net profit amounted to EUR 64.4 million and was 794% or EUR 57.2 million higher, and the adjusted net profit amounted to EUR -5.9 million and was 131% or EUR 25.1 million lower compared to the same period of 2021:

- In 2022, net profit increased due to the positive change in EBITDA (EUR +83.4 million, see the comment on EBITDA) which was reduced by increased financing costs (EUR -16.5 million). The main reason for increased financing costs was strong increase in working capital needs due to high commodity prices (on average EUR +401.0 million compared to 2021).
- Adjusted net profit decreased due to a negative change in adjusted EBITDA (EUR -13.5 million) and increased financing costs in 2022 (EUR -16.5 million).

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

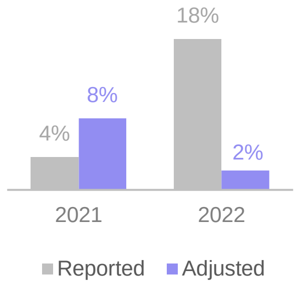


During the year, ROE increased by 39%, while the adjusted ROE decreased by 29%:

- ROE increased due to the positive change in net profit (EUR +57.2 million, see the comment on net profit) and increased average equity (EUR +53.9 million) resulting from positive net profit for 2022 (EUR +57.2 million) and the positive result of derivatives accounted for under derivatives hedging reserve (EUR +56.6 million).
- Adjusted ROE decreased due to the negative change in adjusted profit (EUR -25.1 million, see the comment on the adjusted net profit), and due to higher average equity (EUR +53.9 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.*

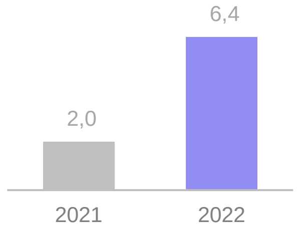
ROCE (LTM), Adjusted ROCE (LTM) APM
%



During the year, ROCE increased by 14%, while the adjusted ROCE decreased by 6%:

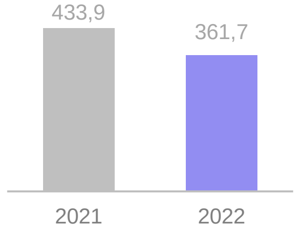
- ROCE increased due to higher net debt (EUR +169.0 million on average during the year, see the comment on net debt) and higher EBIT (EUR +82.9 million), the main reasons for its change are disclosed under information on EBITDA.
- Adjusted ROCE decreased due to higher net debt (EUR +169.0 million), the main reasons for its change are disclosed under information on net debt.

Investments APM
EURm



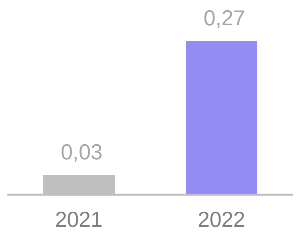
In 2022, investments were mainly related to updates and development of information systems, robotisation of day-to-day operations and solutions for the clients on the Company's website (EUR +2.7 million), and project-based investments in green energy solutions for B2B and B2C customers (EUR +3.7 million).

Net debt APM
EURm



At the end of 2022, net debt amounted to EUR 361.7 million and decreased by 17% (or EUR -72.2 million). Despite the decrease in net debt at the end of the year, the working capital and debt ratio increased strongly during the year due to the very high prices of natural gas and electricity (average net debt in 2022 was EUR 169.0 million higher compared to the same period in 2021). The net debt ratio declined in the last quarter and fell below the 2021 level. This was mainly due to the fall in commodity prices towards the end of the year, the recovery of compensation for regulatory differences under the resolution of the Government of the Republic of Lithuania, and the Company's proactive actions: renegotiation of the payment terms of some of the wholesale contracts, shortening of the settlement periods offered to customers, some of the larger sales were made on the basis of advances, as well as actions in the derivatives market to reduce the values of the securities required to trade on the market, and the optimisation of the financing portfolio (including guarantee limits).

FFO (LTM) / Net debt APM
%

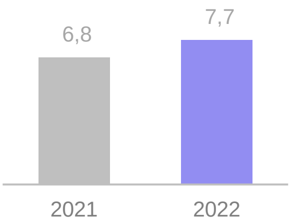


Funds from operations (FFO)/net debt increased due to the negative change in net debt (EUR -72.2 million – see the comment on net debt) and the increase in FFO (EUR +83.4 million compared to 2021). The main reason for the increase in FFO was the recovery of regulatory differences related to the supply of natural gas to B2C customers (EUR +70.9 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.*

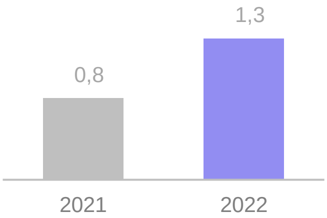
Operating performance

Total electricity sales APM
TWh



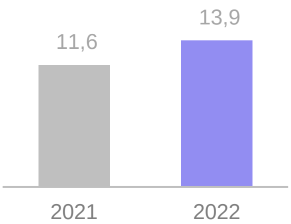
Total electricity sales in retail market in 2022 increased by 14% compared to 2021, driven mainly by higher electricity sales to B2B customers in Lithuania, Latvia and Poland (+1.3 TWh or 33% growth). The number of B2B customers increased significantly due to competitive spot pricing, increased activity in the market influenced by discontinued operations of AB Inter RAO Lietuva and more effective sales processes, which helped reaching targeted customers and turned into supply contracts. However, in 2022, market liberalisation has reduced the number of B2C customers by 0.13 million and their sales by 0.34 TWh.

Including: Independent supply electricity sales in Lithuania, B2C
TWh



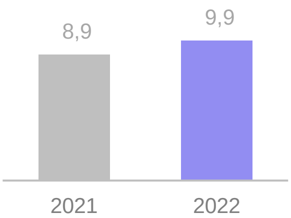
In 2022, independent supply electricity sales to B2C customers in Lithuania increased significantly and amounted to 1.3 TWh. The main reason for the rapid growth was the 2nd stage of the electricity supply market liberalisation process since 1 July. Residents who consume at least 1,000 kWh per year chose an independent supplier. Years of experience and customer confidence enabled us to further strengthen our position as an independent electricity supplier in 2022, with a year-end market share of 78% in terms of number of sites (69% in 2021).

Total natural gas sales
TWh



In 2022, natural gas sales amounted to 13.9 TWh and increased by 20% compared to 2021. Sales increased mainly due to higher sales to business and wholesale clients in Lithuania and in the neighbouring countries – Finland, Latvia and Poland. Sales to B2B customers increased by 21.4% due to the increased demand for non-Russian gas in the region. Wholesale sales grew by 49.6% due to one-off large transactions driven by the geopolitical situation and potential challenges related to security of supply in the region.

Including: retail trade
TWh



In 2022, retail gas sales grew by 11.3%. The highest growth was in Finland (46%) and Latvia (98%). From a low base, sales growth accelerated in Poland. In Lithuania, retail gas sales in 2022 decreased by 11.6% compared to the previous year.

2. Business overview

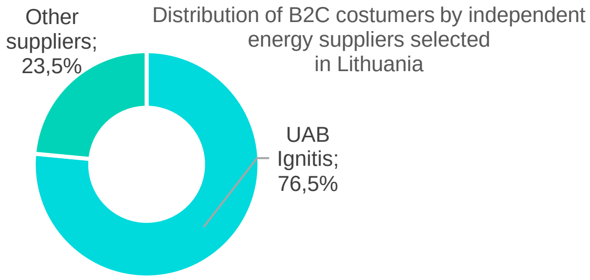
2.1 Business profile

Business model

The main activity of Ignitis is supply of electricity and natural gas – we are the largest supplier of electricity and gas in Lithuania. We provide energy services to a total of more than 1.4 million residents in Lithuania, we are also gaining market share in other Baltic States, Finland and Poland. Ignitis is also developing a range of smart services, proposes electric vehicle charging solutions, electricity balancing services, solar power generation and other energy-related solutions based on technological innovations. Other activities of Ignitis include planning and (or) balancing of electricity consumption, trade in guarantees of origin and in derivative financial instruments.

Supply of electricity

Ignitis supplies electricity to the Lithuanian, Latvian, Estonian and Polish markets. In Lithuania, electricity is supplied to companies of energy, industrial and small commercial sectors as well as to B2C customers. According to the data of the National Energy Regulatory Council (hereinafter – NERC), at the end of 2022, Ignitis held almost 47% of market in the B2B segment in Lithuania and intends to maintain a similar share of the market in the future. According to the data of the Company, it supplies electricity to almost 25 thousand B2B customers.



Source: www.vert.lt, data as of 28 December 2022

Ignitis in Lithuania also has a national electricity supplier’s licence issued by NERC. Before 2020, Ignitis held almost 100% of the electricity market share of residential households by carrying out the public supply activities; however, under the legislation, the public supply activity will be stopped at the end of 2025 as a result of the started market liberalisation.

On 1 July 2022, the second stage of the public supply liberalisation took place in Lithuania during which the consumers consuming 1,000–5,000 kWh annually switched to independent supply. As at 31 December 2022, 8 independent electricity suppliers in total operated in the Lithuanian market that were able to supply electricity to B2C customers among which Ignitis is the market leader, which, at the end of the year, was chosen as an independent supplier by more than 78% of all Lithuanian residents.

In 2022 in Lithuania, Ignitis sold 6.18 TWh of electricity in total, whereof 3.62 TWh – to B2B customers and 2.56 TWh – to B2C customers. Sales to B2B customers amounted to 1.12 TWh in Latvia and 0.41 TWh in Poland and Estonia combined.

Gas distribution activity

Ignitis gas distribution activities are carried out in Lithuania, Latvia, Poland and Finland. Ignitis has a 99.79% share of the B2C market in Lithuania (H1 2022 NERC data). In the Lithuanian B2B segment, Ignitis is one of the 25 entities that supplied gas last year (H1 2022 NERC data). In H1 2022, Ignitis had a 48% share of the Lithuanian natural gas retail market in terms of volumes of natural gas sold to B2B customers.

Since the beginning of 2020, the Company has entered the Finnish natural gas supply market. Natural gas is supplied to Finnish customers through the gas pipeline connection Balticconnector. The Company became one of the first players in the competitively open Finnish natural gas market. The Company's customers include the largest industrial companies in Finland and the largest natural gas distribution operator. Having obtained customer confidence and seeking to continue successful activity development in Finland, in February 2021, the Company established Ignitis Suomi Oy, gained the trust of its largest B2B customers and successfully grew its market share to 30% in 2022.

As in the previous years, alongside the activity of gas supply, in 2022 Ignitis was trading gas on the Get Baltic wholesale gas exchange.

Since 2019, Ignitis has ensured the designated supply function for the liquefied natural gas (LNG) terminal. The Company took over this activity after the merger of Ignitis Group company LITGAS. Keeping the LNG terminal infrastructure operational requires that a certain amount of natural gas – the so-called 'mandatory quantity'– be supplied through the LNG terminal: degassing it to fill repositories or reloading and delivering it to the public gas grid or the international LNG market. Lithuania's Law on the LNG Terminal and the Description of the Natural Gas Supply Diversification Procedure both stipulate that the designated supplier (appointed by way of tender for 10 years by the Ministry of Energy) must procure the mandatory quantity, entering into a contract with a supplier of LNG. The designated supplier sells the mandatory quantity of LNG on the competitive market, being compensated only for expenses which it incurred due to the nature of its activity as the designated supplier and which other natural gas suppliers do not incur.

In 2022, Ignitis gas supply and sale of gas on the exchange comprised 13.9 TWh in total, 11.3 TWh are attributed to B2B and 2.6 TWh to B2C customers.

At the end of 2022, Ignitis was the first in Lithuania to import biomethane, which it will supply instead of natural gas to B2B customers. In 2023, the Company plans to continue importing biomethane, a more environmentally friendly alternative to natural gas.

Energy from renewable sources

Ignitis actively contributes to the development of renewable sources in Lithuania. At the end of 2022, 42,438 Lithuanian consumers were generating energy from solar power plants. The majority of them – 30,845 – have installed solar power plants at home, but the number of owners of remote solar power plants has also increased significantly, to 9,501. In 2022, 498 companies with a wide range of activities purchased remote plants, with a total permissible capacity of 18.4 MW. Both large and small companies are investing in remote plants to secure green energy production for their own use.

At the end of 2022, Ignitis offered a world's first online service to Lithuanian residents allowing them to rent a part of a wind turbine. Until then, residents could only rent or buy remote solar parks. Together with the offer of wind park rental to B2C customers, the Company has launched a renewed green energy platform www.eparkai.lt ("Eparkai").

The wind park *Vėjo galia* in Židikai municipality, Mažeikiai district, has a total installed capacity of 63 MW, of which 4.5 MW will be leased to residents through the Eparkai platform. In total, around 1,000 B2C customers will be able to rent a portion of the wind farm with a capacity of up to 5 kW to cover their electricity needs.

In 2022, 8,000 customers contracted/booked solar power plants on the www.eparkai.lt platform, with a total capacity of 42 MW. This is five times more than at the same time a year ago, when 1,800 customers had booked a 9 MW plant in remote solar parks.

Ignitis also manages the platform Ignitis ON which unifies the network of electric vehicle charging stations (currently, 131 charging stations) and has more than 13.7 thousand users.

During 2022, Ignitis provided lighting retrofitting services to municipalities, medical institutions, municipal and commercial undertakings. 4 lighting retrofitting projects were implemented during 2022. Given that these services are not part of the strategic priorities, as well as the complexity of providing these services (requiring subcontracting), a decision has been taken to discontinue them as from 2023.

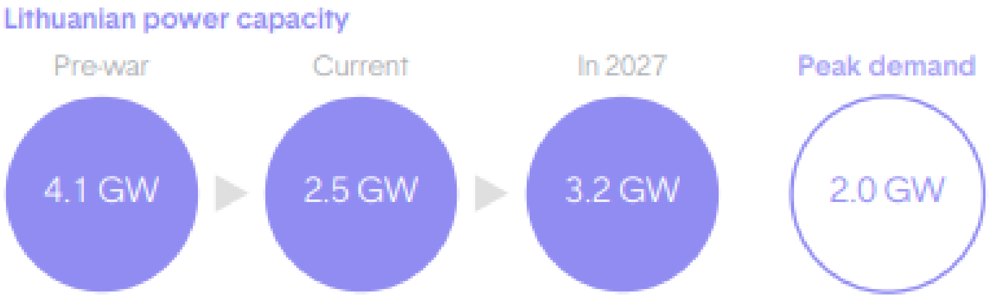
Ignitis also contributes to the implementation of CO2 neutrality strategy of AB Ignitis grupė by concluding long-term electricity acquisition contracts directly with renewable energy producers and by increasing the supply of electricity from renewable sources to the customers.

2.2 Business environment

Electricity

In 2022, Ignitis was active in wholesale and retail electricity trading in Lithuania, Latvia and Poland, acquiring its electricity portfolio on the Nordic power exchange Nord Pool (NP) or through bilateral contracts. Following the exit of AB Inter RAO Lietuva and UAB Perlas energija in 2022, UAB Elektrum Lietuva and UAB Enefit were the main competitors in the electricity supply retail market. It should be noted that Ignitis maintains its leading position in the retail market despite the growing competition.

The last couple of years were marked with significant changes in terms of power and natural gas flows in the region. Electricity imports from Russia and Belarus to Lithuania have been stopped since autumn 2021 as a result of the launch of the Belarusian Astravyets Nuclear Power Plant (Belarusian ANPP). Even though the trade of electricity across the Lithuanian-Belarusian border was not possible, the physical power flow was still present. However, it was finally stopped completely in Q2 2022, after Europe's Nord Pool power exchange suspended Russian electricity trading. Since then, all Baltic countries have stopped importing electricity from Russia. It is important to note that Lithuania is one of the most interconnected countries in Europe, which allows it to cover its electricity demand despite the reduction in flows, and its electricity system's resilience and reliability is expected to increase even further after the project of synchronization with the Continental Europe is completed in 2025.



The electricity market experienced unusual price volatility for the second consecutive year, with the average system price in 2022 being 118% higher compared to the same period last year. The highest average prices in the Baltic region were recorded on the Lithuanian market, where the average 2022 price exceeded 230 EUR/MWh (a 154% increase), with an absolute hourly price record of 4,000 EUR/MWh in August. The 2022 price level was also similar in Latvia and Estonia, where prices increased by 155% and 122%, to 226.9 EUR/MWh and 192.8 EUR/MWh, respectively. The increase in electricity prices was driven by the high prices of oil, natural gas, coal and emission allowances. Repair works of an interregional transmission line, reduced cross-border electricity flow and the discontinuation of trading of Russian electricity on the Nord Pool power exchange from 2022 have also contributed to this increase.

Electricity prices in 2022–2021

Electricity price, Eur/MWh	2022	2021	Δ, %
Nord Pool system price	135.9	62.3	*118%*
Lithuania	230.2	90.5	*154%*
Latvia	226.9	88.8	*156%*
Estonia	192.8	86.7	*122%*
Finland	154.0	72.3	*113%*
Poland	167.6	86.4	*94%*

In 2022, Ignitis sold green electricity and supplied a total of 2.5 TWh of green electricity, an increase of 10% compared to the same period in 2021.The total share of green energy in electricity sales in 2022 was 32%. This represents a decrease of 2 pp compared to the previous period.

Natural gas

Ignitis stands out in the region as it has ensured natural gas supply from three different sources. Ignitis has long-term LNG supply contracts, it also purchases natural gas in the market of short-term LNG transactions, acquires natural gas supplied through pipelines and actively uses the underground natural gas storage of Inciukalns in Latvia.

In 2022, Ignitis actively operated both in the retail and wholesale supply market, it purchased and sold natural gas on gas exchanges and traded with other participants of the wholesale market – it also provided gas flow balancing services, made a significant contribution to security of supply across the region in the face of supply constraint challenges across Europe.

Unpredictability of natural gas flows and discontinued imports through Nord Stream I caused a 3x average Year-in-year natural gas price growth across home market. The suspension of natural gas imports via Nord Stream I led to a significant increase in competition for LNG cargoes in Europe; however, Ignitis has successfully and quickly adapted to the changed supply conditions, using the available capacity of the Klaipėda LNG terminal to meet its commitments to its customers, and even increased the volume of natural gas supply to neighbouring countries. The high prices have led to increased investment in renewable energy generation, which in the long term, should contribute to both lower natural gas prices and a reduction in demand for natural gas.

Natural gas prices 2022–2021

Natural gas price average, EUR/MWh	2022	2021	Δ, %
Natural gas – TTF ICE	131.9	38.6	*+242*

It is important to note that Lithuania was the first EU Member State to suspend its purchases from Gazprom at the beginning of Q2 2022 by replacing it with LNG cargoes, mainly from the USA and Scandinavia. Furthermore, on 1 July 2022, a law prohibiting natural gas imports from Russia and other countries posing threat to the country's national security entered into force. Finally, in autumn 2022, the Company secured a spot for 6 additional LNG cargoes (in addition to the existing 4) per year until the end of 2032 at the Lithuanian LNG terminal in Klaipėda. Thus, even though natural gas is not the core business, the Company actively participates in every way possible to reduce natural gas dependency on Russia while ensuring uninterrupted supply to its customers.

Against this background, Lithuania saw a decrease in natural gas consumption in 2022, with an annual consumption of 15.6 TWh, or 35% less than in the same period in 2021. The decrease in consumption is mainly due to the temporary suspension of operations of the largest gas consumer in Lithuania, the Jonava nitrogen fertiliser plant Achema, due to high gas prices, lower production in Lithuanian power plants and the decision of Vilnius to use fuel oil for heating.

Other activities

In 2022, Ignitis traded derivative financial instruments on the NASDAQ Commodities exchange and used over-the-counter contracts. Trade in financial instruments is used for the purpose of hedging, and it enables to reduce the risk of electricity and natural gas price fluctuations.

Seeking to meet the requirements for the quality of services rendered, Ignitis is continuously aligning sales and services to customer needs, improving customer service and carrying out consistent optimisation of activity processes and development of services. In cooperation with another Group company UAB Ignitis Renewables, the Company offered a world's first online service, where residents can rent a part of a wind turbine. A new green energy platform www.eparkai.lt was introduced.

In 2022, project-based activity of Ignitis was actively developed – solutions related to solar energy and infrastructure for charging electric vehicles. During the year, the portfolio of solar parks in the solar platform of Ignitis increased more than four times and exceeded 55 MW as at the end of the year. On the basis of internal data, in Lithuania, Ignitis holds 37% of the market of remote solar plants in the private sector.

EU-wide regulatory environment

Date of adoption	Topic	Description	Impact to Ignitis
Undergoing (except for the new natural gas storage rules, adopted on 27 June 2022)	REPowerEU	The European Commission continues implementing the Green Deal agenda by proposing substantial legislative and policy packages. On 18 May 2022, the European Commission proposed the REPowerEU plan outlining the EU's path to energy independence from Russian fossil fuels by 2027 as well as securing long-term sustainability, cost-effectiveness, and energy supply to the EU energy system. The timeframe and scale of ambition call for far faster and wider-ranging action than the already ambitious proposals announced so far, e.g., under the 'Fit for 55 Package' and the 'Hydrogen and Decarbonised Gas Market Package'.	Overall a positive impact as amendments aim to accelerate the energy transition which is in line with Ignitis and Ignitis Group Strategy.
5 August 2022	European Gas Demand Reduction Plan	On 5 August 2022, the EU Council adopted Regulation (EU) 2022/1369 on Coordinated Demand Reduction Measures for Gas. The purpose of the gas demand reduction is to make savings for the winter, in order to prepare for possible disruptions of gas supplies from Russia. Regulation provides for both a voluntary and a mandatory reduction of gas consumption.	As of report announcement date, no significant financial impact is expected.
6 October 2022	Emergency Regulation	On 6 October 2022, the EU Council adopted Regulation (EU) 2022/1854 on an emergency intervention to address high energy prices. The regulation introduces common measures to reduce electricity demand and to collect the energy sector's surplus revenue and redistribute it to households and small and medium-sized enterprises.	As of report announcement date, financial impact cannot be evaluated.
Undergoing	Temporary mechanism to limit excessive natural gas price	On 19 December 2022, the EU energy ministers agreed on temporary mechanism to limit excessive natural gas prices. The proposal for a Council regulation establishing a market correction mechanism to protect citizens and the economy against excessively high prices aims to limit episodes of excessive natural gas prices in the EU that do not reflect world market prices.	Lower NWC level, as a result of decreased prices of natural gas.
23 January 2023	Consultation on Revision of the EU's electricity market design	On 23 January 2023, the European Commission initiated public Consultation on Revision of the EU's electricity market design. During these consultations, the aim is to identify regulatory measures aimed at eliminating the shortcomings of the EU electricity market model that emerged during the energy crisis. The consultation document focuses on possible measures to create a more resilient market that would add value to European citizens and industry as a whole, not only in the current crisis. These measures must be implemented quickly and be permanent, taking into account the overall structure of the electricity market and its long-term evolution, as well as the changing needs of the energy transition.	As of report announcement date, financial impact cannot be evaluated.

For more information on the changes in the regulatory environment, objectives, application measures and potential impact described in the table, refer to the Ignitis Group's Annual Report, section "2.5 Business environment".

Regulatory environment in Lithuania

Date of adoption	Topic	Description	Impact to Ignitis
11 November 2021	Transposition of Clean Energy Package into Lithuanian energy law	On 11 November 2021, the Parliament of the Republic of Lithuania adopted legislative amendments that transposed the EU's Clean Energy Package requirements into national law, which came into force in 1 January 2022. The main purpose of the Clean Energy Package was to establish new regulatory framework suitable to sustain energy transition from fossil fuels to greener energy, and, more specifically, to fulfil the Paris Agreement goals by reducing greenhouse gas emissions.	Overall a positive impact as amendments aim to accelerate the energy transition which is in line with Ignitis and Ignitis Group Strategy.
28 June 2022	National 'Breakthrough Package'	On 28 June 2022, the Parliament of the Republic of Lithuania adopted a package of legislative amendments called 'Breakthrough Package', which entered into force on 8 July 2022. The 'Breakthrough Package' aims at implementing efficient and rapid development of renewable energy projects, reducing red tape and unnecessary restrictions for solar and wind power plants, creating favourable conditions for the growth of prosumers, encouraging the development of energy communities.	Overall a positive impact as amendments aim to accelerate the energy transition which is in line with Ignitis and Ignitis Group Strategy.

Date of adoption	Topic	Description	Impact to Ignitis
5 September 2022	A tender by the Klaipėda LNG Terminal for Long-term Capacity Allocation Procedure	On 5 September 2022, AB Klaipėdos nafta announced a public invitation to participate in the Klaipėda LNG Terminal Long-term Capacity Allocation Procedure to ensure efficient allocation of the terminal's capacity and to grant market participants the right to acquire the LNG terminal's capacity on a long-term basis. Four LNG terminal's customers from Lithuania, Latvia and Poland have been granted capacity packages of 6 TWh/year (24 TWh in total) for a period of ten years (from 1 January 2023 until 31 December 2032) out of the total LNG terminal capacity of 39 TWh. Ignitis is one of the four companies which have secured this capacity, with a capacity allocation limit of up to 6 TWh per year. This contract with the terminal's operator will contribute to ensuring reliable and uninterrupted natural gas supply in the region, will allow us to manage our supply contracts more easily and to procure natural gas in advance, thus, securing the most favourable price on the market. Additionally, securing long-term capacity does not limit the possibility of purchasing more LNG cargoes in the future.	A positive impact due to the predictable capacity and supply sources planning, potential savings.
10 October 2022	The third stage of liberalisation of the electricity market has been postponed for three years	As a result of the current energy crisis and considering one of the independent electricity suppliers to B2C customers in Lithuania – UAB Perlas Energija, which had a major share in the local market, has suspended their activities, on 10 October 2022, the Parliament of the Republic of Lithuania adopted amendments to the Law on Electricity of the Republic of Lithuania. Based on those, the legal regulation of the public and independent supply of electricity to B2C customers was changed to ensure safety measures are in place for protecting the smallest and the most vulnerable customers from the increasing electricity prices. Also, a deadline of the 3rd stage of B2C electricity market liberalisation was postponed for 3 years, until the end of 2025 (from the end of 2022).	Neutral. Additional obligations and reporting, set by the regulation of Public supply activity, remains in force until the end of 2025. The activity is performed at regulated profit margins.
Over the course of 2022	Partial compensation of increased energy prices for B2C customers	Compensation in 2022 for B2C customers The Parliament of the Republic of Lithuania adopted amendments to the Law on Energy of the Republic of Lithuania, the Law on Electricity of the Republic of Lithuania and the Law on Natural Gas of the Republic of Lithuania related to providing all B2C customers with partial compensation due to increasing prices of energy resources. For H2 2022, EUR 205 million was allocated from the State budget to partially compensate increase in energy prices to all B2C customers of public, independent supply and supply of last resort through their electricity supplier and/or natural gas supply company, the electricity supplier of last resort and/or the DSO conducting the natural gas supply of last resort. Also, resolutions were adopted of the recovery of the regulatory differences, mainly caused by lower energy prices included in regulated customer tariffs compared to actual market prices, accumulated throughout the 2021–2022. Pursuant to the resolutions, the regulatory differences of public supply electricity and natural gas customers accumulated during 2021–H1 2022 (EUR 368 million (excluding VAT)) and during H2 2022 (EUR 64 million (excluding VAT)) were recovered by the end of 2022. Compensation in 2023 for B2C customers For 2023, up to EUR 714 million was allocated from the State budget to partially compensate increase in energy prices to all B2C customers. On 14 December 2022, the Government of the Republic of Lithuania passed a resolution determining the mechanism, whose principle is the same as the one applied for H2 2022, establishing a partial compensation of electricity and natural gas prices for all B2C customers in H1 2023. In addition over H1 2023, EUR 146.4 million to be allocated to electricity and natural gas B2C customers directly through their bills to compensate consumers' debt accrued by the independent suppliers (including the Company) in H2 2022.	A positive impact on the net working capital, net debt and in turn leverage metrics.
Over the course of 2022	Partial compensation of increased energy prices for B2B customers	Compensation in 2022 – Q1 2023 for B2B customers B2B customers are also provided with partial compensations for electricity bills within the period from Q4 2022 to Q1 2023. The Government's procedure for a partial compensation for B2B customers has been adopted with up to EUR 212 million allocated for compensations in Q4 2022 and up to EUR 234 million for Q1 2023. The compensation amounts to up to 50% of the monthly electricity price, which exceeds the minimum thresholds of 0.24 EUR/kWh within the period from Q4 2022 to Q1 2023 and 0.28 EUR/kWh within the period from Q1 2023 to Q2 2023 set by the Government which will be provided to B2B customers of independent supply and supply of last resort directly through their independent electricity supplier or supplier of last resort. B2B customers acquiring electricity from the exchange for their own consumption (not for the purposes of sale or resale) will be also provided with partial compensation.	A positive impact on the net working capital, net debt and in turn leverage metrics.

For more information on the changes in the regulatory environment, objectives, application measures and potential impact described in the table, refer to the Ignitis Group's Annual Report, section "2.5 Business environment".

The most important foreseeable events and tendencies of 2023 that may affect natural gas and electricity markets:

- The regulatory environment for energy and related policy decisions will be crucial in 2023. In the face of energy crisis in Europe in 2022, political action has been taken across Europe to develop a more resilient, efficient and less externally dependent market, and to contain rapidly rising prices. Similar practices have been applied in Lithuania, with energy price compensations for B2C and B2B customers, and a sales price "cap" for some electricity producers. Similarly, in Poland, a sales price cap was applied to suppliers. The regulatory environment in 2023 will remain a highly sensitive issue not only for consumers but also for energy producers and suppliers.
- In the first months of 2023, wholesale electricity and natural gas prices fell significantly. Further price fluctuations and trends could have a significant impact on the consumption patterns of retail customers and wholesale demand in the region.
- The geopolitical situation in Ukraine is closely monitored. The outbreak of war has had a significant impact on commodity prices in 2022, leading to unusual and extreme volatility. Although the situation on the wholesale commodities market stabilised towards the end of the year, uncertainty on the commodity markets remains high.
- Despite the opening of a second LNG terminal in the region (in Finland) at the end of 2022, the intensive use of Klaipėda LNG terminal is expected to continue and the terminal is expected to remain strategically important for the Baltic region and Lithuania's neighbouring countries.
- The gas interconnection between Poland and Lithuania (GIPL) opened in 2022 further strengthens the region's energy independence, enables trade and a more efficient market. In 2022, Ignitis used the GIPL in both directions, importing biomethane and supplying natural gas delivered from the Klaipėda LNG terminal to Poland and other European countries. In 2023, further opportunities for diversification of energy supply chains and home market supply will be analysed.

2.3 Strategy

Overview

Ignitis is part of the Ignitis Group and, by its activities, aims to ensure implementation of the Strategy of Ignitis Group which is applicable to all companies of the group.

Sustainability is at the core of the Strategy. Ignitis Group 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 Group focuses on four key strategic priorities.

First – creating sustainable future. Environmental, social, and governance (ESG) criteria are an integral part of the strategic goals with strong commitment to a more sustainable future. Ignitis Group aligns its business targets with the United Nations' Sustainable Development Goals, and it is committed to reducing net carbon dioxide (CO2) emissions to zero by 2050. Ignitis Group also thrives to align its businesses with science-based targets to a 1.5°C-compliant business model.

Second strategic priority – ensuring resilience and flexibility of the energy system, as well as enabling energy transition and evolution.

Third – growing renewables to meet regional energy commitments, reaching 4 GW of the installed green generation capacity by 2030.

Fourth – capturing growth opportunities and developing innovative solutions to make life easier and energy smart.

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

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

On an annual basis, Ignitis Group announces a strategic activity plan with targets and KPIs set for the next 4-year period. The Company also follows this plan in its activities.

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.

Strategy of Ignitis Group

The activity plan of Ignitis is based on the Strategy of Ignitis Group. Ignitis has the following strategic directions:

- Expand main energy supply activities by proposing innovative, added-value energy solutions.
- By innovating, cooperate with partners and seek to help customers to become energy smart and to implement environmentally friendly objectives.
- Contribute to the expansion of industry energy production from renewable sources by conclusion of long-term energy acquisition contracts with producers and by exploiting existing competencies of balancing services provision.

Investments

The key object of Ignitis activity infrastructure is IT systems and programs as well as expansion of electric vehicle charging stations on the Ignitis ON network. In Lithuania alone, Ignitis has more than 1.4 million B2C customers and over 20 thousand B2B customers. By serving a large customer base daily, the Company is continuously searching for solutions to enhance customer relationships and to simplify daily operations both for customers and employees. Ignitis also invests in renewable energy related solutions for customers. One of the best-known products of such investments is the largest fast-charging network of electric vehicles in Lithuania – Ignitis ON.

Investment policy

The Group's investment policy, which is also followed by Ignitis, stipulates that all investments must be in line with the objectives set out in the strategic plan and with the State's objectives, as set out in the current shareholder's Letter of Expectations.

Main investment directions:

- Business sector. Business sectors must be consistent with the directions of the strategy. The majority of the Group's investments are directed towards the Green Generation and Networks segments, with a smaller share in Flexible Generation, Customers & Solutions (Ignitis) and other activities (e.g. IT). The Group does not invest in coal-fired power plants and nuclear power. Investments in new gas-fired generation capacity are limited to those necessary to ensure system security.
- Geography. Investments are made in projects in the "home" markets – the Baltic States, Poland, Finland.
- Partnerships. Investments in new services, technologies, new markets or other unusual investments may consider collaboration with partners.
- Governance. The Group seeks to invest in controlling interests or interests that confer significant management rights (i.e. must be able to influence operational decisions).

The Group's investment actions must take into account the economic, environmental and social aspects of its operations, the Group's greenhouse gas emission reduction targets, and sustainable value creation as described in the Group's Sustainability Policy.

Ongoing and planned investments

The total investment in IT systems in 2022 was EUR 1.8 million. In 2023, the planned investment is around EUR 9.2 million, 43% whereof will be directed towards expansion of IT systems, and the remaining 57% – towards the ongoing project-based activities.

Projects/directions		
Investments in the innovative solutions segment	New key IT systems installed	Eparkai platform development
Strategic goal: Developing an innovative portfolio of products in line with sustainability objectives	Strategic goal: New key IT systems installed	Strategic goal: Developing an innovative portfolio of products in line with sustainability objectives
Investment period: 2022-2026 Progress: EUR 1.77 million invested in 2022	Investment period: 2022-2026 Progress: One management system has been completed in 2022, with another to be completed in 2024. Around EUR 0.5 million invested in 2022	Investment period: 2023-2026 Progress: Start in 2023

3. Results

3.1 Annual results

Revenue

In 2022, the Company's revenue increased by 224% compared to 2021 and amounted to EUR 3,231.4 million. The main reasons for the change in revenue are the following:

1. **Higher revenue from energy supply (EUR +877.2 million).** Revenue growth from electricity supply resulted from the increase in electricity market prices (+131.6%) and higher sales volumes (+14%). Revenue from electricity supply increased both in the B2B and B2C segments. The increase in revenue from energy supply to B2B customers (EUR +726.3 million) was driven by the above-mentioned higher average market prices and higher sales volumes (+33.4%) from an increased customer base. Sales of electricity to independent supply B2C customers also increased (EUR +119.6 million) due to the 2nd stage of liberalisation dated 1 July 2022, while the increase in revenue from public supply activity was driven by increased tariff in order to reduce the difference between the tariff and the actual acquisition price (EUR +21.9 million). The increase in revenue from public supply activity was offset by the decrease in public supply volumes (-43%) due to the 2nd stage of electricity market liberalisation.
2. **Higher revenue from natural gas supply (EUR +1,306.4 million).** Revenue growth from supply of natural gas and trade activities resulted mainly from the increase in wholesales (EUR +521.6 million) and higher sales to B2B customers (EUR +506.2 million) due to a higher average price of natural gas (in 2022, the average price of TTF gas index increased approximately by +242% compared to the same period in 2021) and increased sales quantities.
3. **Higher revenue from project-based activities and other revenue (EUR +50.5 million).** The growth resulted mainly from realised derivative financial instruments which were ineffective for the purpose of financial reporting (EUR +26.6 million) and increased revenue from the change of the market value of derivative financial instruments (EUR +13.4 million). Other revenue also grew, driven by an increase in revenue from project-based activities (EUR +10.8 million) due to increased market demand for solar power plants.

Revenue by nature of activity, EUR million

	2022	2021	Δ	Δ,%
Supply of electricity	1,472.0	594.7	*877.2*	*147.5%*
Supply of natural gas	1,680.2	373.8	*1,306.4*	*349.5%*
Revenue from project-based activities	19.7	8.9	*10.8*	*121.6%*
Other revenue	59.6	20.0	*39.8*	*200.8%*
Revenue	**3,231.4**	**997.2**	**2,234.2**	***224.0%***

Main sources of revenue at Ignitis are the supply of natural gas and electricity:

- 52% of total revenue of Ignitis comprises revenue from natural gas supply. Ignitis sells natural gas in Lithuania and other Baltic States, as well as in Finland and Poland. Natural gas is sold to clients of both B2B and B2C segments. In 2022, 2.5 TWh of natural gas was sold to B2C customers, 7.4 TWh to B2B customers in the region, and 3.9 TWh to GET Baltic exchange and direct wholesale customers.
- 46% of total revenue of Ignitis comprises revenue from electricity supply. Ignitis sells electricity in Lithuania, Latvia and Poland. Electricity is sold to clients of both B2B and B2C segments. In 2022, 2.6 TWh of electricity was sold to B2C customers, and 5.1 TWh to B2B customers.

Revenue by country, EUR million

	2022	2021	Δ	Δ,%
Lithuania	2,174.8	731.2	1,443.5	197.4%
Other[1]	1,056.6	266.0	790.7	297.3%
Revenue	**3,231.4**	**997.2**	**2234.2**	**224.0%**

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

Other revenue of Ignitis in 2022 comprised sales of natural gas and electricity abroad.

Revenue by type, EUR million

	2022	2021	Δ	Δ,%
B2B sales revenue	2,481.5	683.1	*1,798.4*	*263.3%*
B2C sales revenue	749.9	314.1	*435.8*	*138.8%*
Revenue	**3,231.4**	**997.2**	**2,234.2**	***224.0%***

B2B sales revenue comprises 77% of total revenue of the Company. Most of B2C revenue (approx. 78%) comes from regulated activity.

Expenses

Purchases of electricity, gas and other services

In 2022, the purchases of electricity and gas of Ignitis amounted to EUR 3,095.5 million and increased by 224.1% compared to 2021. The growth resulted from the increase in purchases of natural gas (EUR +1,113.2 million) and electricity (EUR +1,078.2 million). The increase in costs was driven by a sharp increase in wholesale commodity prices.

Operating expenses

In 2022, operating expenses (OPEX) of Ignitis amounted to EUR 35.8 million, an increase of 36.6% compared to 2021.The main reasons for the increase in OPEX were an increase in customer service costs (EUR +4.5 million) related to the increase in customer service costs in the context of the second stage of the market liberalisation, and to a temporary increase in the customer flow in the third quarter of the year, when an independent supplier Perlas energija, UAB withdrew from the market. There was also an increase in wage costs (EUR +2.3 million), as the number of employees grew due to the expansion of activities and services, and annual review of employee remuneration.

Other expenses

Expenses, EUR million

	2022	2021	Δ	Δ,%
Purchases of electricity, gas and other services	**3,095.5**	**955.1**	***2,140.4***	***224.1%***
Purchases of electricity and related services	1,763.1	684.9	*1,078.2*	*157.4%*
Purchases of gas and related services	1,423.4	310.2	*1,113.2*	*358.9%*
Other	(91.0)	(39.9)	*(51.1)*	*127.9%*
OPEX APM	**35.8**	**26.2**	***9.6***	***36.6%***
Wages and salaries and related expenses	13.0	10.7	*2.3*	*21.9%*
Other	22.8	15.6	*7.3*	*46.7%*
Other expenses	**5.2**	**3.9**	***1.3***	***34.3%***
Depreciation and amortisation	3.4	2.9	*0.5*	*15.5%*
Write-offs and impairments of short-term and long-term receivables, inventories and other	1.8	0.9	*0.9*	*94.9%*
Total	**3,136.5**	**985.2**	***2,151.3***	***218.4%***

Adjusted EBITDA

In 2022, the Company's adjusted EBITDA amounted to EUR 15.6 million and was lower by 46.2% or EUR 13.5 million than in the same period of 2021. In 2022, adjusted EBITDA margin was 0.5% (2.9% in the same period of 2021).

The change in adjusted EBITDA resulted mainly from:

1. Positive change in results from activity of supply and trade of natural gas (EUR +26.3 million). The main reason for the positive change of EBITDA was the supply of natural gas to other Baltic and European Union States. At the beginning of the year, Ignitis stopped the acquisition of Russian origin gas and secured its supply portfolio by entering into LNG purchase transactions for delivery to the Klaipėda LNG terminal. Despite the supply challenges in the first quarter of the year, Ignitis managed to optimise its supply portfolio and exploit its strategic market advantage by profitable sales of natural gas on foreign markets.
2. Negative result from activity of supply and trade of electricity (EUR -38.7 million) was mainly driven by underhedged volumes of fixed-price electricity product (EUR -17.4 million), changes in the market value of ineffective derivatives (EUR -12.6 million) and ineffective realised derivatives (EUR -5.3 million). 2022 was a highly volatile year in the wholesale electricity market, with many market participants facing liquidity challenges. In response to market developments, market participants reduced trading in the Baltic and Finnish price zones product to the maximum extent possible during the year, while the difference between the Finnish and Lithuanian price zones remained high for most of the year. The supply of efficient hedge products remained very limited throughout 2022, which created additional challenges for Ignitis and other market participants.

Adjusted EBITDA by nature of activity, EUR million

	2022	2021	Δ	Δ,%
Gas distribution and trading activity	81.1	54.8	*20.8*	*48.0%*
Electricity supply and trading activity	(62.7)	(23.8)	*(40.5)*	*163.3%*
Other activities	(2.8)	(1.9)	*(1.0)*	*47.9%*
Adjusted EBITDA APM	**15.6**	**29.1**	***(20.7)***	***(46.3%)***

EBITDA adjustments

1. 2022 elimination of the difference (EUR -79.6 million) accumulated by 2022 between higher actual acquisition prices of natural gas as compared to product prices set by the regulator. In 2022, under the price compensation mechanism implemented by the Resolution of the Government of the Republic of Lithuania, Ignitis recovered all the regulatory differences accumulated until 2022.
2. 2022 elimination of the disparities (EUR -5.5 million) between the actual and projected LNG acquisition and realisation prices and volumes related to the activity of designated supply of Ignitis.
3. 2022 differences arising from recalculation of revenue from electricity supply activities comprise elimination of differences between income and expense due to evaluation of over-declaration effects (Note 5.4).

EBITDA adjustments, EUR million

	2022	2021	Δ	Δ,%
EBITDA APM	**98.3**	**14.9**	***83.4***	***557.8%***
Adjustments:				
Temporary regulatory differences arising from the activity of B2C gas supply (1)	(79.6)	75.5	*(155.1)*	*(205.5)%*
Temporary regulatory differences arising from the activity of designated supply (2)	(5.5)	(57.9)	*52.4*	*(90.6)%*
Recalculation of revenue from electricity supply activities (3)	2.4	(3.4)	*5.8*	*(169.7)%*
Total EBITDA adjustments	**(82.7)**	**14.2**	***(96.8)***	***(683.9)%***
Adjusted EBITDA APM	**15.6**	**29.1**	***(13.5)***	***(46.2)%***
Adjusted EBITDA margin APM	*0.50%*	*2.90%*	*n/a*	*(2.4 pp)*

Net profit

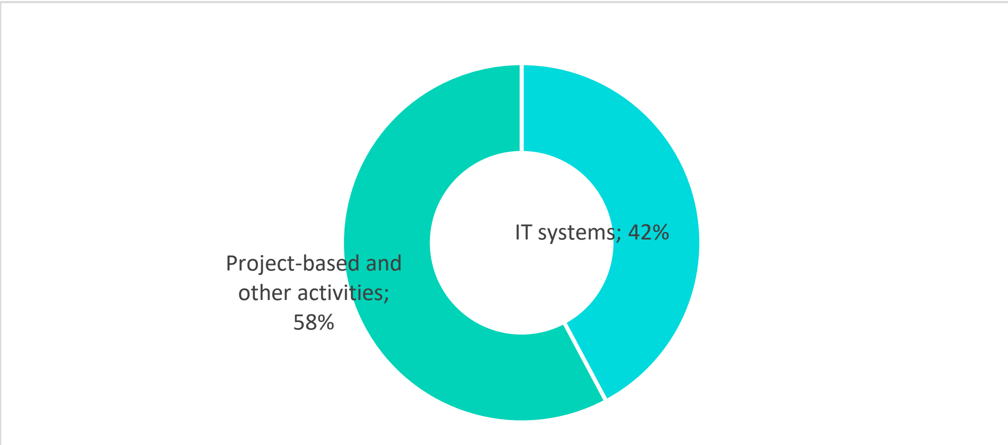
Adjusted net profit amounted to EUR -5.9 million in 2022 (EUR -25.1 million compared to the same period in 2021). Adjusted net profit decreased due to a negative change in adjusted EBITDA (EUR -13.5 million, the reasons for the decrease are described in the section "Adjusted EBITDA") and an increase in financing costs due to higher working capital (EUR -16.5 million).

Reported net profit increased to EUR 64.4 million in 2022 (EUR +57.2 million compared to the same period in 2021). The increase resulted mainly from recovered regulatory differences of natural gas (EUR +70.9 million), which had been accumulated until 2022; however, in accordance with International Accounting Standards, they were recorded in the financial accounts and affected the reported net profit in 2022. Net profit was negatively affected by an increase in financing costs (EUR -16.5 million).

Investments

In 2022, investments amounted to EUR 6.4 million (EUR +4.4 million compared to the same period in 2021). EUR 2.7 million of investments were made in modernisation and installation of IT systems (customer self-service, contact centre request management systems, data reporting and other systems focused on customer service and employee well-being). EUR 3.7 million was invested in the Company's project-based activities, investing in the development of renewable energy for B2C and B2B segments (solar power plants), upgrading the www.eparkai.lt platform and promoting smart energy solutions.

Investments by nature of activity in 2022, %



Statement of financial position

Assets

As at 31 December 2022, total assets reached EUR 1,441.6 million (EUR +616.2 million compared to 31 December 2021). The growth was mainly influenced by the increase in value of trade receivables (EUR +295.9 million) and inventories (EUR +228.4 million) as at the year end. The common reason for the growth of the mentioned asset groups is the significant increase in market prices of commodities. Despite the significant increase in trade receivables, Ignitis did not observe any negative trends in their recovery in 2022, with the share of overdue debts remaining at normal levels.

Equity

As at 31 December 2022, equity amounted to EUR 189.4 million (EUR +111.8 million compared to 31 December 2021). The change in equity was mainly influenced by net profit (EUR +64.4 million) and change in the revaluation reserve of derivative financial instruments (EUR +47.5 million).

Liabilities

As at 31 December 2022, liabilities amounted to EUR 1,252.2 million (EUR +504.4 million compared to 31 December 2021). The increase was driven by the increase in Ignitis borrowings (EUR +152.9 million), which are meant to finance the increase in working capital needs resulting from the unusual situation in the commodities market. The increase in commodity prices also led to a significant increase in other current payables and liabilities (EUR +133.1 million) and trade payables (EUR +93.9 million).

Statement of financial position, EUR million

	31/12/2022	31/12/2021	Δ	Δ,%
Non-current assets	66.6	118.8	*(52.2)*	*(43.9)%*
Current assets	1,375.1	706.7	*668.4*	*94.6%*
TOTAL ASSETS	**1,441.6**	**825.4**	***616.2***	***74.7%***
Equity	189.4	77.6	*111.8*	*144.1%*
Total liabilities	1,252.2	747.8	*504.4*	*67.4%*
Non-current liabilities	392.1	289.4	*102.7*	*35.5%*
Current liabilities	860.1	458.5	*401.7*	*87.6%*
TOTAL EQUITY AND LIABILITIES	**1,441.6**	**825.4**	***616.2***	***74.7%***
Asset turnover APM	2.85	1.9	*0.954*	*50.3%*
ROA APM	5.7%	1.4%	*n/a*	*(4.31 pp)*
Common liquidity ratio APM	1.60	1.54	*0.06*	*3.7%*
Working capital/Revenue (LTM) APM	13.8%	43.3%	*n/a*	*(29.5 pp)*

Financing

Net debt

As at 31 December 2022, net debt amounted to EUR 361.7 million, a decrease of 16.6% or EUR 72.2 million compared to 31 December 2021. The main reason for the decrease in net debt is the recovery of regulatory differences arising from the Company's regulated activities.

FFO (LTM) / Net Debt ratio increased from 3.4% to 27.2%, due to the increase in FFO (LTM). The increase in FFO (LTM) is due to an increase in EBITDA (for more information see "EBITDA" section).

Net debt, EUR million

	31/12/2022	31/12/2021	Δ	Δ,%
Total non-current financial liabilities	**371.0**	**289.2**	***81.8***	***28.3%***
Non-current loans	370.8	288.8	*82.0*	*28.4%*
Lease liabilities (IFRS 16)	0.2	0.4	*(0.2)*	*(42.8)%*
Total current financial liabilities	**297.3**	**226.4**	***70.9***	***31.3%***
Current loans	297.1	226.2	*70.9*	*31.4%*
Lease liabilities (IFRS 16)	0.3	0.3	*0.0*	*1.8%*
Financial debt APM	**668.3**	**515.6**	***152.8***	***29.6%***
Cash, cash equivalents and cash in escrow account	**306.6**	**81.7**	***224.9***	***275.2%***
Cash and cash equivalents	306.6	81.7	*224.9*	*275.2%*
Cash in escrow account	0.0	0.0	*0.0*	*n/a*
Net debt APM	**361.7**	**433.9**	***(72.2)***	***(16.6)%***
Net debt / adjusted EBITDA (12-month) APM	23.1	14.9	*8.2*	*55.1%*
Net debt */ EBITDA (12-month)* APM	3.7	29.0	*(25.3)*	*(87.3)%*
FFO (LTM) / Net debt APM	27.2%	3.4%	*n/a*	*23.8 pp*
Financial debt / Equity APM	352.8%	664.3%	*(3.1)*	*(46.9)%*
Equity level APM	13.1%	11.4%	*0.0*	*15.4%*

Dividends

Dividend policy (link) of the companies controlled by Ignitis Group was approved in 2020. According to the policy:

1. governance bodies of the companies 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 companies may propose to distribute profit for the payment of dividends for the financial year or a period shorter than the financial year if a company incurred loss during the reporting period but has retained earnings accrued from the previous reporting periods. This provision is applicable only if there is an imperative need of the parent company to receive dividends in implementing the dividend policy of the parent company;
3. governance bodies of the companies may propose to set a lower share of profits than it is set out in sub-paragraph 1 for the payment of dividends for companies or they may propose not to pay dividends for the reporting period if at least one of the following conditions is met:

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

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

    3.3. a company 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 company'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 company is insolvent, or would become insolvent upon payment of dividends;

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

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

In 2022, Ignitis did not pay dividends due to the unusual market situation, high debt level and working capital needs. In 2021, Ignitis distributed and paid out EUR 39.715 million of dividends.

Dividends distributed for the specified years, EUR million

	2022	2021	Δ	Δ,%
The amount of dividends paid out in the specified period	0	39.715	*(39.715)*	*(100%)*

Key performance indicators

		2022	2021	Δ	Δ,%
Sales of electricity					
Lithuania	TWh	6.18	5.62	*0.56*	*10.0%*
Latvia	TWh	1.12	1.04	*0.07*	*7.1%*
Poland	TWh	0.41	0.09	*0.32*	*355%*
Total retail trade	TWh	7.71	6.77	*0.95*	*14.0%*
B2C customers	TWh	2.57	2.91	*(0.34)*	*(11.8%)*
B2B customers	TWh	5.15	3.86	*1.29*	*33.4%*
Number of customers	thousand	1,432	1,550	*(118)*	*(7.7%)*
B2C customers	thousand	1,407	1,533	*(126)*	*(7.8%)*
B2B customers	thousand	25	17	*8*	*47%*
Total share of green electricity sales (to end consumers)	%	32	34	*(2)*	*(5.88%)*
B2C customers	%	1	12	*(11)*	*(92%)*
B2B customers	%	48	50	*(2)*	*(4%)*
Sales of natural gas					
Lithuania	TWh	7.09	8.06	*(0.97)*	*(12.1%)*
Latvia	TWh	2.64	0.76	*1.88*	*246%*
Finland	TWh	3.77	2.72	*1.06*	*38.8%*
Poland	TWh	0.16	0.01	*0.16*	*1,600%*
Estonia	TWh	0.20,	0.00	*0.20*	*N/A*
Total retail trade	TWh	9.94	8.93	*1.01*	*11.3%*
B2C customers	TWh	2.55	2.84	*(0.29)*	*(10.2%)*
B2B customers	TWh	7.40	6.10	*1.30*	*21.4%*
Total wholesale trade	TWh	3.92	2.62	*1.30*	*49.6%*
Number of customers	thousand	620.2	616.8	*3.4*	*0%*
B2C customers	thousand	613	609.4	*3.6*	*0%*
B2B customers	thousand	7.2	7.4	*(0.2)*	*(0.3)%*

Sales of electricity in retail market increased by 14% in 2022 compared to the same period in 2021. The number B2B customers increased (+47%), meanwhile total sales to B2C customers decreased by 12% due to the ongoing market liberalisation. It is noteworthy that Ignitis maintained a leading position (78% market share as at year-end), in the Lithuanian independent supply market in 2022.

Total sales volume of natural gas increased by 20% in 2022 compared to the same period in 2021. The increase resulted mainly from wholesale trade (+49.6%) and sales to B2B customers (+21.4%).

3.2 Three-year annual summary

Key financial indicators

		2022	2021	2020
Sales	EUR million	3,231.4	997.2	540.9
EBITDA APM	EUR million	98.3	14.9	70.0
Adjusted EBITDA APM	EUR million	15.6	29.1	26.7
Adjusted EBITDA margin APM	%	0.5%	2.9%	4.9%
EBIT APM	EUR million	94.9	12.0	51.4
Adjusted EBIT APM	EUR million	12.2	26.2	8.1
Net profit	EUR million	64.4	7.2	44.5
Adjusted net profit APM	EUR million	-5.9	19.2	7.7
Investments APM	EUR million	6.4	2.0	1.2
FFO APM	EUR million	98.3	14.9	70.0
FCF APM	EUR million	129.9	(36.1)	15.1
ROE APM	%	48.2%	9.0%	74.7%
Adjusted ROE APM	%	(4.4)%	24.2%	12.9%
ROCE APM	%	17.9%	3.9%	45.8%
Adjusted ROCE APM	%	2.3%	8.5%	7.2%
ROA APM	%	5.7%	1.4%	19.4%
Adjusted ROA APM	%	(0.5)%	3.7%	3.3%
		31/12/2022	31/12/2021	31/12/2020
Total assets	EUR million	1,441.6	825.4	226.1
Equity	EUR million	189.4	77.6	81.7
Net debt / EBITDA	EUR million	361.7	433.9	23.8
Net working capital	EUR million	446.6	431.5	81.9
Equity ratio APM	%	13.8%	43.3%	15.1%
Net debt / EBITDA APM	In times	3.7	29.0	0.3
Net debt/Adjusted EBITDA APM	In times	23.1	14.9	0.9
FFO/Net debt APM	%	27.2%	3.4%	294.8%
Common liquidity ratio APM	%	159.9%	154.1%	177.0%
Asset turnover APM	In times	2.9	1.9	2.4

Key performance indicators

		2022	2021	2020
Sales of electricity				
Lithuania	TWh	6.18	5.62	5.48
Latvia	TWh	1.12	1.04	0.87
Poland	TWh	0.41	0.09	0
Total retail trade	TWh	7.71	6.77	6.37
B2C customers	TWh	2.56	2.91	3.03
B2B customers	TWh	5.15	3.86	3.34
Number of customers	thousand	1,432	1,550	1,658
B2C customers	thousand	1,407	1,533	1,648
B2B customers	thousand	24.97	17.4	9.8
Total share of green electricity sales (to end consumers)	%	32	34	24
B2C customers	%	1	12	0
B2B customers	%	48	50	45
Sales of natural gas				
Lithuania	TWh	7.09	8.06	9.10
Latvia	TWh	2.64	0.76	2.35
Finland	TWh	3.77	2.72	3.23
Poland	TWh	0.16	0.01	0
Estonia	TWh	0.20	0	0
Total sales of natural gas	TWh	13.86	11.55	14.68
Total retail trade	TWh	9.94	8.93	12.74
Whereof: B2C customers	TWh	2.55	2.84	2.25
Whereof: B2B customers	TWh	7.39	6.10	10.49
Total wholesale trade	TWh	3.92	2.62	1.94
Number of customers	thousand	620.2	616.8	610.2
B2C customers	thousand	613	609.4	602.6
B2B customers	thousand	7.2	7.4	7.6

4. Governance report

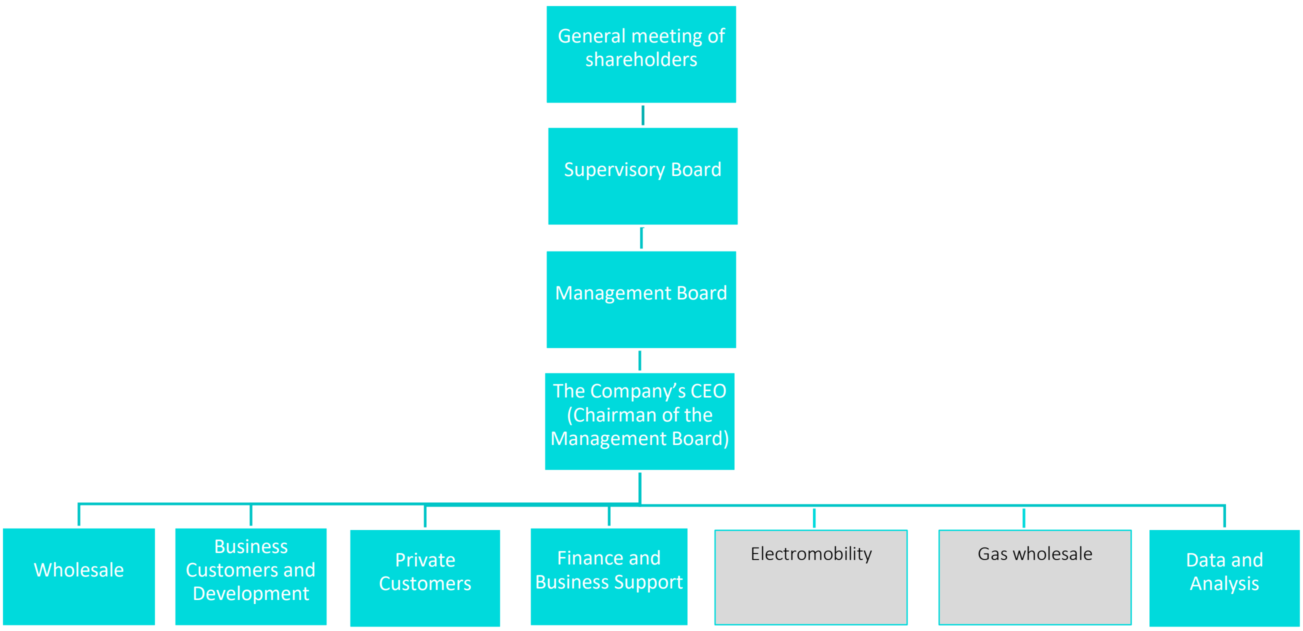
4.1 Governance framework

Governance model

The parent company's management structure consists of the Chief Executive Officer and a two-tier governance system (Management Board and Supervisory Board). The parent company's CEO represents the parent company in all matters and, alongside the Management Board, is responsible for the management of the parent company. The Supervisory Board is a body that supervises the activities of the Management Board and the CEO of the parent company. The parent company's CEO manages daily activities of the parent company and is entitled to unilaterally represent the parent company.

At the end of the previous year, the Group's Supervisory Board and the Management Board adopted decisions in the main Group companies (including Ignitis), to replace a two-tier management model with a one-tier management model, i.e., to remove the Management Boards made up of employees and instead to form Boards with a supervisory function that will be made up of at least 1/3 of independent members, civil servants and shareholder representatives. The new model will ensure simpler but, at the same time, effective governance, which will continue to meet the highest standards of governance, speedy decision-making, fast communication, and active involvement of independent members. The governance model will be changed by Q2 2023.

In 2022, the Management Board approved changes to the parent company's organisational structure: to implement the Company's strategy to accelerate the expansion of the electric vehicle charging station network, it was decided to establish an Electromobility Department, and to separate the management of the electricity and natural gas activities, a separate Gas Wholesale Department was to be established.



Shareholders, their rights and functions

Ignitis belongs to the state-owned energy-holding group of companies AB Ignitis grupė, 100% of the Company's shares is controlled by AB Ignitis grupė. The General Meeting of Shareholders is the supreme governing body of Ignitis. The competence of the General Meeting of Shareholders, the procedure for convening and decision-making is determined by laws, other legal acts and the Articles of Association of Ignitis.

4.2 Supervisory Board

Overview

The parent company's Supervisory Board is a collegial supervisory body. The competence of the Supervisory Board, the procedures of decision-making, election and revocation of members are determined by laws, other legal acts and the Articles of Association of the parent company. The Supervisory Board consists of three independent members who are elected during the General Meeting of Shareholders for a four-year term of office. At least 1/3 of the Supervisory Board members shall be independent. The Supervisory Board elects the chairman of the Supervisory Board from among its members.

Functions and responsibilities of the Supervisory Board

- Considering and approving the business strategy of the parent company and Ignitis Group companies, analysing and evaluating implementation of the business strategy, providing this information to the General Meeting of Shareholders.
- Electing and removing members of the Management Board of the parent company.
- Supervising activities of the Management Board and the CEO.
- Providing proposals and comments to the General Meeting of Shareholders on the set of financial statements, allocation of profit or loss, and the annual report as well as on activities of the Management Board and the CEO.
- Providing proposals and comments to the General Meeting of Shareholders with regard to the decision on draft appropriation of profit for the period shorter than the financial year, the set of the prepared interim financial statements and the prepared interim report.
- Submitting proposals to the Management Board and the CEO of the parent company to revoke their decisions that are contrary to laws and regulations, Articles of Association of the parent company or resolutions of the General Meeting of Shareholders.
- Resolving other issues related to supervision of the activities of the governance bodies assigned to the competence of the Supervisory Board in the Articles of Association of the parent company, as well as in the resolutions of the General Meeting of Shareholders.

Information on selection criteria and principles of the Supervisory Board members

The selection of the members of the Supervisory Board is initiated and conducted by AB Ignitis grupė in accordance with the Description of Selection of the Candidates for the Collegial Supervisory or Management Body of a State or Municipal Company, a State-Owned or Municipally-Owned Parent Company or its Subsidiary approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015. According to the latter resolution, it is important to ensure that the Supervisory Board:

- does not include independent members of the collegial body who are related to each other by their employment relations with the same employer or by their position as a member of a collegial body or by being a member of a committee of the same legal entity;
- does not include members of the collegial body whose activities are connected with the undertaking of which the applicant is a member in such a way as to give rise to a conflict of interest in the exercise of the functions of a member of the collegial body;
- does not include members of the collegial body whose activities and functions are related to the policymaking in the sector in which the undertaking operates;
- does not include members of the collegial body who are elected or appointed as state politicians in accordance with the procedure laid down by law, civil servants of political (personal) confidence;
- does not include members of the collegial body who have been delegated to the collegial body in their capacity as civil servants, following the termination of their status as civil servants or following the termination of their service relationship with the entity initiating the selection;
- does not include members of the collegial body with a range of competences, including but not limited to the following competences:

a) competence in the field of finance (financial management, financial analysis or audit). This competence shall be evidenced by at least 3 years' experience in a senior management role in financial management, consulting, financial services, auditing;
b) competence in strategic planning and management. This competence shall be evidenced by at least 3 years' experience as a member of the board of directors of a legal entity, as a head of a legal entity, or in a managerial role in the field of strategic planning;
c) competence in the sector in which the undertaking operates. This competence shall be evidenced by at least 3 years' experience of managerial or commercial experience in the relevant sector.

The decision on the election of a Supervisory Board member is adopted by the General Meeting of Shareholders.

As of 2023, a two-tier management model is replaced with a one-tier management model, i.e., to remove the Management Boards made up of employees and instead to form Boards with a supervisory function that will be made up of at least 1/3 of independent members, civil servants and shareholder representatives.

Activities during the reporting period

Overall 17 meetings of the Supervisory Board were held in 2022, Activities of the Supervisory Board in 2022:

- On 7 January 2022, the Supervisory Board approved the strategic business plan of Ignitis for 2022-2025.
- On 27 January 2022, the Supervisory Board members submitted an opinion on independent supply strategy for 2022;
- On 4 March 2022, the Supervisory Board submitted an opinion on the status of Ignitis gas reserves to vulnerable customers, on Ignitis deregulation status;
- On 6 April 2022, the Supervisory Board members submitted an opinion on submission of the audited financial statements of 2021, the annual report, the draft distribution of profit to the Company's General Meeting of Shareholders and on the assessment of implementation of the annual objectives;
- On 26 May 2022, the Supervisory Board members submitted an opinion on the compensation of Ignitis prices to B2C customers;
- On 28 July 2022, the Supervisory Board submitted an opinion on activity status of Ignitis company Ignitis Polska sp. z o.o.;
- On 24 August 2022, the Supervisory Board submitted an opinion on the status of Ignitis electric vehicle strategy;
- On 22 September 2022, the Supervisory Board submitted an opinion on Ignitis working capital, liquidity and financing costs;
- On 14 October 2022, the Supervisory Board submitted an opinion on approval of the planning documents for 2023;
- On 14 October 2022, the Supervisory Board submitted an opinion on the status of gas supply and gas surplus in 2023;
- On 1 December 2022, the Supervisory Board submitted an opinion on the approval of the 2023-2026 portfolio of strategic initiatives, approval of the 2023 budget, approval of the 2023 risk register and risk management plan, and approval of the key performance indicators plan;
- On 22 December 2022, the Supervisory Board submitted an opinion on the approval of the Ignitis structure and the additional posts, and on the revised maximum number of posts, staff motivation and KPIs.

The table below provides an overview of meeting attendance.

Overview of attendance of meetings of the Supervisory Board members

Name, surname	
Vidmantas Salietis	17/17
Paulius Dambrauskas	17/17
Mantas Mikalajūnas	16/17

** The numbers indicate how many meetings in 2022 the members have attended out of total meetings during the reporting period.*

Members of the Supervisory Board

	Description	Experience	Education	Other current place of employment, position
	**Vidmantas Salietis** Chairman of Supervisory Board Term of office: from 01/06/2019 to 31/05/2023	2018 - now Management Board member of AB Ignitis grupė, Head for Commercial Activities and Services of the Group 2018 - now Different positions at the collegial bodies of AB Ignitis grupė companies 2015 – 2018 CEO of UAB Energijos tiekimas 2013 – 2016 Board member at AB Ignitis gamyba 2011 Market analyst at AB Ignitis gamyba 2009 – 2010 Consultant at UAB Ernst & Young Baltic (EY Lietuva)	Bachelor's degree in business and economics, Stockholm School of Economics, Latvia (2006-2009)	AB Ignitis grupė (company code 3018444044, address: Laisvės pr. 10, LT-04215 Vilnius). Management Board member of AB Ignitis grupė, Head for Commercial Activities Other managerial positions held: AB Ignitis gamyba (company code 302648707, Elektrinės g. 21, LT-26108 Elektrėnai) Management Board member UAB "Ignitis renewables" (company code 304988904, Laisvės pr. 10, LT-04215, Vilnius) Management Board member
	**Paulius Dambrauskas** Independent member Term of office: from 01/06/2019 to 31/05/2023	2020 - now CEO of UAB AL Holdingas 2017 – 2020 Head of UAB Girteka Logistics 2016 – 2017 Head for Commerce of UAB Maxima LT 2009 – 2016 CEO of UAB Cgates 2008 – 2009 Head for Development at UAB ActiveSec 1999 – 2008 Member of the Management Boards of Bite Group	2005 – 2006 Corporate Talent Pool leadership programme INSEAD 1996 – 1998 Master's degree in international marketing, Vilnius University, Lithuania 1992 – 1996 Bachelor's degree in International trading and marketing, Vilnius University, Lithuania	UAB AL Holdingas (company code 3002288643, address: Ulonų g. 2, LT-08245 Vilnius) Chief Executive Officer
	**Mantas Mikalajūnas** Member Term of office: 27/07/2021 - 31/05/2023	2019 – now Management Board member of AB Ignitis grupė, Head for Regulated Activities 2017 – now Different positions at the collegial bodies of AB Ignitis grupė companies 2014 – 2019 CEO of UAB Lietuvos dujų tiekimas / UAB Lietuvos energijos tiekimas 2013 – 2014 Head of Strategic Development at UAB Lietuvos dujų tiekimas 2008 – 2013 Project Manager / Strategic Development 2006 – 2008 Business controller at E. ON Ruhrgas International	2002 – 2004 Master's degree in business administration and management, Vilnius University, Lithuania Bachelor's degree in communications and information management, Vilnius University, Lithuania (1998 - 2004)	AB Ignitis grupė (company code 3018444044, address: Laisvės pr. 10, LT-04215 Vilnius) Head for Regulated Activities and Management Board member Other managerial positions held: AB Ignitis gamyba (company code 302648707, Elektrinės g. 21, LT-26108 Elektrėnai) Management Board member UAB Kauno kogeneracinė jėgainė (company code 303792888, Jėgainės g. 6, Biruliškių k, LT-54469 Kauno r.) Management Board member UAB „Vilniaus kogeneracinė jėgainė" (company code 303782367, Jočionių g. 13, LT-02300, Vilnius) Management Board member

4.3 Management Board

Overview

The Management Board is a collegial management body of the parent company set out in the Articles of Association. It is removed and elected by the Supervisory Board for a term of four years. The Management Board consisting of 5 members elects a chairman of the Management Board who is also the CEO, from among its members. The members of the Management Board, within the competence, have to ensure proper performance of the parent company's activities.

The main functions and responsibilities of the Management Board

The main functions and responsibilities of the Management Board, according to which their annual activity is planned, comprise the following decision-making competences regarding:

- the parent company's operating budget, activity plan, targets (indicators);
- the parent company's management and organisational structure, the list of staff positions, and the maximum number of job positions;
- the list of confidential information and commercial secrets;
- the parent company's remuneration report;
- participation or establishment of legal entities;
- establishment or activity termination of the parent company's subsidiaries or representative offices;
- approval of the parent company's annual report and interim report prepared for the adoption of decision regarding distribution of dividends for a period shorter than the financial year;
- disposal of the parent company's shares (percentage, proportion thereof) and their attached rights to other entities, or their restriction;
- the parent company's participation and voting in the General Meetings of Shareholders in entities where the parent company is a shareholder;
- issuing of the parent company's bonds (except for convertible bonds);
- conclusion of certain high-value contracts;
- adoption of other decisions anticipated in the parent company's Articles of Association.

In some cases, before adopting a decision, the Management Board has to receive a comment from the Supervisory Board, the consent of the General Meeting of Shareholders.

Information on selection criteria of the Management Board members

The members of the Management Board are employees of the parent company, they are elected by the Supervisory Board. Each member of the Management Board is elected for a term of four years (or until the expiry date of the current term of office if changes in the board take place in the middle of the term). The Management Board shall be formed taking into consideration that the competences of the members of the Management Board must be diverse. A member of the Supervisory Board of the parent company or a shareholder cannot be appointed as a member of the Management Board. In addition, neither a member of a legal entity, which is engaged in transmission or production of electricity or gas, or a member of a supervisory body, managerial body or administrative body of another legal entity, which is engaged in transmission or production of electricity and gas, nor an auditor or an employee of an audit firm, participating and (or) having participated in audit of the financial statements within a period of two years, or a person who is not legally entitled to hold that office, can be appointed as a member of the Management Board. Members of the Management Board must meet the general and specific criteria laid down by law. The need of competences is established by the Supervisory Board upon composing the Management Board.

As of 2023, the Management Board made up of employees will be removed and instead the Board with a supervisory function that will be made up of at least 1/3 of independent members, civil servants and shareholder representatives will be formed.

Activities during the reporting period

Overall 66 meetings of the Management Board were held in 2022. Activities of the Management Board in 2022:

- On 13 January 2022, the Management Board adopted a decision to approve preferential payment terms for Ignitis customers during a period of high commodity market prices;
- On 21 February 2022, the Management Board adopted a decision on the increase in share capital of Ignitis Polska sp. z o. o.;
- On 28 February 2022, the Management Board adopted a decision approving the conclusion of a credit limit agreement with Swedbank, AB;
- On 1 April 2022, the Management Board adopted decisions on the approval of the 2021 annual report and approval of the set of audited annual financial statements of UAB Ignitis for the year 2021; on the approval of the draft distribution of the profit (loss) of UAB Ignitis for the year 2021; on the presentation of the achievement of the performance targets (indicators) of UAB Ignitis for the year 2021; and on the establishment of conditions for the payment of short-term incentives for the CEO of UAB Ignitis in respect of the performance results of UAB Ignitis in 2021;
- On 30 May 2022, the Management Board adopted a decision on the approval of natural gas tariffs for B2C of UAB Ignitis, effective from 1 July 2022;
- On 8 June 2022, the Management Board adopted a decision on the approval of UAB Ignitis public electricity prices and the procedure for their application with effect from 1 July 2022;
- On 1 August 2022, the Management Board adopted a decision on informing PAO Gazprom about the termination of the natural gas supply contract No GLi-2017 of 8 February 2017 concluded between UAB Ignitis and PAO Gazprom with effect from 1 April 2022, and on the authorization of the General Director to initiate the actions in connection with the termination of the contract and to inform the Supervisory Board;
- On 8 August 2022, the Management Board adopted a decision on the preparation of a proposal by UAB Ignitis for the independent electricity supply to B2C customers in the event of exceptional market circumstances;
- On 31 August 2022, the Management Board adopted a decision on the preparation of a proposal by UAB Ignitis for the independent electricity supply to B2C customers in the event of exceptional market circumstances;
- On 30 November 2022, the Management Board adopted decisions on the approval of UAB Ignitis planning package for 2023; on the suspension of UAB Ignitis activities in the areas of solar power plants, heat pumps, charging stations for electric vehicles in the B2C segment, as well as in the area of lighting retrofitting and the provision of ESCO services to B2B customers;
- On 14 December 2022, the Management Board adopted decisions on the conditional approval of the public electricity prices of UAB Ignitis and the procedure for their application with effect from 1 January 2023; on the conditional approval of the natural gas tariffs of UAB Ignitis for B2C customers with effect from 1 January 2023; and on the approval of the structure of UAB Ignitis and the approval of the additional posts of UAB Ignitis and of the change in the maximum number of posts;
- On 21 December 2022, the Management Board adopted decisions on the draft amendment to the Articles of Association of UAB Ignitis – governance changes.

The table below provides an overview of meeting attendance.

Overview of attendance of meetings of the Management Board members

Name, surname	
Artūras Bortkevičius	64/66
Darius Šimkus	66/66
Haroldas Nausėda	66/66
Tadas Adomaitis	59/66
Andrius Kavaliauskas	63/66

** The numbers indicate how many meetings in 2022 the members have attended out of total meetings during the reporting period.*

Overview of attendance of meetings of the Management Board members

	Description	Experience	Education	Other current place of employment, position
	**Artūras Bortkevičius** Chairman since 09/07/2021 Term of office: from 01/06/2019 to 31/05/2023	Over past years, Artūras Bortkevičius held the position of the Head of Finance and Business Support at UAB Ignitis. Up until then he held the position of the Head of Finance for the Baltic States at the international pharmaceutical company Sandoz Pharmaceuticals. Before, he worked as a financial expert at the consulting company Frauditoriai, he held the postilion of the Head of Finance at the company Ceres S.P.A. of the Danish group Royal Unibrew. He was also gaining experience at the Kalnapilis - Taurus group and Sicor Biotech.	Bachelor's degree in applied accounting, Oxford Brookes University, the United Kingdom (2003 - 2005) 2002 – 2006 Certified Public Accountants Association 1995 – 2000 Bachelor's degree in business administration LCC international University, Lithuania	Main employer - UAB Ignitis (company code 303383884, address: Laisvės pr. 10, LT-04215 Vilnius) CEO, Chairman of the Management Board Other managerial positions held: Ignitis Latvija SIA (company code 40103642991, address: Cēsu iela 31, LV-1012, Riga, Latvia), Supervisory Board member. Ignitis Polska Sp. z o.o. (Company code 0000681577, address: Puławska 2, Building B, Warsaw, 02-566, Poland) Supervisory Board member.
	**Darius Šimkus** Member Term of office: from 30/11/2021 to 31/05/2023	Darius Šimkus first began his activities in energy sector in 2018 when he joined the team of Finance and Risk Management of the company Energijos tiekimas as Head of Risk Management; and since 2019 he has become Head of Risk Management and Compliance after the company was merged to Lietuvos energijos tiekimas. Before that, he was working in the field of audit for the company Deloitte and gained experience in the sector of finance at the commercial bank Swedbank.	2012 – 2014 Master's degree in financial mathematics, Uppsala University, Sweden. 2008 – 2012 Bachelor's degree in statistics, Vilnius University, Lithuania. 2010 – 2011 Mathematical Statistics (Erasmus programme), Lund University, Sweden.	Main employer - UAB Ignitis (company code 303383884, address: Laisvės pr. 10, LT-04215 Vilnius) Head of Finance and Business Support, Management Board member. Other managerial positions held: Ignitis Latvija SIA (company code 40103642991,address: Cēsu iela 31, LV–1012, Riga, Latvia) Supervisory Board member.
	**Haroldas Nausėda** Member Term of office: from 01/06/2019 to 31/05/2023.	In 2008, Haroldas Nausėda started working for Lietuvos dujos as a manager at the Strategic Development Department, later he became the Company's call centre manager, and subsequent to that, he became the Head of the gas exchange GET Baltic. Since 2014 Haroldas Nausėda has held the position of the Head of Commerce at Lietuvos dujų tiekimas, and after the company became Lietuvos energijos tiekimas – he has held the position of the Head of B2B Customers and Development.	2011 – 2013 Business Management Courses for managers, ISM University of Management and Economics , Lithuania 2007 – 2009 Master's degree in business management and administration, Vilnius University, Lithuania 2003 – 2007 Bachelor's degree in informatics, Vilnius University, Lithuania	Main employer - UAB Ignitis (company code 303383884, address: Laisvės pr. 10, LT-04215 Vilnius) Head of B2B Customers and Development Department, Management Board member Other managerial positions held: Ignitis Eesti OÜ (company code 12433862, address: Narva mnt. 5, 10117 Tallinn, Estonia) Management Board member. Ignitis Suomi Oy (company code 3202810-4, address: Firdonkatu 2, Workery West, 6th floor, 00520 Helsinki, Finland) Management Board member AB LTG Infra (company code 305202934, address: Geležinkelio g. 2, LT-02100 Vilnius) Management Board member

	Description	Experience	Education	Other current place of employment, position
	**Tadas Adomaitis** Member Term of office: from 01/06/2019 to 31/05/2023	Tadas Adomaitis started his career in energy sector in 2007. In 2012, he started working for Klaipėdos Nafta where he contributed to development of the LNG project, and since 2013 he has become the Head of Commerce of the designated supplier LITGAS. Subsequently, he has held the position of the Head of Customer Portfolio Management for more than two years, in 2018 he became the Head of LITGAS, and, after the company was merged to Lietuvos energijos tiekimas – he became the Head of Supply.	2010 – 2012 Master's degree in regional politics, Institute of International Relations and Political Sciences, Vilnius University, Lithuania 2004 – 2007 Bachelor's degree in economics and business administration, Stockholm School of Economics, Latvia	Main employer - UAB Ignitis (company code 303383884, address: Laisvės pr. 10, LT-04215 Vilnius) Head of Wholesale Trading, Management Board member. Other managerial positions held: Ignitis Polska Sp. z o.o. (company code 0000681577, address: Puławska 2, Building B, Warsaw, 02-566, Poland) Supervisory Board member.
	**Andrius Kavaliauskas** Member Term of office: from 01/06/2019 to 31/05/2021	Andrius Kavaliauskas joined the group of Lietuvos energija in 2018 and became Head for B2C and Service Development at Lietuvos energijos tiekimas. Before that, he worked for Franmax and has gained large-scale experience in the field of telecommunications (he has worked for companies TEO, Omnitel, Telia Lietuva) and finance sector - he has worked for the investment management and private banking group Finasta for almost 7 years.	2016 – 2018 Baltic Management Institute, Lithuania 2013-2014 IT/IP business development programme, KTH Royal Institute of Technology, Sweden Master's degree in international business finance, Vilnius University, Lithuania (2008-2010) 2004 – 2008 Bachelor's degree in economics, Vilnius University, Lithuania	Main employer - UAB Ignitis (company code 303383884, address: Laisvės pr. 10, LT-04215 Vilnius) Head of B2C, Management Board member. Other managerial positions held: Ignitis Latvija SIA (company code 40103642991, address: Cēsu iela 31, LV–1012, Riga, Latvia) Supervisory Board member. UAB Elektroninių mokėjimų agentūra (company code 136031358, address: Laisvės pr. 10, LT-04215, Vilnius) Chairman of the Management Board.

Chief Executive Officer

The Chief Executive Officer is a single-person governing body of the parent company. The Chief Executive Officer organises, directs, acts on behalf of the company and concludes transactions unilaterally, except for cases provided for in legislation and the Articles of Association. The competence of the Chief Executive Officer, election and recalling procedures are established by laws, other legal acts and the Articles of Association of the parent company. The Chief Executive Officer is appointed by the decision of the Supervisory Board. Information about the Chief Executive Officer is provided below:

	Description	Experience	Education	Other current place of employment, position
	**Artūras Bortkevičius** Chief Executive Officer Term of office: from 09/07/2021 to 08/07/2026	Over past years, Artūras Bortkevičius held the position of the Head of Finance and Business Support at UAB Ignitis. Up until then he held the position of the Head of Finance for the Baltic States at the international pharmaceutical company Sandoz Pharmaceuticals. He also worked as a financial expert at the consulting company Frauditoriai, he held the postilion of the Head of Finance at the company Ceres S.P.A. of the Danish group Royal Unibrew. He was also gaining experience at the Kalnapilis - Taurus group and Sicor Biotech.	Bachelor's degree in applied accounting, Oxford Brooks University, the United Kingdom (2003-2005) 2002 – 2006 Certified Public Accountants Association 1995 – 2000 Bachelor's degree in business administration LCC International University, Lithuania	Main employer - UAB Ignitis (company code 303383884, address: Laisvės pr. 10, LT-04215 Vilnius) Chief Executive Officer, Chairman of the Management Board Other managerial positions held: Ignitis Latvija SIA (company code 40103642991, address: Cēsu iela 31, LV-1012, Riga, Latvia) Supervisory Board member. Ignitis Polska Sp. z o.o. (Company code0000681577, address: Puławska 2, Building B, Warsaw, 02-566, Poland) Supervisory Board member.

4.4 People and Remuneration

Overview

The overall objective of the Remuneration Policy of Ignitis Group (including Ignitis) is to attract and retain competent, fast-learning, technologically advanced, globally minded, and creative employees. It includes remuneration elements that support the Group's strategy and sustainability. The Group is rapidly moving towards sustainability, including the management of human resources. Hence, the ongoing transition requires new skills and competences as well as continuous development of the culture. In 2022, the Remuneration Policy was further developed in order to maintain the principles of transparency and clarity

Key changes in 2022

In 2022, in the Group a number of additional initiatives were taken related to the economic and work/social environment changes:

- started using semi-flex benefits system when employees can choose which additional benefit they would like to use for the upcoming year (starting from 1 July 2022). Employees could choose from additional health insurance, pension funds, spa treatment, training sessions, etc.;
- helping employees with the lowest salaries cope with the increased expenses due to the challenging economic situation and provided support for employees whose salaries are lower than the country's average monthly salary (EUR 1,770 gross) with a monthly compensation of EUR 100 from December 2022 to April 2023;
- vaccination day, after Covid-19 vaccine, the Group provided employees with 1 free day to recover. From 2023, this day will be changed to 'Wellness Day' to encourage employees to take care of themselves and keep healthy work-life balance;
- other, such as all Group employees were insured with accidental injury insurance (valid 24/7), introduced a benefit where employees can work from anywhere in the EU for 30 days during the calendar year, etc.

Employees, their diversity and representation

As at 31 December 2022, the parent company had 320 employees (31 December 2021: 304 employees). Ignitis Latvija SIA had 18 employees (31 December 2021: 13 employees), Ignitis Polska Sp. Z.o.o. had 16 employees (31 December 2021: 16 employees), Ignitis Eesti OU – 0 employees (31 December 2021: 0 employees), and Ignitis Suomi Oy had 3 employees (31 December 2021: 2 employees).

Both in Ignitis and in the entire Ignitis Group, job opportunities do not depend on an employee's gender, race, religion, sexual orientation or identity, age, disability, or other characteristics not directly related to the job. The Company ensures diversity and equal opportunities for employees and does not tolerate direct or indirect discrimination in all their areas of activity. As at 31 December 2022 at the parent company, men accounted for 31% of all employees. Women comprised 69%. Male specialists accounted for 29%, and female – for 71%. Distribution of mid-level executives: men accounted for 35%, and women – for 65%.

Ignitis provides job opportunities to people of various ages. As at 31 December 2022, most employees of the parent company belonged to the age group of 25-36 years (44%), and the lowest number of employees belonged to the age group of 17-24 years (5%). More than 80% of employees had gained higher education.

Ignitis promotes and maintains social dialogue with representatives of employees. Employees are represented by the Labour Council that consists of 5 members.

Remuneration Policy

Remuneration structure of the Group is based on two key documents: Remuneration Policy and Remuneration Guidelines. The Remuneration Policy defines the key principles and essential provisions on remuneration management and structure whereas Remuneration Guidelines, which is an internal document, is a supporting document detailing the provisions of Remuneration Policy (e.g., setting and evaluation of objectives, determination and payment of short-term incentives). Both documents are integrated and apply to all companies of the Group.

The key objective of the Remuneration Policy is to support the Group's pathway towards achievement of targets through 5 key principles detailed below.

Key principles of Remuneration Policy

Internal fairness	We ensure that similar or same-value-creating work is compensated equally throughout the organisation.
External competitiveness	Employees are paid a competitive salary in relation to the labour market of the country in which they work.
Clarity	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	Following the principle of transparency, employees are informed about objective remuneration criteria.
Equal opportunities and non-discrimination	Decisions on remuneration must be made in accordance with the provisions set out in the Remuneration Policy and the Policy of Equal Opportunities and Diversity in force in the Group.

The Remuneration Policy defines the remuneration structure, fixed base salary (FBS) review and determination, payment of short-term incentives (STI), remuneration of a member of the collegial body, guidelines, and principals, etc.

Overall, the Remuneration Policy is designed to attract, retain, and motivate employees to ensure the achievement of the Group's targets. Thus, the goal is to bring remuneration closer to the median of the market where the Group companies operate. Depending on the competitive environment in a certain country or the strategic objectives, a different remuneration ratio (higher or lower) than the median remuneration market may be set. In order to ensure the principle of external competitiveness, the FBS salary ranges may be determined and reviewed annually, considering the data of an independent national salary survey and the remuneration market trends.

Salary ranges are determined for each job level based on the median of the salary market (except for the top level managers, which salary ranges are below the median of the market salary due to historical gap between the ranges and market salary which is being decreased on a yearly basis).

Further information on the Remuneration Policy is available on the website of Ignitis Group.

Remuneration of the parent company's employees

The parent company's salary fund in 2022 amounted to EUR 11.17 million compared to EUR 9.28 million in 2021. Average monthly salary (FBS and STI) for the period of 2021–2022 is provided in the following table.

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

Position category	2022		2021	
	Number of employees	Average salary	Number of employees	Average salary
Chief Executive Officer	1	9,925	1	9,448
Top level executives	4	8,574	4	8,621
Mid-level executives	37	5,171	36	4,818
Experts / Specialists	278	2,329	263	2,165
Total	**320**	**2,760**	**304**	**2,588**

Remuneration of the Ignitis employees

Ignitis salary fund in 2022 amounted to EUR 13,01 million compared to EUR 10,68 million in 2021. Average monthly salary (FBS and STI) for the period of 2021–2022 is provided in the following table.

Average monthly remuneration of Ignitis employees, EUR (before taxes)

Position category	2022 m.*		2021 m.	
	Number of employees	Average salary	Number of employees	Average salary
Chief Executive Officer	4	8 250	4	7 655
Top level executives	4	8 581	5	8 704
Mid-level executives	42	5 163	41	4 980
Experts / Specialists	307	2 370	285	2 302
Total	**357**	**2 839**	**335**	**2 856**

Remuneration of the parent company's Supervisory Board

Remuneration principles for members of collegial bodies are established under the Guidelines for Corporate Governance of State-Owned Energy Group. Following the recommendations of the Governance Coordination Centre and best market practices, the principle of remuneration for members of collegial bodies and remuneration levels were adjusted in 2022. These changes will improve both the transparency and clarity of the remuneration policy. Ignitis will gradually adopt these changes with the start of the new term of office.

According to the Guidelines for Corporate Governance of State-Owned Energy Group, the independent member of the Supervisory Board is remunerated for his/her activity in the Supervisory Board. The remuneration level is set by a separate decision of the General Meeting of Shareholders. The amount of remuneration for the activity in the Supervisory Board has been limited to a maximum monthly sum which cannot exceed 1/4 of the monthly remuneration of the CEO of the parent company (gross basic remuneration). The maximum monthly remuneration of the Chairman of the Supervisory Board for his/her activity in the Supervisory Board or its committees cannot exceed 1/3 of the monthly remuneration of the CEO of the parent company (gross basic remuneration). The remuneration for serving on a collegial body is fixed and does not depend on the Company's performance.

Only independent members receive remuneration for activities in the Supervisory Board. During 2021-2022, the Company's Supervisory Board had one independent member.

Annual remuneration of an independent member of the Supervisory Board, EUR (gross)

Name, surname (position)	2022	2021	*Δ*	*Δ,%*
Paulius Dambrauskas (independent member)	7,080	3,810	(3,270)	(46%)

Remuneration of the Company's CEO and the Management Board

The remuneration structure for members of the Management Board corresponds to the remuneration structure for other Group's employees (except for a Company's car). The remuneration comprises FBS, STI components which are described in detail in the table below.

Remuneration structure for the CEO and the Management Board

Component	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 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 Company's Management Board additionally includes the Company's car.

Short-term incentives

Annual objectives of the CEO of the parent company are based on the strategic plan and are aligned with the annual objectives of the parent company. The criteria applicable to the STI of the CEO of the parent company for 2022 and objective achievements are available in the following table.

The parent company CEO's STI objectives and achievement in 2022

Performance criteria	Weight, %	Targets	Achieved performance, %
Financial targets	30	Adjusted EBITDA 2021+2022* (21%)	100
		Net working capital (9%)	
Strategic projects and key milestones + Quality of services	50	Timely and planned implementation of strategic initiatives (2%)	97
		Development of the electricity supply market (15%)	
		Customer NPS** improved as planned 10%)	
Sustainability targets	20	Solar power projects expanded as planned (8%)	67
		Expansion of the network of charging stations for electric vehicles as planned (8%)	
		UAB Ignitis eNPS (4%)	

*UAB Ignitis and its companies (Ignitis Latvija SIA, Ignitis Eesti OÜ, Ignitis Suomi Oy, Ignitis Polska sp. z o.o.)
**NPS - Net Promoter Score.

The parent company CEO's STI objectives for 2023

Performance criteria	Weight, %	Targets
Financial targets	30	Adjusted EBITDA (10%)
		Net working capital (20%)
Strategic projects and key milestones + Quality of services Sustainability targets	65	Establishment of optimal power supply approach (20%)
		Active management of the natural gas supply portfolio (20%)
		Expansion of the network of charging stations for electric vehicles (15%)
		Customer Net Promoter Score (B2C) (5%)
		Customer Net Promoter Score (B2B) (5%)
Sustainability targets	5	Ensuring inclusive selection for top management[1] positions[2] (5%)

[1] Top management positions include Supervisory and Management Board members, the CEO and the 1st level of management below them.
[2] Ensuring gender balance in top management recruitment process: at least 33% of the underrepresented gender in shortlist of top management position.

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

Name, surname	FBS	STI	PBM	Total
Artūras Bortkevičius	103,410	15,301	21,780	140,491

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

Name, surname	FBS	STI	PBM	Total
Artūras Bortkevičius	97,819	15,548	18,557	131,924

Remuneration of members of the Company's Management Board, EUR (gross)

Name, surname (position)	2022	2021
Artūras Bortkevičius (Chairman)	21,780[1]	18,557
Tadas Adomaitis	15,600	15,600
Andrius Kavaliauskas	15,600	15,600
Haroldas Nausėda	15,600	15,600
Darius Šimkus	15,600	1,365

[1] The data is included and disclosed in the table on the compensation of the CEO of the company, in the column "PBM"

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

4.5 Risks and their management

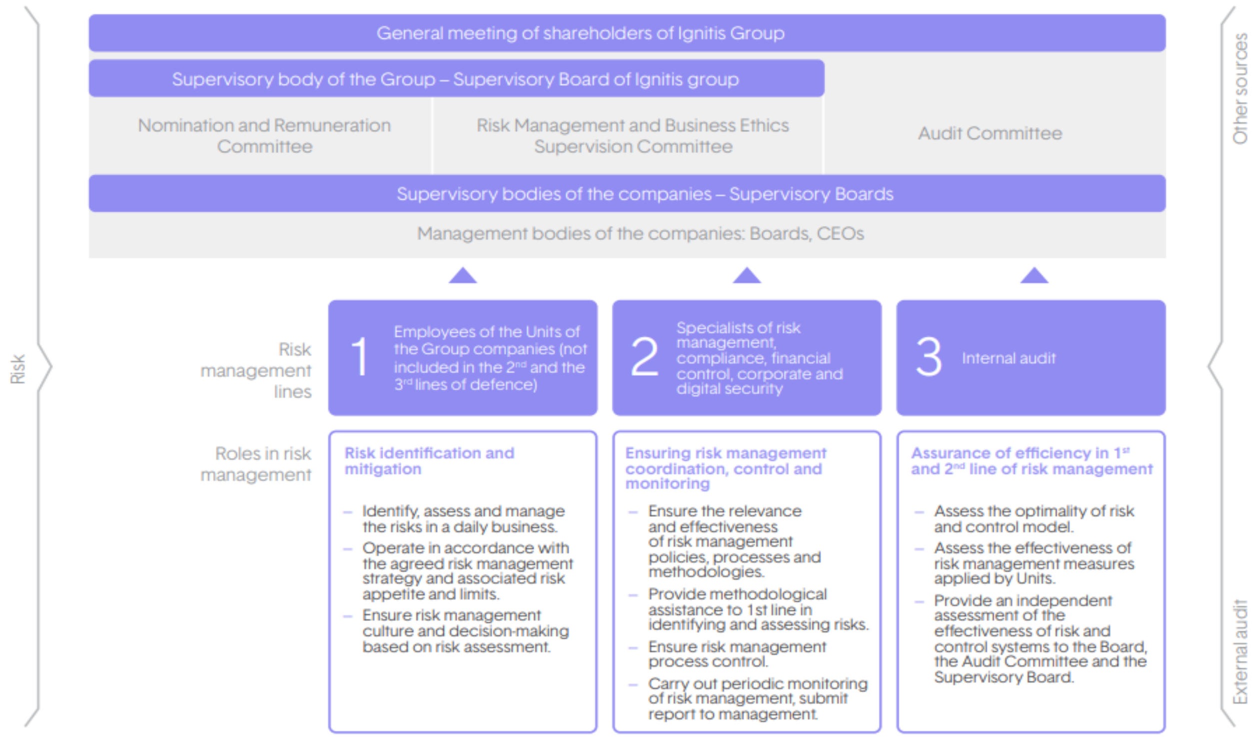
Risk management framework

In connection with the business activities, Ignitis is exposed to both internal and external risks that might affect its performance. To ensure their mitigation to an acceptable level, Ignitis Group applies uniform risk management principles, which are based on the best market practices, including the guidance of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and AS/NZS ISO 31000:2009. A clear segregation of risk management and control duties is controlled by applying the "Three-lines enterprise risk management framework" in Ignitis (see table below), where the duties are distributed between management and supervisory bodies, structural units, and functions.

In order to ensure effective risk management control, we monitor risks, risk management measures, key risk indicators and prepare internal reports to the management (both at the Ignitis level and at the Group level) on a quarterly basis.

More details on Ignitis risk management framework, including key risks of Parent Company for 2023, are presented below. Additionally, this year ESG related risks are highlighted, considering their increasing importance, and the related targets separately.

Three-lines risk management framework



Key risk management objectives:

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

Risk management process and key principles

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

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

Identification stage. At the beginning of each annual planning process, the Group's enterprise risk management team issues risk management planning guidelines, which contain the most relevant information on various sources of risks and their potential impact. During the last quarter of the year, when Ignitis reviews its annual and strategic goals, the risk management process is also employed when making changes to annual and strategic goals by assessing whether there are additional risks related to these changes and identifying new or adopting existing risks as needed. After each quarter of the year, existing risks are being reviewed and new risks (if any) are identified. Ignitis constantly assesses a potential impact of different sources of risks such as climate change, regulatory changes, geopolitical and economic situation, raw materials/services/labour market trends, cultural and social issues that affect the achievement of Ignitis goals.

Risks can materialise and are recognised:

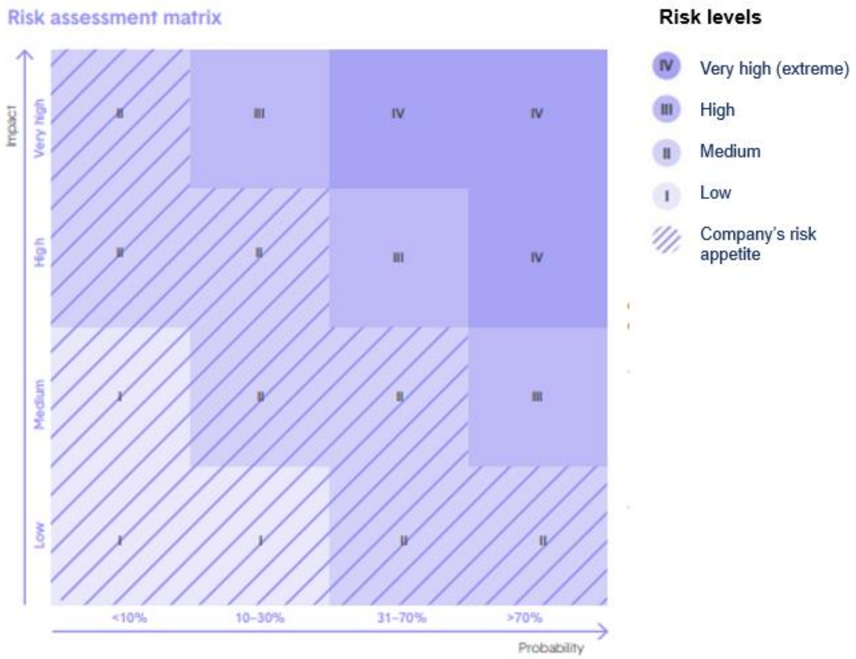
- at the Company level – risks arising in the main activities;
- at the function level – risks arising in internal services;
- at the Group level – risks arising in more than one Group company or function.

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

- short-term (0–1 years), which can influence the annual goals;
- medium-term (1–4 years), which relates to the implementation of strategic goals defined in the 4-year strategic plans;
- long-term (≥5), which can affect the implementation of the strategy.

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

Risk assessment matrix



During the evaluation of the potential impact of the risk, it is important to determine whether the risk exceeds the risk appetite. Risks exceeding the risk appetite – all types of risks, including high and very high level (except for external type risks – only very high), and risks with significant financial impact on the Company (>2% of the adjusted EBITDA) – must be managed. See risk financial materiality assessment table below.

Risk financial materiality assessment

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

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

The risks Ignitis faces while running its businesses are categorized into 4 different categories described below.

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

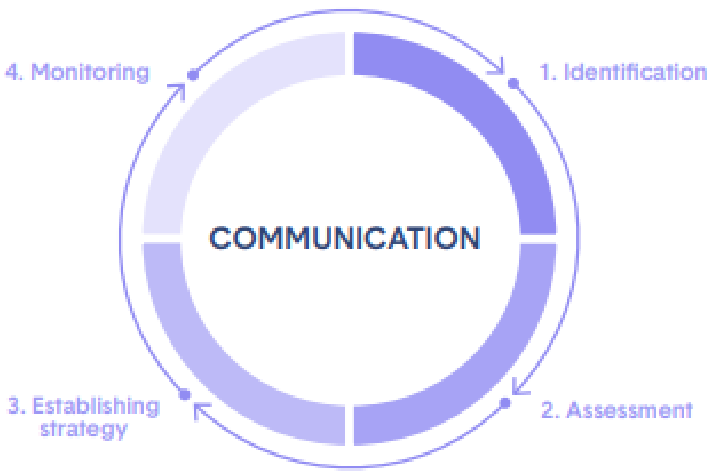
If a risk meets specific criteria, it could also be assigned to ESG risks type (for further details, see section "ESG risks").

Key Risk Indicators (KRI) may be set depending on the type of the risk and the period when it could potentially materialise. KRIs are quantitative or qualitative indicators that specify a risk's trend (decreasing, increasing or stable). At risk assessment stage, specific KRI thresholds are determined, which will allow to identify the risk trend during the monitoring stage.

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

Monitoring stage – quarterly monitoring of risks, risk management measures, key risk indicators, risk signals is carried out and presented to the management. During this stage, the level of risks is also re-assessed, new risks can be registered, and the risks that are no longer relevant are eliminated. The risks register, which is approved by Ignitis Management bodies, includes only those risks whose potential impact exceeds the risk appetite.

Risk management process



Key risks and their control

Risk management in 2022

In 2022, risk management of Parent Company was mainly influenced by the Russian invasion of Ukraine and the resulting emergency in energy markets.

In relation to the Russian invasion of Ukraine, in 2022 Parent Company was one of the first in Europe to suspend natural gas purchases from Gazprom and replace it with LNG cargoes. Due to the geopolitical uncertainty, it was necessary to secure and maintain a higher level of natural gas reserves to ensure an uninterrupted supply of natural gas to Ignitis customers. With the refusal of Russian natural gas, new challenges related to the infrastructure (limited infrastructure capacities for gas transportation) and more limited supply were closely monitored and addressed.

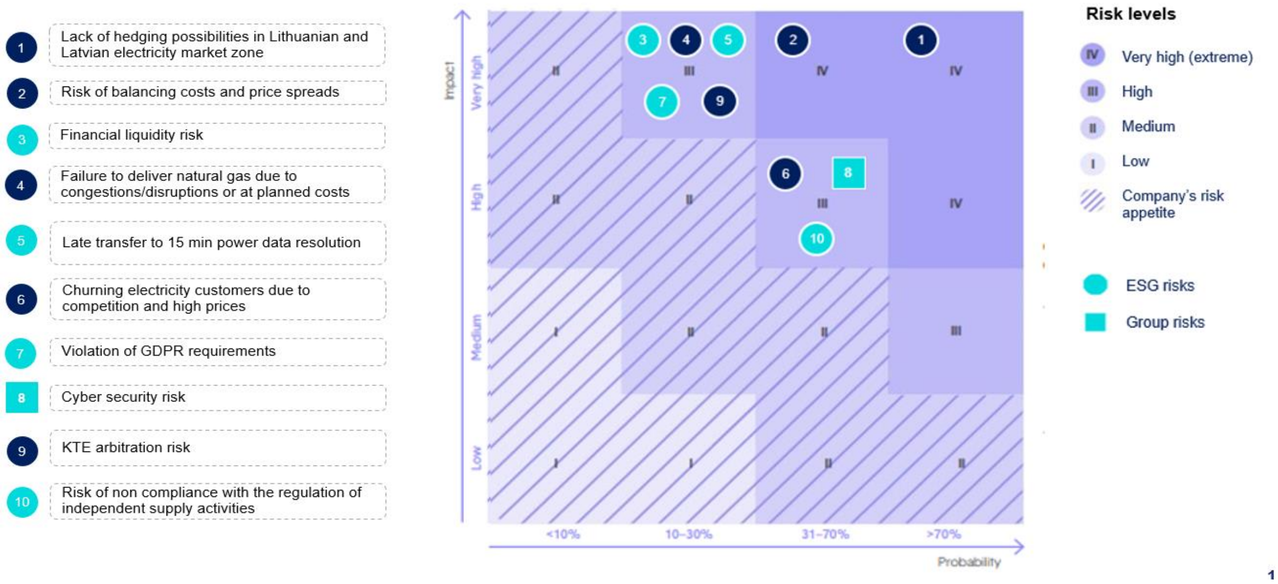
The several-fold increase in energy commodity prices, the significant increase in trade deposits on the wholesale market and the regulatory debts incurred by B2C customers due to the significantly lower tariffs for the public supply of electricity and natural gas to B2C customers compared to the prevailing market price have had an impact on the significant increase in Parent Company's net working capital needs. Significant changes in working capital risk management were avoided by the decision taken by the Parliament of the Republic of Lithuania in 2022 to cover from the state budget the regulatory differences arising until 1 July 2022 through tariffs during H2 2022. In December, the Government of the Republic of Lithuania also covered the regulatory differences arising in H2 2022.

Price volatility and low liquidity of hedged financial products on the Nasdaq Futures Exchange have kept the performance risk of derivatives stubbornly high, but have encouraged to search for alternative electricity price hedging transactions and to successfully enter into over-the-counter (OTC) transactions directly with electricity producers, suppliers or other market participants.

Despite rising electricity and natural gas prices, Parent company has not experienced any significant changes in its bad debt levels. However, there has been an increase in requests from B2B customers to defer payments for electricity and gas or to extend payment terms. Despite the fact that we have not seen a significant increase in our B2B customers declaring bankruptcy, and the level of companies declaring bankruptcy in the country is in line with the 2019-2021 targets, we continue to closely monitor the risk of increased trade receivables.

Risk management in 2023

After the annual risk reassessment, the key risks of Parent Company determined for the 2023 are listed in the heat map below. As we started to categorize all risks according to their relevance to ESG issues, we introduced a special marking of these risks in the heat map as well.



* Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

ESG risks

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

Information related to ESG risks' disclosure: transparency of sustainability related information is essential to maintain the trust of stakeholders. Therefore, Ignitis follows the recommendations of the TCFD for the disclosure of this type of information.

ESG risks management: climate change related risks and opportunities are addressed as an integral part of Ignitis daily business and are fully integrated into the applied risk management process, i.e., processes for identifying and assessing risks related to climate change follow the same procedures as for assessing other risks (see "Risk management process" section above). Ignitis pays special attention in order to reveal a potential impact of climate change and its related economic, transitional changes on the activities of Ignitis. This impact may arise from physical (extreme) weather phenomena and from the aspiration of states to switch to the Green Deal, which could cause additional requirements for energy sector: to comply with new regulations, implement new technological solutions, manage reputational risks, respond to fast growing market demand for green solutions, etc. Climate change can be a negative factor in assessing the likelihood of materialisation of various risks and/or assessing the potential impact of risks on finance, reputation, compliance, people's health and safety.

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

Ignitis assesses all the risks if they meet ESG risks' criteria. Based on these criteria, ESG type is assigned to the risk. E type is assigned to risks including climate-related physical, transitional, and other environmental risks, S to social and G to governance related risks. Below we disclose the key ESG risks of Parent Company according to their type (additional information on the typology of these and other key risks of the Group, risk management directions and other relevant information are available in section "Management plan of the key risks").

ESG risks meeting the corporate governance criteria:

3 Financial liquidity risk;

5 Risk of delays in delivering business changes;

7 GDPR* compliance risk;

8 Risk of cyber-attack;

10 Risk of failure to ensure compliance with the regulatory environment.

Risk management plan for 2023

1 Risk of effectiveness of derivative financial instruments

Main source of risk
- Lack of derivative hedging, transaction parties and producers;
- High fluctuations of energy prices due to intense geopolitical situation.

Key risk indicators
- Share of hedged portfolio;
- Value-at-risk (VaR) and usage levels of risk tolerance limits.

Risk category | Financial

ESG type | Not related

Period | Long-term

Impact on strategic direction
Finance

Potential impact
Financial

Risk level
Very high

Main risk management directions
- Portfolio risk management for fixed electricity prices;
- Search for hedging products, new transaction parties in order to increase the part of the hedged portfolio;
- Assessment of bilateral transaction counterparties and determination of limits.

2 Risk of balancing cost and price differences

Main source of risk
- The drop in demand is hard to predict;
- Insufficient data quality;
- Exploitation of surplus gas potentially at below purchase price;
- 2-month degasification period - price differences may lead to significant losses.

Key risk indicators
- Monthly price difference

Risk category | Operational

ESG type | Not related

Period | 1 year

Impact on strategic direction
Finance

Potential impact
Financial

Risk level
Very high

Main risk management directions
- Additional bilateral agreements and intensive trading on organised markets;
- Monitoring and analysis of data provided by the market operator.

3 Financial liquidity risk

Main source of risk
- Increased energy prices, disparity between electricity and gas market prices and fixed prices for customers;
- The obligation to maintain a higher level of natural gas reserves;
- Significant increase in the level of trade deposits in the wholesale market.

Key risk indicators
- Number of delayed payments.

Risk category | Financial

ESG type | Governance

Period | 2 years

Impact on strategic direction
Finance

Potential impact
Financial
Reputational

Risk level
High

Main risk management directions
- Working capital optimisation;
- Daily cash flow monitoring;
- Monitoring of internal and external financing.

4 Risk of disruptions in supply of natural gas

Main source of risk
- Failures related to pipelines, interconnections, storages, LNGT;
- Disruptions in LNG supply chains due to weather or other conditions.

Key risk indicators
- Additional costs incurred as a result of the introduction of an alternative supply mechanism.

Risk category | External

ESG type | Not related

Period | Long-term

Impact on strategic direction
Customers & Solutions

Potential impact
Financial, Reputational

Risk level
High

Main risk management directions
- Diversification of LNG and natural gas supply.

5 Risk of delays in delivering business changes

Main source of risk
- Main source of risk is the complexity and timing of the procurement process

Key risk indicators
- Start date of the procurement;
- Procurement claims.

Risk category | Operational

ESG type | Governance

Period | 2 years

Impact on strategic direction Customers & Solutions

Potential impact
Financial, Reputational, Compliance

Risk level
High

Main risk management directions
- Early market analysis, drawing up a procurement plan.

6 Risk of competition and high prices

Main source of risk
- High energy prices and a competitive energy supply market.

Key risk indicators
- Periodic reporting of key risk signals to the management.

Risk category | Strategic

ESG type | Not related

Period | Long-term

Impact on strategic direction
Customers & Solutions

Potential impact
Financial, Reputational, Compliance

Risk level
High

Main risk management directions
- Defining customer lifecycle management processes.

7 GDPR compliance risk

Main source of risk
- Large volumes of personal data.

KRI
- BDAR violation files.

Risk category | Operational

ESG type | Governance

Period | Long-term

Impact on strategic direction
Customers & Solutions

Potential impact
Financial, Reputational, Compliance

Risk level
High

Main risk management directions
- Centralised coordination of compliance issues within the Group and local oversight of GDPR matters within the Company;
- Improvement of processes and applicable control mechanisms;
- Mandatory training programmes of employees;
- Adaptation and improvement of IT systems in order to meet personal data protection requirements;
- Analysis of the market and external regulation.

8 Risk of cyber-attack

Main source of risk
- Cyber-attacks;
- Cases of social engineering, data theft;
- Late or improperly removed publicly known vulnerabilities.

Key risk indicators
- Critical vulnerabilities;
- Duration of solution.

Risk category | Operational

ESG type | Governance

Period | Long-term

Impact on strategic direction
Organisation

Potential impact
Financial
Reputational
Compliance

Risk level
High

Main risk management directions
- Verification of publicly known vulnerabilities, critical system restriction/isolation in the internal network;
- Preparation of periodic IT vulnerabilities reports and their submission to persons responsible for solving them;
- Internal audit;
- Cooperation with external institutions.

9 Arbitration risk for Kauno termofikacinė elektrinė

Main source of risk
- Possibility of unfavorable outcome of the legal process or the inability to recover legally binding debts.

Key risk indicators
- Periodic reporting of key risk signals to the management.

Risk category | Financial

ESG type | Not related

Period | Long-term

Impact on strategic direction
Finance

Potential impact
Financial, Reputational

Risk level
High

Main risk management directions
- Active involvement in the arbitration process.

10 Risk of failure to ensure compliance with the regulatory environment

Main source of risk
- The constantly evolving legal framework governing electricity supply.

Key risk indicators
- Number of financial and non-financial sanctions.

Risk category | Operational

ESG type | Governance

Period | Long-term

Impact on strategic direction
Customers & Solutions

Potential impact
Reputational, Compliance

Risk level
High

Main risk management directions
- Monitoring of legislative processes and providing advice;
- Timely preparation for regulatory changes;
- Implementation and development of the mandatory compliance training programme.

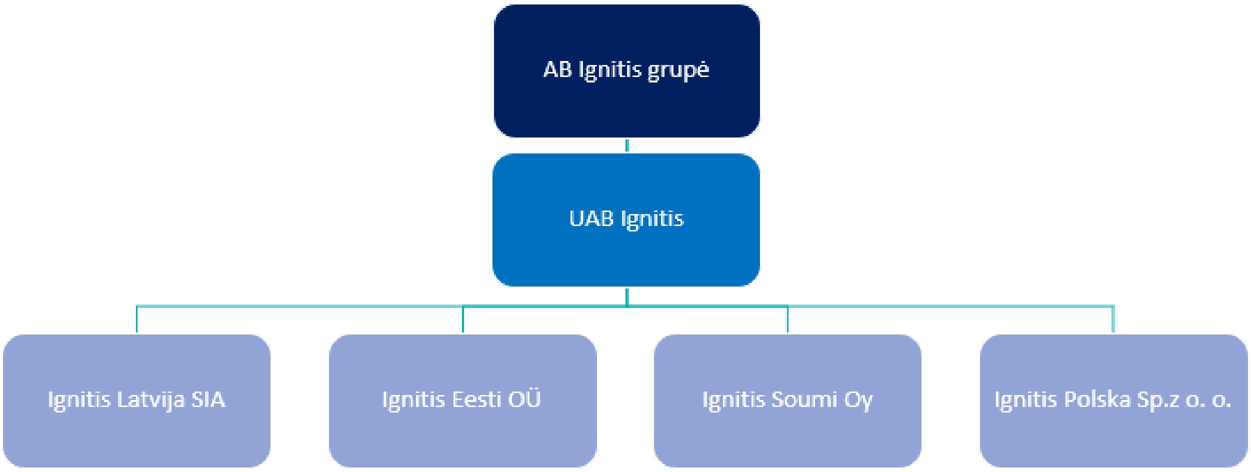
4.6 Information on Ignitis Group

Structure

Given the continuously changing business environment, Ignitis seeks to diversify its activities both geographically and in the area of service development in order to get closer to customers and offer them better solutions. As at the issuing date of this report, Ignitis directly controls 4 companies presented in the picture of the structure below.

The main activity of the companies – supply of gas and electricity to B2B segments in the markets of Poland, Estonia, Latvia and Finland. The company in Latvia also develops the network of electric vehicle charging stations and offers RE solutions. The company in Poland, next to electricity supply activity, which began in 2021, also trades in derivative financial instruments of gas and electricity by exploiting market price fluctuations.

Structure



Ignitis Eesti OÜ was established in 2013 to exploit emerging opportunities in the retail electricity and natural gas supply markets.

Ignitis Suomi Oy was established in 2021 to move closer to local customers in order to better understand and respond to their needs, to gain trust and knowledge of the country's legal framework. Through the new Estonian-Finnish gas interconnector Balticconector, natural gas is supplied to Finland's largest industrial companies and its largest natural gas distribution operator. In 2022, the company's supply volumes to Finland amounted to 1.4 TWh.

In addition to supplying electricity and natural gas to the Latvian retail market, Ignitis Latvia SIA also developed solar energy projects and a network of charging stations for electric vehicles in 2022. In 2022, the company had a market share of around 15% in the supply of electricity to B2B customers (around 1.1 TWh supplied), and 6% in the supply of natural gas (around 0.4 TWh supplied).

Ignitis Polska sp. z o. o. was established in 2017 to achieve synergies with other companies of AB Ignitis grupė operating on the Polish market. The aim is also to take advantage of the supply of highly skilled employees with specific competences available on this market. The company trades on the PolPx Polish exchange, Nasdaq Commodities. Since 2021, the company has been supplying electricity and natural gas on the retail market. In 2022, Ignitis Polska sp. z o. o. had a market share of around 0.22% in the supply of electricity to B2B customers and around 0.06% in the supply of natural gas.

The performance of Ignitis companies as at the end of the reporting period

Ignitis Latvija Supply of electricity and gas	**Company code:** 40103642991 **Registered address:** Cēsu st. 31 k-2, LV-1012, Riga **Effective ownership interest:** 100% **Share capital:** EUR 11,500,000 **Website:** www.ignitis.lv	**Performance results (EUR million):** Revenue: 282.6 Expenses: 273.4 Adjusted EBITDA: 7.0 Net profit: 6.3 Investments: 1.9 Assets: 73.0 Liabilities: 40.5 **Number of employees: 18**
Ignitis Eesti Supply of electricity	**Company code:** 12433862 **Registered address:** Narva mnt 5, 10117 Tallinn **Effective ownership interest:** 100% **Share capital:** EUR 35,000	**Performance results (EUR million):** Revenue: 0.0 Expenses: 0.0 Adjusted EBITDA: 0.0 Net profit: 0.0 Investments: 0 Assets: 0.0 Liabilities: 0.5 **Number of employees: 0**
Ignitis Polska Supply and sale of electricity and gas	**Company code: 0000681577** **Registered address:** Puławska 2-B, PL-02-566, Warsaw **Effective ownership interest:** 100% **Share capital:** PLN 2,446,000 **Website:** www.ignitis.pl	**Performance results (EUR million):** Revenue: 103.7 Expenses: 99.9 Adjusted EBITDA: 1.5 Net profit: 0.5 Investments: 0 Assets: 47.5 Liabilities: 44.6 **Number of employees: 16**
Ignitis Suomi Supply and sale of gas	**Company code: 3202810-4** **Registered address:** Firdonkatu 2 T 63 00520 Helsinki **Effective ownership interest:** 100% **Share capital:** EUR 200,000 **Website:** www.ignitis.fi	**Performance results (EUR million):** Revenue: 121 Expenses: 120 Adjusted EBITDA: (0.2) Net profit: (0.2) Investments: 0 Assets: 108 Liabilities: 108 **Number of employees: 3**

5. Sustainability (Corporate Social Responsibility) Report

Overview of sustainability

The sustainability performance and results of the Group and Ignitis are summarised in the consolidated Annual Report 2022 of the Group, of which the Sustainability Report of the Group as a whole is an integrated part. This report is available on www.ignitisgrupe.lt under “For Investors” and “Sustainability”. We note that the terms “coherence” and “sustainability” are used interchangeably in the Group.

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

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

Sustainability in the Group and the company Ignitis

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

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

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 Ignitis are publicly available at (link). We publish key data on ESG indicators and key achievements in our interim and semi-annual reports, and provide detailed information in our annual reports.

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

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

MAIN TOPICS	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 Ignitis are available on the Group's website www.ignitisgrupe.lt under "Sustainability", and on the website of Ignitis.

Indicators

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

ESG key indicators monitored by Ignitis

Sustainable direction	Indicator	Country	Unit of measure	2021	2022
Reducing climate impacts	GHG emissions	LT, LV, EE, FI, PL	million t CO2 equiv.	3.03	3.76
	Scope 1[1]			-	-
	Scope 2[2]			-	-
	Scope 3			3.03	3.76
	Business travel emissions	LT	t CO2 equiv.	93	113
	Proportion of green energy sold	LT, LV, EE, FI, PL	%	34	32
	Electric vehicle charging stations installed	LT	number	Structure of authorised share capital by types of shares	99
	Energy savings delivered to customers, proportion of total energy delivered (education)	LT	%	1	2.19
	Proportion of distance driven by electric vehicles of employees working in a head office out of total distance driven by shared vehicles	LT	%	N/D	75
	Proportion of green energy consumed in the office	LT	%	N/D	50
	Energy savings in the office	LT	%	10	-1
	Water savings in the office	LT	%	-17	-14
Protection of natural resources	Sorting availability, proportion of all administrative premises	LT	%	N/D	100
	Proportion of green procurements within public procurements	LT	%	N/D	98
Future-fit employees	Fatal accidents (total)[3]	LT, LV, FI, PL	number	0	0
	Employees		number	0	0
	Contractors		number	0	0
	TRIR (indicator of overall occupational injuries of employees)[4]		times	0	0
	eNPS (employee NET Promoter Score)[5]	LT, LV, PL	%	65.5	71.1
	Proportion of women in engineering and IT positions	LT	%	N/D	28.57
	Proportion of women in management positions	LT PL EE LV FI	%	N/D N/D N/D N/D N/D	0 16.67 0 0 0
	Proportion of employees having participated in voluntary initiatives at least once	LT	%	N/D	8.1
Reliable organisation	Intolerance of corruption among employees	LT LV PL	%	N/D N/D N/D	90.91 100 100
	Proportion of employees who have taken and passed a knowledge test on the Code of Ethics and anti-corruption	LT	%	N/D	95.15

[1, 2] In case of this company, Scope 1 and Scope 2 emissions are very low and therefore not evaluated.
[3, 4] there are no employment relations in the company Ignitis Eesti; therefore, the indicators of fatal accidents and TRIR are not monitored.
[5] eNPS indicator is not monitored in the companies Ignitis Eesti and Ignitis Suomi.

Stakeholder relations and assessment of ESG priorities

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

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

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

- employees,
- B2B customers,
- B2C customers,
- state, municipal and their subordinate institutions.

This grouping was chosen to more accurately reflect the specificity of the expectations of each group. Other stakeholders relevant at the level of the Group as a whole were interviewed in an additional Group survey (a full survey report is available on the Group's website under "Sustainability pillar"). On the basis of the survey results, a materiality assessment was carried out.

The expectations of stakeholders expressed during this process were aligned with existing goals and objectives of Ignitis, which led to the identification of priority topics that are in line both with stakeholders' expectations and the established operational objectives of Ignitis. The outcome of the materiality assessment provides for the basis for further embedding sustainable development in the activities of the Company in a way that makes it possible to take into account the overall impact of Ignitis on its stakeholders and align the expectations expressed by the stakeholders with the strategic objectives.

Key facts on Ignitis materiality assessment:

- we interviewed 903 stakeholder representatives;
- we identified 13 topics of the ESG that are most relevant to Ignitis and its stakeholders;
- stakeholders shared their views on which ESG aspects are most relevant to the Company;
- during the internal strategy sessions, the management of Ignitis clarified the links between stakeholders' expectations and the operational strategy.

Materiality assessment matrix of Ignitis

ESG risks and their management

The key ESG risks and their management solutions are disclosed in more detail in section 4.7. "Risks and risk management report" in the Annual Report of the Group.

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

Environmental area

The main environmental impacts of Ignitis:

- climate impact, green energy and GHG emissions – supply of green energy to customers and reduction of greenhouse gases (CO_2, etc.) generated by activities;
- promoting consumer energy efficiency – encouraging consumers to consume energy efficiently and not to waste it;
- sustainable solutions and services for customers – promoting the development of producing consumers, development of electric vehicle charging stations, and other environmentally friendly and smart solutions for customers;
- more sustainable internal energy consumption – using green energy for internal consumption; reducing internal consumption;
- using secondary raw materials, reducing waste – recycling raw materials and reducing waste from operations.

Climate action

Climate change is one of the greatest human challenges of this century, and it requires action to be taken by everyone – by people, non-governmental organisations and countries. Although energy is the engine of the economy, its production and distribution accounts for a significant share of 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°C above pre-industrial levels. Energy is a key sector in the European Union's policy towards climate change neutrality by 2050.

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

With regard to the specific nature of the Company's activities, Scope 1 and Scope 2 emissions generated in the course of its activity are low; however, high volume of Scope 3 emissions of Ignitis results from sales of electricity and gas to final customers. These emissions are primarily planned to be reduced by working with consumers, promoting more efficient energy consumption, maintaining green energy sales and activity electrification phasing out natural gas.

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

Sustainable solutions and services to customers

Aiming to encourage customers to choose green energy and other solutions contributing to reduction of GHG emissions, we consult them on such issues as energy efficiency and reduction of GHG emissions, we offer services of energy efficiency, remote solar parks, wind farms and other services. We are constantly improving them to make them more attractive and convenient to consumers. As at the end of 2022, 7.5% of Ignitis independent electricity supply (B2C) customers in Lithuania chose to consume green energy (2021: 35.0%). 64.8% of Lithuanian B2B customers have chosen green energy supply (69.3% in 2021, 60.0% in 2020). We correlate the decreasing purchases of green energy with high energy price fluctuations in 2022 that forced both B2C and B2B customers to look first for the lowest price and only then to consider the origin of the energy. We hope that when prices stabilise and suppliers start offering various solutions, the share of residents and businesses choosing green energy will increase.

Based on the data of the year 2022, approximately 78% of Lithuanian consumers have chosen Ignitis as an independent electricity supplier.

Ignitis continues to help its customers to acquire carbon offset certificates to compensate GHG emissions from their natural gas consumption. Ignitis has become a certified biomethane supplier, and it supplied the alternative fuel to its first customer in November 2022. The Company transported the biomethane acquired from a manufacturer from the Netherlands through Germany's and Poland's pipelines to the final destination and ensured that biomethane meets the International Sustainability and Carbon Certification (ISCC) standards. This climate-neutral fuel was used in the customer's fuel pumps in the largest cities in Lithuania; therefore, the public transport fleets were able to completely replace traditional fuel with an environment-friendly alternative.

In 2022, we continued the practice of consulting B2B customers on GHG emissions. In response to the rising electricity prices, we have decided to encourage our customers to use energy more efficiently. In October 2022, Ignitis offered its B2B customers who had chosen a fixed price to reduce their November and December electricity consumption (compared to their 3-year consumption average). Electricity bill was reduced by a certain amount based on each megawatt hour saved. In

November, one of the customers reduced the consumption even by 57%, resulting in the customer’s electricity bill for that month being reduced to EUR 0.

Interest in solar parks (remote power plants) reached record highs in 2022. In the previous years, the combined sales in the eparkai.lt platform to B2C and B2B customers amounted to less than 10 MW. In 2022, a total of 42 MW of solar parks were reserved to customers (purchased by approximately 9,000 customers).

On 27 October 2022, a new Ignitis service was introduced to the market – remote wind farm rental for private customers. Ignitis was the first company in the world to offer such an option to consumers. Renting a wind power plant provides customers with an opportunity to reduce their electricity costs without additional investments and thus contribute to the green generation development and increase energy independence in Lithuania. The consumer can rent a part of a wind farm, the electricity generated thereby is then converted into a monetary value based on the price of electricity on the power market and is used to reduce that consumer’s electricity bill. We have estimated that this way, electricity costs for consumers could be reduced by up to 20%. The service has received a lot of public and media attention, and, by the end of the year, the capacity offered in stage I (1,000 kW) has been fully reserved. In the future, we will continue to look for new products and services on how B2C and B2B customers could take advantage of the benefits provided by wind farms through our updated eparkai.lt platform.

We continue to expand the network of electric vehicle charging stations. Currently, 131 public charging stations are available in total (including both those owned by Ignitis ON (99) and those installed in cooperation with third parties). They can charge 312 electric vehicles at the same time. The electricity supplied to the Ignitis ON network is produced from renewable energy sources. The expansion of the Ignitis ON network of charging stations is forthcoming next year.

In 2022, Ignitis developed an annual comparative analysis on electricity and gas consumption for 2021 and provided it to its B2B customers in e-mail newsletters.

In Q3 2022, we offered consultations on GHG emission assessment to business entities. Companies are invited to enter their data into the calculator integrated on the Ignitis website, then we prepare a report based on the entered data, help to identify the most polluting activities of the company and give advice on how to reduce GHG emissions. During the year, 21 GHG reports were prepared (including 19 for Ignitis customers), which present the company’s emissions from electricity and gas, vehicles, as well as air travel. During the consultations, we identify energy efficiency measures and renewable energy resources that would help reduce emissions as well as the amount of GHG emissions the company would prevent if the proposed measures were implemented.

In 2022, we implemented three ESCO projects – at AB Achema, Ukmergė district municipality and Visaginas Basketball School. We have estimated that these customers will save about 600 MWh of electricity per year.

In 2022, Ignitis initiated a project on energy efficiency and sustainability consulting services. Having chosen a project partner, the energy data metering equipment is planned to be installed in the partner’s facilities, and consumption data, deviations and other relevant information is planned to be connected to the data processing and analysis system. The system will provide an opportunity to observe energy consumption data in selected objects in real time as well as receive weekly performance reports, warnings about consumption deviations and the need to take corrective actions. The objective of this pilot project is to save at least 2% of electricity over a 6-month period.

Ignitis has developed analytical models for B2C customers that allow them to compare their electricity and gas consumption trends with a similar group of consumers. In 2023, the solution is to be implemented in billing and made available for all customers.

For more information on services offered to businesses and clients, please refer to section 5.4 “Climate Action” of the Sustainability Report integrated into the Group’s Annual Report 2022 (the report is available here).

Energy efficiency for society and customers

The savings rate of energy supplied to customers is related to the pentalateral agreement concluded in December 2020 by AB Ignitis grupė and its subsidiaries Ignitis, ESO and Ignitis gamyba with the Ministry of Energy of the Republic of Lithuania on education and consultation of energy consumers. Thereby, Igntis, ESO and Ignitis gamyba commit to educate and consult consumers on energy efficiency issues thus assisting consumers to reduce energy costs and improve energy efficiency. Education and consultation measures provided for in the agreements are expected to help reduce energy consumption at homes and in business activities thus encouraging to save at least 1% of the amount of energy supplied to its end consumers of energy in the Republic of Lithuania during the reporting calendar year. The share of savings of Ignitis reached 2.19% in 2022.

Internal energy consumption

Ignitis promotes energy efficiency, contributes to employee education and introduces measures to improve energy efficiency. Internal audit of energy consumption by Ignitis is carried out on a regular basis (every four years). The last audit was carried out in 2021, and implementation of recommendations provided in audit reports contribute to more efficient energy consumption and to achievement of the Group's targets for reducing GHG emissions. Ignitis does not own any buildings, and employees in Vilnius work at an A+ energy efficiency class building complex (except for customer service departments). All commercial vehicles of Ignitis are rented, also, Ignitis has contracts concluded with taxi service and car-sharing companies.

These and other energy efficiency initiatives of Ignitis and the Group as a whole are described in more detail in section 5.4. "Climate Action" of the Sustainability Report integrated into the Group's Annual Report 2022 (the report is available here).

Resource efficiency and waste management

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

In order to ensure continuous improvement of environmental protection effectiveness in the Group's activities, among the measures for implementing environmental protection principles, the Group's Environmental Policy includes encouraging the implementation of the environmental management system standard (ISO 14001) in companies and continuous improvement of the implemented system. Ignitis has the environmental protection management standard ISO 14001 implemented for the services provided to corporate customers (B2B). Assessment of the environmental management system used by Ignitis and its compliance with the requirements of the ISO 14001 standard was carried out in 2022. During an internal audit, it has been identified that the environmental management system of Ignitis is in compliance with the requirements of the ISO 14001 standard in terms of the key aspects, it is being implemented and monitored.

In order to contribute to the protection of the environment and the reduction of pollution in Lithuania, all waste generated by activities of Ignitis is sorted by separating secondary raw materials. Packaging waste generated as a result of the Company's activities are accounted for in the GPAIS (Unified Product Packaging and Waste Information System). Ignitis does not own any buildings, and municipal waste generated is treated by owners of the buildings by transferring it to licensed waste handlers. The amount of household waste generated during 2022 – 29.19 t.

For more information on resource and waste management efficiency initiatives of Ignitis and the Group as a whole, please refer to section 5.5. "Preserving Natural Resources" of the Sustainability Report integrated into the Group's Annual Report 2022 (the report is available here).

Staff and society (communities) area

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

- occupational health and safety – ensuring workplace safety and promoting the health of employees and contractors;
- employee welfare and cooperation with employees – fair remuneration, employee job satisfaction, ensuring freedom of association;
- competent employees now and in the future – professional and personal development of employees, building the competences needed for the energy sector;
- engagement in social activities – participating in civic initiatives and NGOs; volunteering.

Health and safety of employees and contractors

Key provisions and principles of occupational safety and health are defined in the Policy of Occupational Safety and Health, applicable to the Group as a whole and therefore applicable to Ignitis as well. Prevention of accidents and ensuring of safety and health are the Company's priorities. The occupational safety and health standard (ISO 45001) has been implemented for the activities of Ignitis that are related to provision of services to corporate (B2B) customers. Audit of the mentioned standard was performed in 2022, no significant discrepancies were found. The Company has the Occupational Health & Safety Committee.
Total recordable injury rate per million hours worked (TRIR) of Ignitis was equal to 0 in 2022.

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

Health and safety performance indicators of Ignitis employees (2022)

Work incidents and accidents (minor, serious or fatal)	There were no minor or serious accidents in 2022.
OHS violations by contractors' employees in the Company's facilities, their nature and accidents	According to information provided by the contractors, there were 0 accidents involving contractors' workers.

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

As one of the largest employers in Lithuania, the Group develops and strives to maintain an organisational culture that fosters a long-term employer-employee partnership based on the values of the Group and the Code of Ethics, mutual understanding and the opportunity to work together to create an energetically intelligent future. The implementation of the Group's strategic goals is inseparable from the Group's success in attracting and retaining qualified employees, involving them in various activities, increasing their motivation, creating conditions for career development and at the same time encouraging them to improve. It is aimed that employees uphold the values of the organisation: openness, growth, responsibility and partnership. The Group cares about employees and pays particular attention to occupational safety and health, social dialogue, equal opportunities and diversity. As at the end of 2022, Ignitis had 357 employees. The Company has the Labour Council.

Number of employees of Ignitis by country (2022

Country	Number of employees (Total)
Lithuania	320
Latvia	18
Estonia[1]	0
Poland	16
Finland	3

[1] There are no employment relations. The company is represented by an elected Management Board member.

Ignitis respects the rights of employees and opposes child labour and discrimination of any kind, both in the recruitment of new workers and among existing ones. The Company has the Labour Council and the Committee of Occupational Safety and Health. Ignitis Employee Net Promoter Score (eNPS) for 2022 increased by 5.6 pp compared to 2021, from 65.5% to 71.1%.

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, Ignitis enables its employees to grow and develop, and to expand their professional, general and managerial competences.

Ignitis cares for mental health of employees. At the beginning of the year, the Well-Being Mentors project has been started within the Group. In the course of the project, specially trained employees of the Group – 20 well-being mentors working across the organisation – volunteer to provide emotional support to colleagues. Well-being mentors create a culture of openness in the Group through their activities. This is shown by reports reaching them about emotional difficulties in certain teams or positions. We encountered this in the fall of 2022, when well-being mentors noticed the emotional fatigue of customer-facing colleagues as well as increased stress levels. In response to this, psychological resilience training was organised and conducted specifically for customer-facing colleagues. One of the audiences included colleagues at Ignitis customer service centres (about 150 people). The aim of the sessions was to find out the needs and challenges of those employees and respond to them, to share tools and techniques that help increase psychological resilience.

Detailed information on how the Group companies, including Ignitis, ensure the well-being and representation of employees, as well as information on the application of the Remuneration Policy, employee training and competence building initiatives, mental health improvement measures is provided in section 5.6. “Future-fit Employees and Communities” of the Sustainability Report, integrated into the Group’s Annual Report 2022 (the report is available here).

Human rights area

The main impacts of Ignitis in the area of human rights:

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

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

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

The Group regularly collects and publishes data on the diversity of its workforce: the distribution of employees by gender, age, education, occupation and country of employment. Diversity data is a way of getting to know the people of the Group and, taking into account the fact that we are different, of creating a supportive and inclusive work culture for all. At the end of 2022, 34.5% of Ignitis workforce were males and 65.5% were females.

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

Breakdown of actual employees per positions, 2022	Men	Women	Total
Trainees	0	0	0
Workers	0	0	0
Experts / Specialists	97	210	307
Mid-level executives	18	24	42
Top-level managers	4	0	4
Key executives	4	0	4

Governance and anti-corruption area

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

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

Ethical business, anti-corruption and transparency

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

Ensuring access to energy and customer service

According to the legal acts of the Republic of Lithuania, Ignitis continues to provide a public supply service to consumers included in the third stage of electricity market liberalisation, who consume the least energy and are likely to be the most vulnerable to energy price spikes. Legislation amendments adopted in October 2022 extended the electricity market liberalisation until 2026 (previously, the market liberalisation had to be completed by 1 January 2023). It is expected that by that time, the energy generation from renewable energy sources in Lithuania will be more developed, and the electricity market will be more stable. This change is important to nearly 500 thousand consumers who consume up to 1 thousand kWh of electricity per year and have not yet chosen an independent supplier. This is done in order to protect socially sensitive groups of the society. Consumers included in the third stage of the liberalisation project will be able to receive the services of the public supplier for a longer period of time and will have more time to choose an independent electricity supplier. However, it should be emphasised that these consumers can choose an independent supplier even now – almost half of the consumers included in this stage have already made this choice.

In 2022, we introduced a new service to Ignitis customers, i.e., electricity bill insurance, which allows independent supplier's customers to insure their bills so they are covered by the insurance company if the customer loses his/her source of income.

In accordance with the laws of the Republic of Lithuania and Government resolutions, partial state compensation was included in the final natural gas and electricity prices of Ignitis in the second half of 2022, thus ensuring that the impact of energy prices on consumers would be mitigated, and the final prices would not increase by more than 40%. We have made technical changes when displaying the applicable compensations in customers' bills.

As an independent electricity supplier, Ignitis would systematically update its pricing over 2022 and thus ensure the best possible final price for B2C customers based on the forecast of future transactions. The recalculations were usually carried out once a week, responding to the wholesale price forecasts and its changes. During the year, we offered new long-term electricity supply plans with different durations (36 months and longer), thus reducing the final price compared to plans with a shorter fixed period.

Ignitis regularly participates in consultations with NERC, the Ministry of Energy of the Republic of Lithuania and other institutions in order to control the energy price crisis with regulatory measures. According to the data of NERC as of 21 November 2022, 78% of consumers have chosen Ignitis as their independent energy supplier.

We have implemented customer service management and proactive information functions in the self-service platform of Ignitis. To shorten the customer response time, we are improving the "Contact us" form at www.ignitis.lt. We are improving process automation and efficiency to reduce the time it takes to solve customer inquiries. We are creating a Customer Journey Map for the most important processes to respond to the customer experience at certain points of interaction and adjust processes and proactive communication accordingly to improve customer experience. To manage a significant increase in the number of customer inquiries, additional partners have been recruited to handle them (for signing new contracts).

At the end of 2022, Ignitis provided all basic energy-related services. Customer service is provided at customer service centres of Ignitis that are located in major cities of Lithuania. Customer experience is measured using the Net Promoter Score (NPS). Transactional NPS is measured immediately after the contact with the customer and reflects customer satisfaction with the execution of the inquiry, and Relationship NPS is measured twice a year using a statistically significant sample that reflects the overall customer perception of the company. In 2022, Ignitis NPS in the areas of both B2C and B2B increased and reached 57% and 53% in 2022, accordingly.

Energy system resilience and security

Ignitis is the main designated supplier of the Liquefied Natural Gas (LNG) terminal in Lithuania. This means that we are responsible for ensuring the minimum amount of liquefied natural gas supply to the LNG terminal in Klaipėda. After Lithuania has completely abandoned Russian gas in early April, all Lithuanian gas demand was met through Klaipėda LNG terminal. More than 32 million MWh (more than 3 billion m3) of natural gas flowed through the LNG terminal in 2022 – 50% more than in 2021, and 35% of this volume was used to cover the needs of Ignitis.

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

Responsibility and sustainability in the company's supply chain

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

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

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

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

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

6. Financial statements

6.1 Consolidated financial statements

Unaudited consolidated financial statements prepared for the year ended 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the European Union

The Group's consolidated financial statements were prepared and signed by UAB „Ignitis" management on 31 March 2023:

Artūras Bortkevičius	Darius Šimkus	Natalija Timofejeva
General Manager	Director of Finance and Business Support Department	Accounting expert of UAB „Ignitis grupės paslaugų centras", acting under Decision No 23_GSC_SP_0010 of 17 February 2023

Consolidated Statement of profit or loss

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Revenue from contracts with customers	6	3,171,871	977,418
Other income	7	59,549	19,791
Total revenue and other income		**3,231,420**	**997,209**
Purchases of electricity, natural gas and other services	8	(3,095,478)	(954,722)
Salaries and related expenses		(13,013)	(10,678)
Depreciation and amortisation		(3,399)	(2,944)
Other expenses	9	(24,608)	(16,873)
Total expenses		**(3,136,498)**	**(985,217)**
Operating profit (loss)		**94,922**	**11,992**
Finance income	10	1,346	355
Finance expenses	11	(20,038)	(3,380)
Finance activity, net		**(18,692)**	**(3,025)**
Profit (loss) before tax		**76,230**	**8,967**
Current income tax income (expenses)	12	(30,219)	(2,948)
Deferred tax (expenses)/benefit	12	18,401	1,186
Net profit for the year		**64,412**	**7,205**

Consolidated Statement of comprehensive income

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Net profit for the year		**64,412**	**7,205**
Other comprehensive income (expenses)			
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)			
Change in actuarial assumptions	24	14	3
Items that will not be reclassified to profit or loss in subsequent periods, total		**14**	**3**
Items that may be reclassified to profit or loss in subsequent periods (net of tax)			
Cash flow hedges – effective portion of changes in fair value	24	226,389	(32,437)
Cash flow hedges – reclassified to profit or loss	24	(178,871)	60,831
Foreign operations – foreign currency translation differences	24	(122)	9
Items that may be reclassified to profit or loss in subsequent periods, total		**47,396**	**28,403**
Total other comprehensive income (expenses) for the year		**47,410**	**28,406**
Total comprehensive income (expenses) for the year		**111,822**	**28,406**

Consolidated Statement of financial position

31 December 2022

EUR thousand	Notes	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Intangible assets	13	18,943	18,580
Property, plant and equipment	14	6,424	3,622
Right-of-use assets		415	590
Non-current receivables	16	3,627	90,258
Other financial assets		177	177
Other non-current assets	31.1	17,299	4,229
Deferred tax assets	12.3	19,694	1,296
Total non-current assets		**66,579**	**118,752**
Current assets			
Inventories	17	378,804	150,413
Prepayments and deferred expenses	18	7,001	59,956
Trade receivables	19	498,875	203,004
Other receivables	20	138,828	190,124
Other current assets	31.1	44,914	21,461
Cash and cash equivalents	20	138,828	190,124
Total current assets		**1,375,058**	**706,675**
TOTAL ASSETS		**1,441,637**	**825,427**
EQUITY AND LIABILITIES			
Equity			
Issued capital	22.2	40,140	40,140
Reserves			
Legal reserve	23.1	2,572	2,572
Hedging reserve	23.2	75,912	28,394
Other reserves		(209)	(87)
Retained earnings (deficit)		71,021	6,595
Total equity		**189,436**	**77,614**
Liabilities			
Non-current liabilities			
Non-current loans	25	370,800	288,800
Non-current lease liabilities		210	367
Provisions	28	145	177
Other non-current amounts payable and liabilities		20,928	19
Total non-current liabilities		**392,083**	**289,363**
Current liabilities			
Loans	25	297,067	226,151
Lease liabilities		261	256
Trade payables	29	163,149	69,246
Prepayments received	27.2	14,680	10,276
Income tax payable		33,459	3,412
Provisions	28	20,453	38
Deferred income	27.1	97,722	8,699
Other current amounts payable and liabilities	30	233,327	140,372
Total current liabilities		**860,118**	**458,450**
Total liabilities		**1,252,201**	**747,813**
TOTAL EQUITY AND LIABILITIES		**1,441,637**	**825,427**

Consolidated Statement of changes in equity

For the year ended 31 December 2022

EUR thousand	Notes	Issued capital	Legal reserve	Hedging reserve	Other reserves	Retained earnings (deficit)	Total
Balance as at 1 January 2021		**40,140**	**468**	**-**	**(96)**	**41,192**	**81,704**
Net profit for the year		-	-	-		7,205	**7,205**
Other comprehensive income (expenses) for the year	24	**-**	**-**	28,394	**9**	**3**	**28,406**
Total comprehensive income (expenses) for the year		**-**	**-**	28,394	**9**	**7,208**	**35,611**
Transfer to legal reserve		-	2,104	-		(2,104)	**-**
Dividends	22.3	-	-	-		(39,715)	**(39,715)**
Share-based payments		-	-	-		14	**14**
Balance as at 31 December 2021		**40,140**	**2,572**	**28,394**	**(87)**	**6,595**	**77,614**
Balance as at 1 January 2022		**40,140**	**2,572**	**28,394**	**(87)**	**6,595**	**77,614**
Net profit for the year		-	-	**-**	-	64,412	**64,412**
Other comprehensive income (expenses) for the year	24	-	-	47,518	(122)	14	**47,410**
Total comprehensive income (expenses) for the year		**-**	**-**	**47,518**	**(122)**	**64,426**	**111,822**
Balance as at 31 December 2022		**40,140**	**2,572**	**75,912**	**(209)**	**71,021**	**189 436**

Consolidated Statement of cash flows

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Cash flows from operating activities			
Net profit for the year		64,412	7,205
Adjustments to reconcile net profit to net cash flows:			
Depreciation and amortisation		3,399	2,944
Change in the fair value of derivatives	31.2	(19,076)	15,572
Income tax expenses (benefit)	12	11,818	1,762
Increase (decrease) in provisions		20,400	9
Inventory write-down to net realisable value (reversal)	17	102,912	402
Impairment/(reversal of impairment) of financial assets		1,367	382
Loss on disposal/write-off of property, plant and equipment		(121)	-,,,
Interest income	10	(714)	(310)
Interest expenses	11	19,684	3,170
Other finance (income)/costs		(278)	179
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(158,782)	(289,331)
(Increase) decrease in inventories, advances and deferred expenses, other non-current and current assets		(278,348)	(172,295)
Increase (decrease) in trade payables, deferred income, advances received, other non-current and current amounts payable and liabilities		338,613	183,538
Income tax (paid) recovered		(8,774)	(7,340)
Net cash from/(used in) operating activities		**96,512**	**(245,987)**
Cash flows used in investing activities			
Acquisition of property, plant and equipment and intangible assets		(5,642)	(2,405)
Proceeds from sale of property, plant and equipment and intangible assets		345	-
Interest received	10	102	90
Finance lease payments received		703	776
Other increases/(decreases) in cash flows from investing activities		12	13
Net cash flows from investing activities		**(4,480)**	**(1,526)**
Cash flows from/(used in) financing activities			
Loans received	26	82,000	465,651
Repayments of loans	26	(109,341)	(135)
Lease payments	26	(361)	(593)
Interest paid	26	(12,289)	(2,536)
Dividends	22.3	-	(39,715)
Overdraft	26	172,878	-
Net cash flows from/(used in) financing activities		**132,887**	**311,021**
Increase (decrease) in cash and cash equivalents		**224,919**	**55,382**
Cash and cash equivalents at the beginning of the period	21	81,717	26,335
Cash and cash equivalents at the end of the period		**306,636**	**81,717**

Explanatory notes

For the year ended 31 December 2022

1 General information

UAB „Ignitis" (hereinafter – the parent company) is a public limited liability company registered in the Republic of Lithuania. The parent company was registered on 02 September 2014 with the Register of Legal Entities managed by the public institution the Centre of Registers. Parent company's registered office address is Laisvės pr. 10, LT-04215, Vilnius, Lithuania. Parent company code 303383884, VAT code LT100008860617. Parent company has been founded for an indefinite period.

The parent company and its subsidiaries are hereinafter collectively referred to as 'the Group'. The Group's core line of business is the supply, purchase (import), planning and sale of natural gas and electricity to consumers. The Group supplies natural gas to corporate customers operating in the sectors of energy, industry and small commercial businesses, and to private customers, including supply of liquefied natural gas (hereinafter – LNG) through the Klaipėda LNG Terminal. The Group started the activity of independent electricity supply to household customers with effect from 1 November 2020. The Group also develops a range of smart services, offers charging solutions for electric vehicles, an electricity balancing service, solar power and other energy solutions based on technological innovations, and sells electricity origin certificates. Information on the Group's structure is provided in Note 15.

The Group's sole shareholder is AB „Ignitis grupė":

	31 December 2022		31 December 2021	
	Number of shares held	Ownership interest (%)	Number of shares held	Ownership interest (%)
AB „Ignitis grupė"	138,413,794	100	138,413,794	100
Total	**138,413,794**	**100**	**138,413,794**	**100**

The Group's sole shareholder is AB „Ignitis grupė" (company code 301844044, registered address Laisvės pr. 10, LT-04215 Vilnius, Lithuania), which owns 100% of shares as at 31 December 2022 and 2021. As at 31 December 2022, the shareholder structure of AB „Ignitis grupė" is as follows: the Ministry of Finance of the Republic of Lithuania (74.99%), and retail and institutional investors (25.01%). As at 31 December 2021: the Ministry of Finance of the Republic of Lithuania (73.08%), retail and institutional investors (25.25%) and own shares (1.67%).

AB „Ignitis grupė" is an ultimate controlling company.

These consolidated financial statements were prepared and signed for issue by Group's management on 31 March 2023.

The Group's shareholders have a statutory right to either approve or refuse to approve these financial statements and require the management to prepare a new set of financial statements. These are consolidated financial statements of the Group. The parent company also prepares separate financial statements in accordance with IFRS as adopted by the EU as required by local legislation.

2 Basis of preparation of the financial statements

2.1 Basis of accounting

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

The Group's financial statements as at and for the year ended 31 December 2022 have been prepared on a going concern basis applying measurement based on historical cost, except certain financial instruments measured at fair value.

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

2.2 Consolidation principles

2.2.1 Consolidation

The financial statements comprise the financial statements of the parent company and its directly and indirectly controlled subsidiaries. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by holding more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of subsidiaries have been prepared using uniform accounting policies and for the same reporting period as that covered by the financial statements of the Group. On consolidation, all inter-company transactions, balances and unrealized gains and/or losses on transactions among the Group companies are eliminated.
Non-controlling interest represents a part of net profit and net assets which is not controlled by the Group. Non-controlling interest is reported separately in the statement of profit or loss. The share of equity attributable to the non-controlling interest and to the owners of the parent is shown separately in the consolidated statement of financial position.

2.2.2 Business combinations

2.2.2.1 Business combination applying IFRS 3 (subsidiaries that are not under common control)

Acquisition of subsidiaries that are not jointly controlled entities is accounted for using the acquisition method. When the acquisition method is applied the consideration transferred in a business combination is measured as fair value of net assets transferred to the former owners of the acquiree. Acquisition-related costs are recognised in the statement of profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:
– deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below); and
– assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period , or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2.2.2.2 Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable net assets assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the statement of profit or loss as a bargain purchase gain.

2.2.2.3 Contingent consideration

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in the statement of profit or loss.

2.2.2.4 Business combination in stages

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in the statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the statement of profit or loss, where such treatment would be appropriate if that interest were disposed of.

2.2.2.5 Business combination of entities under common control

For a business combination of entities under common control the following methods are applied:

(a) the acquisition method set out in IFRS 3; or
(b) the pooling of interests' method.

In selecting which method to apply to the accounting for business combinations of entities under common control, the Group assesses whether there is a "commercial substance" for which the following criteria are considered:

- the purpose of the transaction;
- the involvement of outside parties in the transaction, such as non-controlling interests or other third parties;
- whether or not the transaction is conducted at fair value;
- the existing activities of the entities involved in the transaction; and
- whether or not it is bringing entities together into a 'reporting entity' that did not exist before.

If the transaction has a commercial substance to the merging parties the Group applies the acquisition method as set above in paragraph "Acquisition of subsidiaries that are not under common control", accordingly if not – the Group applies the pooling of interests' method. By applying the pooling of interests' method, the business combination of entities under common control is accounted according to the following procedures:

- the assets and liabilities of the entities in business combinations are measured at their carrying amounts equal to those reported in the financial statements of the ultimate parent company;
- no newly arising goodwill is recognised on a business combination, however acquiree can recognise intangible assets that meet the recognition criteria in IAS 38;
- any difference between consideration paid and the carrying amount of net assets acquired as at the date of acquisition is recognised directly in equity within retained earnings.

2.2.3 Changes in ownership interest in a subsidiary that do not result in changes in control

Transactions with non-controlling interests that do not result in a loss of control are presented within equity, i.e. as transactions with equity owners. The difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received. recorded as equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (hereinafter 'the functional currency').

2.3.2 Transactions and balances

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 statement of profit or loss.

2.3.3 Group companies

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their statement of profit or loss are translated at average exchange rates observed during reporting period. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to statement of profit or loss.

3 Significant accounting policies

3.1 New standards, amendments and interpretations

3.1.1 Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these financial statements are consistent with the accounting policies applied in the preparation of the Group's annual financial statements for the year ended 31 December 2021, with the exception of the new standards which entered into force during the year of 2022.

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

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

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

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

3.1.3 Standards issued but not yet effective and not early adopted

In preparation of these financial statements, the Group did not apply new IFRS issued by IASB, IAS, amendments and interpretations, the effective date of which is later than 31 December 2022 and early adoption whereof is permitted. The following are new standards and/or amendments to the standards that have been issued but not yet effective:

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

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. Amendments are endorsed for application in the European Union (hereinafter – EU).

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

Disclosure of Accounting Policies (amendments to IAS 1 and IFRS Practice statement 2)

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

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

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

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

Other standards

The following amended standards are not expected to have a significant impact on the Group's financial statements:

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

3.2 Revenue from contracts with customers

The Group 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:

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

The Group's performance obligations set out in the agreements with customers are as follows:

- *Sale of electricity (Note 3.2.1)*
- *Supply of electricity (Note 3.2.1)*
- *Sale of natural gas (Note 3.2.2)*
- *Liquefied Natural Gas Terminal Security Component Services (hereinafter "LNGT services") (Note 3.2.2)*
- *Project activities (Note 3.2.3)*

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 Group expects to be entitled in exchange for those goods or services. Revenue is measured based on the consideration to which the Group 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 Group takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

3.2.1 Electricity related revenue

The Group's revenue related to electricity comprises the following:

- revenue from the sale of electricity,
- revenue from supply of electricity.

Electricity related revenue is received from non-household and household customers. Electricity to household customers is supplied at electricity tariff applied for public supply (Note 3.2.1.2) or independent supply tariff (Note 3.2.1.1). Electricity to non-household customers is supplied at independent supply tariff (Note 3.2.1.1).

Accounting policy for electricity related revenue may be presented in accordance with the components of the electricity tariff applied to the consumed electricity by household and non-household customers. The tariff consists of the following components:

(a) price of electricity (Note 3.2.1.1, 3.2.1.2);
(b) fee for electricity supply services (Note 3.2.1.1, 3.2.1.2);
(c) price of electricity distribution services, which include two components: transmission over high voltage grid and distribution over medium and low voltage grid (Note 3.2.1.1);
(d) price of electricity system services (includes capacity reserve services) (Note 3.2.1.1);
(e) fee for PSO services (hereinafter "PSO fees") (Note 3.2.1.1).

Regulation of tariffs and the Group's profitability is presented in Note 3.2.4.1.

3.2.1.1 Revenue from the sale of electricity

Revenue from sales of electricity (Note 6 line item "Revenue from the sale of electricity") mainly consists of sale of electricity to non-household and household customers by providing independence supply according to bilateral agreement.

Revenue includes the price of electricity and the fee for electricity supply services. Revenue is recognised over time in each reporting period on the basis of VAT invoices issued, which includes the calculated amount of electricity consumed. Electricity consumption is calculated on the basis of the declared meter readings provided by consumers.

When performing electricity supply, through tariff paid by customers, the Group collects fees and other tariff components (Note 3.2.1) and transfers them to other entities:

Tariff component: transmission over high voltage grid and distribution over medium and low voltage grid

Electricity distribution and transmission services are acquired from transmission grid operator. The Group collects fees for these services through the electricity tariff and transfers to aforesaid operator. The Group's management has identified that in respect of electricity distribution and transmission services (Note 5.2.2) the Group acts as an agent. Revenue and costs from these services are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

Tariff component: system services

System services are provided by and acquired from the electricity transmission system operator. The Group collects fees for these services through electricity tariff and transfers to aforesaid operator. On the basis of the same arguments used to determine the agent's activities with regard to electricity transmission and distribution services (Note 5.2.2), the Group's management has identified that the Group acts as an agent system services also. Revenue and costs from these services are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

Tariff component: PSO fee

PSO fee is an integral part of electricity tariff. The Group collects PSO fees through electricity tariff from the end-customers connected to the electricity distribution network and transfers them to the PSO fund administrator UAB Baltpool. The Group's management has identified that in respect of PSO fees the Group acts as an agent (Note 5.2.1). Revenue and costs from these fees are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

3.2.1.2 Revenue from public supply of electricity

Revenue from public electricity supply (Note 6 line item "Revenue from public electricity supply") consists of the following components of public supply electricity tariff:

(i) price of public electricity, and
(ii) price of public electricity supply.

Revenue from public electricity supply to the customers is recognised over time referring to the supplied electricity quantity reading devices provided by them and verified by the distribution system operator. In case of difference between provided and verified quantities due to over-declaration (Note 5.5) the Group estimates the amount of deferred income (Note 27) and accounts for as a contract liability. If the Group doesn't receive the data of electricity consumed according to the readings of meters due to specific reasons (customer's delays to present readings, fails of the remote meter's scanner or other agreements with the customer) the revenue from sale of electricity is recognised based on the average usage estimation method. By applying the average usage estimation method consumption of the electricity is calculated according to the historical 12 months data of electricity consumption, i.e. the average consumption for the certain period is calculated, and at the end of year is adjusted according to the actual readings.

Public electricity supply is regulated (Note 3.2.4.1).

When performing public electricity supply, through tariff paid by customers, the Group collects fees (Note 3.2.1) for other tariff components and transfers them to other entities (Note 3.2.1.1).

3.2.2 Gas related revenue

The Group's gas related revenue includes:
sale of natural gas (Note 3.2.2.1),
income of LNGT security component (Note 3.2.2.2).

Gas related revenue is received from business customers and household customers by providing gas supply services. Income of LNGT security component is received as a compensation for providing services of designated supplier. For the purpose of these financial statements, terms "gas" and "natural gas" are inter-changeable.

Accounting policy for revenue from natural gas supply to household customers may be presented in accordance with the components of the natural gas tariff applied to the consumed gas by household customers. Final natural gas tariff to household customers comprise of the following components:
(a) price of gas (Note 3.2.2.1);
(b) price of natural gas transmission over high-pressure grid;
(c) price of natural gas distribution over medium and low pressure grid services;
(d) LNGT security component (Note 3.2.2.2).

The Group as a natural gas supplier collects payments for all tariff components from customers. The component of transmission service price and LNGT security component are transferred to transmission grid operator, gas distribution service price component – to the operator of natural gas distribution network. The Group is an agent in collection of transmission service component (Note 5.2.3), LNGT security component (Note 5.2.1) and distribution service component fees (Note 5.2.3). Revenue and costs from are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

Regulation of tariffs and the Group's profitability is presented in Note 3.2.4.2.
Accounting policy for revenue from business customers is presented in Note 3.2.2.1.

3.2.2.1 Revenue from gas sales

Revenue from sales of gas (Note 6 line item "Sales revenue of natural gas") consists of gas price and supply margin. Gas sales are performed by the Group as a natural gas supplier to household customers and as a designated LNG supplier to gas market.

Revenue from sale of gas to end-customers is recognised on a monthly basis referring to the supplied gas quantity readings devices provided by them and verified by the distribution system operator (an accrual basis). In case of difference between provided and verified quantities due to over-declaration (Note 5.4) the Group estimates the amount of deferred income (Note 27) and accounts for as a contract liability. Revenue and costs from are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

In Latvia natural gas distribution services are provided and acquired from the operator of gas distribution grid which is not a part of the Group. The Group as a natural gas supplier collects payments for distribution service component and transfers to operator of distribution grid. The Group is an agent in the collection of distribution service component in Latvia (Note 5.2).

3.2.2.2 LNGT security component

The Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania provides that contribution so-called security component related to the following securities of natural gas supply shall be collected from end-customers and added to the natural gas transmission price:

- *for the installation of LNGT, its infrastructure and connection and all fixed operating costs that are not included in other state regulated prices, and*
- *to compensate for the reasonable costs of supplying the minimum quantity required to ensure the necessary operation of the LNGT.*

Similarly to PSO fees, LNGT security component is collected from end-customers through the natural gas tariff and transferred then to the state budget, from which the LNGT funds are distributed (i.e. disbursed) to LNGT service providers.
The Group acts as a natural gas supplier that collects LNGT security component from end-customers and as designated liquefied natural gas supplier (hereinafter "designated supplier") the function of which is to ensure the necessary operation of the LNGT by supplying the minimum quantity of natural gas.

3.2.2.2.1 The Group's activity as natural gas supplier to end customers

LNGT security component is an integral part of natural gas tariff to the customer. Payments for LNGT security component collected directly from customers or natural gas suppliers, if the customers don't have a direct contract with the operator of transmission system. Collected amounts of LNGT security component are transferred to gas transmission system operator AB Amber Grid which is appointed to perform the function of administering the LNGT security component. In accordance of IFRS 15 the Group in providing these services consider itself by acting as an Agent and recognises the revenue on a net basis (Note 5.2). Income and disbursements of LNGT security component (regardless of whether the net of it is positive or negative) are recognised under the item "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

Income and disbursements of LNGT security component (regardless of whether the net of it is positive or negative) are recognised under the item "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

3.2.2.2.2 The Group's activity as designated LNGT supplier to gas market

The Group provides designated LNG supply function.

In order to maintain the LNG Terminal infrastructure in minimum mode, a certain amount of natural gas, which is to be supplied through the LNG Terminal, is required for filling, regasification or transhipment and supply to the Lithuanian natural gas system or the international LNG market.

The Law on the LNG Terminal and the Description of the Natural Gas Supply Diversification Procedure determines that the required quantity shall be supplied by the designated supplier (nominated by the Ministry of Energy for 10 years, term ends on 31 December 2024) by concluding a contract with the LNG supplier.

To ensure the operation of LNG Terminal the designated supplier shall sell the required quantity on a competitive market and therefore its costs which due to the nature of its activities are exclusively borne (whereas other suppliers don't incur) are compensated by operator of transmission system paying LNGT funds that are paid from the budget of LNGT security component collected by natural gas suppliers from end customers. Accordingly, the Group receives revenue from LNGT funds. Natural gas designated supply activities are regulated by NERC (Note 3.2.4.2).

The revenue of LNGT funds is recognised over time by issuing VAT invoices to the operator of transmission system according to the statements which are received from it and include information of degassed and (or) reload quantity of LNG and the quantity of LNG used for the Group's technological needs at LNG Terminal. Revenue of LNGT funds is recognised under the "Revenue from contracts with customers" item in the statement of profit or loss. LNGT security component income is presented in Note 3 line item "LNGT security component income".

Revenue from LNGT security component is regulated by NERC (Note 3.2.4.2).

3.2.3 Other significant revenue from contracts with customers

3.2.3.1 Revenue from project activities

Project-based activity comprise a number of interrelated works. Accordingly, the promise of the seller to render solar park, power saving, electric car charging and other installation services to the customer is identified as a performance obligation in the agreement concluded with the customer. The performance obligation under the agreement concluded with the customer is to be carried as soon as the object specified in the contract has been transferred to the customer. The progress of completion of the performance obligation is measured using the input method. The Group has determined that the input method, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation.

After the completion of construction and contractual works, the seller grants a warranty period for these works and goods used. Pursuant to paragraph B31 of IFRS 15, whether the warranty is required by law, the warranty is aimed at protecting customers from the risk of purchasing defective products, therefore, it is not deemed a separate performance obligation of the seller.

The agreement concluded with the customer indicates the total price that the seller will recognise as revenue upon execution of the performance obligation over the validity period of the agreement. The seller and the customer may agree that the consideration for contractual works might increase due to additional works or other costs, but no variable consideration arises in the agreement concluded with the customer as a result of this condition.

Revenue under the agreement concluded is recognised over the time based on a stage of completion percentage. At the date of preparation of the financial statements, the seller assesses the ratio between the actually incurred expenses and the expenses projected in the estimate to the agreement and accounts for the amount of revenue as the product of the price of the agreement and the established stage of completion ratio.

3.2.4 Regulation of tariffs and profitability

Profitability of some individual activities of the Group is regulated by the National Energy Regulatory Council (NERC) through the service tariffs approved for the next periods The level of tariffs depends on the projected costs and volume of services for the next period, the extent to which the previous period earnings are at variance with the regulated level, and other factors.

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

The Group usually does not recognise assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level, provided the difference will be recovered/refunded only through the provision of services in the future, except those presented in Note 5.5.

3.2.4.1 Regulation of electricity related activities

The public electricity price is regulated by NERC by setting price caps for electricity purchase price and distribution services and by adding the difference between actual purchase price of electricity and the forecasted electricity price for the previous period.

3.2.4.2 Regulation of gas related activities

The NERC regulates the prices of gas transmission and distribution services and LNGT security component, in respect of which the Group acts as an agent, which are included in gas tariff for household customers

Liquefied natural gas is sold to regulated (supervised) energy producers at the market price set and approved by NERC. Non-regulated sales of natural gas are conducted at the prices agreed between the parties.

Activity of designated supply activities is regulated by the NERC. The Group receives a compensation to cover the difference between the price of designated supply and weighted average natural gas import price, which is recognised as revenue. Revenue is received through the LNGT component. The security component of the LNGT depends on the projected gas prices and other costs for the upcoming year, the forecasted gas supply volumes, the deviation of the revenue received in previous periods from the regulated amount and other things. Actual costs incurred by the Group during the year may differ from those estimated when approving prices and the actual amount of supply may differ from the forecast. As a result, the Group's actual revenue level may deviate from the regulated level and the difference will affect the future LNG terminal security component and thus future revenue. The Group does not recognise a regulated asset or liability that is intended to equalize current year revenue to a regulated level if the difference affects future supply prices and is recovered / refunded in the future provision of services.

3.3 Expense recognition

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

3.4 Current and deferred tax

3.4.1 Income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. 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. Calculation of income tax is based on requirements of the countries where the Group operates and the Group company generates taxable income on applicable legislation.

Standard corporate income tax rate of 15% was applicable to the companies in Lithuania, in Poland – 19%, in Finland – 20%.

Standard corporate income tax rate in Latvia and Estonia is 20%(14% in certain cases) on the gross amount of the distribution.

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 derivatives. Such carrying forward is disrupted if the Group changes its activities due to which these losses incurred except when the Group does not continue its activities due to reasons which do not depend on Group itself. The losses from disposal of securities and/or derivatives can be carried forward for 5 consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature In terms of utilizing tax losses carried-forward the amount may not exceed 70% of the taxpayer's taxable profits in a given year.

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

3.4.2 Deferred tax

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

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

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

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

3.4.3 Current and deferred tax for the reporting period

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

3.5 Dividend distribution

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

3.6 Intangible assets

3.6.1 Patents, licences

Patents and licenses are measured initially at acquisition cost and are amortised on a straight-line basis over the estimated useful life of 3 to 5 years or a specific validity term of a license and/or patent, if any. Useful life is reviewed on year-by-year basis.

3.6.2 Computer software

Computer software is stated at cost, less accumulated amortisation and impairment losses.

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 4 years. Useful life is reviewed on year-by-year basis.

3.6.3 Assets identified during business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

For assets acquired during business combination, useful life of 20 years was set for balancing services and trade in derivatives, and 15 years for customer relation assets. Amortisation is computed on a straight-line basis. Useful life is reviewed on year-by-year basis.

3.7 Property, plant and equipment

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

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 Group and the costs can be measured reliably. All other repairs and maintenance costs charged to the statement of profit or loss during the financial period in which they are incurred.

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

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

Depreciation periods (number of years):

Category of property, plant and equipment	Useful lives (number of years)
Solar plants	5-10
Other property, plant and equipment	3-4

3.8 Right-of-use assets

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

3.8.1 Initial measurement of right-of-use assets

On the lease commencement date, the Group 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 Group ; and an estimate of the costs that the Group 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 Group 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 Group recognises these costs as part of the cost of the right-of-use assets when a liability is incurred for these costs.

3.8.2 Subsequent measurement of right-of-use assets

Subsequent to initial recognition, the Group measures the right-of-use asset at cost. Under the cost model, the Group 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 Group 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)
Buildings	8-75

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group 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 Group presents rights-of-use assets separately from property, plant and equipment in the statement of financial position.

3.9 Impairment of non-financial assets

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

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

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

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

3.10 Financial instruments

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

3.10.1 Financial assets

The Group classifies its financial assets into the following three categories:
- financial assets subsequently measured at amortised cost;
- financial assets subsequently measured at fair value recognising the change in fair value through other comprehensive income (hereinafter – “FVOCI”); and
- 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 Group would not have paid if it had not entered into an agreement on the financial instrument.

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

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Group 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 Group . The intentions of the Group's management regarding separate instruments has no effect on the applied business model. The Group may apply more than one business model to manage its financial assets. In view of the business model applied for managing the group of financial assets, the accounting for financial assets is as follows:

3.10.1.1 Financial assets subsequently measured at FVOCI

The Group only has derivatives subsequently measured at FVOCI. More information is disclosed in Note 3.10.3.

3.10.1.2 Financial assets at amortised cost

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

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

3.10.1.3 Financial assets at FVPL

Debt and equity instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at FVOCI are stated as financial assets to be measured at FVPL. The Group includes Derivatives in this category (see Note 3.10.3).

3.10.1.4 Effective interest rate method

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

EIR is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating EIR, the Group 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 Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

The Group assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators.

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

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

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

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

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

- *For receivables from Group companies, ECLs are assessed on an individual basis;*
- *For other receivables, prepayments and accrued income, ECLs are assessed on an individual basis.*

The Group'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 ECL in respect of that particular borrower. In the absence of reliable sources of information on the credit history of a particular debtor its financial position as at the date of assessment, including forward-looking information, the Group assesses the debt on a collective basis.

Recognition stages of expected credit losses:
1. Upon granting of a loan or concluding a finance lease agreement, the Group recognises the expected credit losses for the twelve-month period. Interest income from the loan is calculated on the carrying amount of financial assets without adjusting it by the amount of ECL;
2. Upon establishing that the credit risk related to the borrower or lessee has significantly increased, the Group accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower or lessee. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses;
3. Where the Group establishes that the recovery of the loan or finance lease debt is doubtful, the Group classifies these debts as credit-impaired financial assets (doubtful loans and receivables). Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets which is reduced by the amount of expected credit losses.

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

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

3.10.1.6 Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the borrower;
(b) a breach of contract, such as a default or past due event for more than 90 days;
(c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties;
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

3.10.1.7 Derecognition of financial assets

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

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

3.10.2 Financial liabilities and equity instruments issued

Debt or equity instruments are classified as financial liabilities or equity based on the substance of the arrangement.

The Group has not issued any equity instruments, except for issued capital.

3.10.2.1 Initial recognition and measurement of financial liabilities

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

3.10.2.2 Subsequent measurement

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

3.10.2.3 Financial liabilities at FVPL

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

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 Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

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

3.10.2.4 Financial liabilities at amortised cost

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

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

3.10.2.5 Presentation

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

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

3.10.2.6 Effective interest method

The EIR method is used in the calculation of the amortised cost of a financial liabilities and in the allocation of the interest expenses in the statement of profit or loss over the relevant period.

The EIR is the rate that exactly discounts estimated future cash outflows through the expected life of the financial liability to the gross carrying amount of the financial liability that shows the amortised cost of the financial liability.

3.10.2.7 Derecognition of financial liabilities

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

3.10.3 Derivatives and hedge accounting

The Group enters into derivative transactions related to purchase and sale prices of electricity and gas.

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

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

3.10.3.1 Presentation

Fair value of derivatives is presented in the statement of financial position as “Other non-current assets”, “Other current assets”, “Other non-current amounts payable and liabilities” and “Other current amount payables and liabilities” (Note 30).

Changes in fair value and result of settled derivatives for hedges that do not meet the qualifying criteria for hedge accounting are disclosed in the statement of profit or loss either as “Other income” (Note 7), if result for a period of such derivatives is profit, or “Other expenses” if result of such derivatives for a period is loss (Note 9).

Changes in fair value and the result of financial instruments that have been settled and that are held for hedging and that qualify for hedge accounting are accounted for as follows:

3.10.3.2 Fair value hedges

The change in the fair value of a hedging instrument that is related to electricity or natural gas prices is recognised in the statement of profit or loss as “Purchases of electricity, natural gas and other services”. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the same line of the statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through in the statement of profit or loss over the remaining term of the hedge using the Effective Interest Rate (EIR) method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss. The Group did not have such hedges as at 31 December 2022.

3.10.3.3 Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in the statement of financial position, in the hedging reserve, while any ineffective portion is recognised immediately directly profit or loss of the statement of profit or loss in other income or expenses (accounting method is similar to derivatives that do not meet the hedge criteria – Note 3.10.3.1). The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. However, at least 67% hedged item coverage not exceeding 150% is expected in order for derivative to be classified as effective for hedge accounting purposes.

When cash flow hedges are realised, gain or losses are transferred from equity and recognised in the statement of profit or loss as “Purchases of electricity, natural gas and other services”. Monetary change in fair value of effective hedging instruments is shown in the statement of cash flows under “(Increase) decrease in trade and other non-current and current receivables”; change in fair value of ineffective derivatives is shown in the statement of cash flows under “Change in the fair value of derivatives”.

3.11 Energy saving solutions – Finance lease — the Group is a lessor

The Group provides energy saving services by preparing an energy saving project, for the implementation of which it is necessary to install special equipment and carry out construction works in the client‘s facilities. Based on the contract with the client, acquisition of special equipment can be financed by the client or the Group. For the contracts where acquisition of equipment and construction works is financed by the Group, the recognised sales revenue of the system correspond to the minimum payments accumulated by the Group and allocated to cover the value of the installed system. The acquisition cost of the installed system, net of the present value of unguaranteed residual value, is expensed. The costs incurred in relation to negotiation and finance lease organisation at the inception of lease are expensed.

Amounts receivable are accounted for at amortised cost. On initial recognition, amounts receivable are estimated by discounting all future payments of the client for the installed energy saving system. Subsequently, amounts receivable are estimated using the annual interest rate, which was used on initial recognition when discounting the future payments of clients, and by recognising interest income from financing activities.

Interest income from financing activities is recognised over the period of lease using the effective interest rate, which was used when discounting the future payments of clients on initial recognition. Interest income from financing activities is accounted for irrespective of whether such interest is stipulated in the contract with the client.

The installed systems are transferred into the ownership of a client at no extra pay following the receipt of a full payment under the contract.

3.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method, except for natural gas and liquefied natural gas, the cost of which is determined using the weighted average costing method (see below). The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group from the tax authorities), transportation, handling and other costs directly attributable to the acquisition of inventories. Cost does not include borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of the remaining natural gas in the pipeline and storage is established using the weighted average cost method, and of liquefied natural gas stored at the terminal – the acquisition cost. Weighted average cost is calculated as weighted average of inventories at the beginning of the months and purchases made during that month.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are presented under liabilities within current borrowings in the statement of financial position.

3.14 Issued capital, share premium

Ordinary shares are classified as equity.

3.15 Lease liabilities

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

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

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

3.15.2 Group as a lessor in finance leases

Leases in which the Group does transfer substantially all the risks and rewards incidental to ownership of an asset or the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent, are classified as finance leases. At the commencement date, the Group recognises assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. Finance lease income for the lease term based on periodic net investment in the lease is accounted for on a straight-line basis over the lease term and included into finance income in the statement of profit or loss. Lease payments are apportioned between finance income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable. Finance charges are recognised in finance income in the statement of profit or loss.

3.16 Provisions

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

3.17 Employee benefits

3.17.1 State plans

The Group 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 Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

3.17.2 Termination benefits

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 Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

3.17.3 Non-current employee benefits

Each employee of retirement age who terminates his/her employment with the Group upon retirement is entitled to receive a payment equal to 2 monthly salaries according to Lithuanian laws.

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. Actuarial gains or losses are recognised immediately in other comprehensive income.

3.18 Contingencies

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

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

3.19 Related parties

Related parties are defined as follow:

- parent company's controlling shareholders;
- other parent company's controlling shareholder's subsidiaries;
- associated companies;
- state controlled companies and their subsidiaries (only significant transactions are being disclosed with such companies);
- Ministry of Finance of the Republic of Lithuania along with agencies and enterprises that are attributable to the governance of the decisions (only significant transactions are being disclosed with such companies);
- key management personnel and close members of that personnel's family and their controlled enterprises and companies.

3.20 Offsetting

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

3.21 Fair value

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date. Determination of the fair value is based on the assumption that the asset sale or liability transfer transaction is performed either:

– in the principal market for the asset or liability

or

– 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.

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

The Group 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 Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.22 Events after the reporting period

All events after the reporting period (adjusting events) are accounted for in the financial statements provided that they are related to the reporting period and have a significant impact on the financial statements. Events after the reporting period that are significant but are not adjusting events are disclosed in Note 35.

4 Risk management

4.1 Overview

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

4.2 Financial risk factors

The Group 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 Group seeks to minimise potential adverse effects which could negatively impact the financial performance of the Group.

4.2.1 Market risk

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

4.2.1.1 Foreign currency exchange risk

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

The sale/purchase contracts of the Group are denominated in the euro. Foreign exchange risk is mainly characteristic to contracts concluded by the Company for the purchase of natural gas from third parties. Aiming to reduce foreign exchange risk the agreement on natural gas purchase and supply is concluded in the same currency.

4.2.1.2 Interest rate risk

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

Assuming debt obligations, it is aimed that non-current liabilities would bear a fixed interest rate. If the fixing of the interest rate is not possible due to objective reasons and the liability assumed comprises a significant amount, interest rate derivatives would be used for the purpose of interest management (the Group did not use interest rate derivatives during 2022 and 2021). The aim is that non-current loans with fixed interest rates comprised no less than 50% of the Group's non-current borrowings portfolio. The usage of any of the interest rate derivatives requires the expiry date of the derivative to correspond to the maturity date of the debt obligation.

The risk of adverse changes in the interest rate of the investment is not actively insured. Risk management measures are applied only when the market has obvious indications that the interest rate might significantly decrease, resulting in negative investment returns.

As at 31 December 2022, loans received with variable interest rate amounted to EUR 199,878 thousand (EUR 131,101 thousand as at 31 December 2021).

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

	Increase/decrease, percentage points	(Decrease)/increase in profit
2022	1/(1)	(1,999)/1,999
2021	1/(1)	(1,311)/1,311

4.2.1.3 Energy and commodity risk

Commodity risk is the risk that changes in market prices (i.e. commodity prices) will affect the Group's results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group uses derivatives to manage the commodity risk. All such transactions are carried out according to Group's risk management policy. Generally, the Group seeks to apply hedge accounting to manage volatility in the statement of profit or loss.

In the ordinary course of its operations, the Group is exposed to commodity risks on natural gas and electricity products. The source of exposure lies with cash flows from sales of natural gas and electricity or cost cash flows incurred to procure fixed price electricity/natural gas power for sales contracts. Majority of this type of exposure is based on changes of respective commodity price in the market that the Group operates.
Commodity risk arises primarily from the following activities:

– fixed price commodity sales contracts (electricity and natural gas) for household and business customers;
– fixed price natural gas purchases contracts.

In order to manage commodity risk, the Group enters into financial derivatives contracts (cash flow hedges).
This is performed in order to secure a fixed acquisition price of the above mentioned commodities, so that optimum profit margins could be obtained from contracted or expected fixed price sales.

For electricity related hedges, the Group uses price component based hedges in the derivatives market (NASDAQ commodities) or equivalent over-the-counter contracts (OTC), and for natural gas related hedges – OTC contracts with price indexes matching hedged contracts. Assessment of economic relationship and hedge effectiveness is performed by:

- dollar offset method for electricity hedges;
- descriptive method for natural gas hedges.

The two separate components that are being used as a hedged item for electricity related hedges are SYS price and price component equivalent or similar to difference between Lithuania price area and SYS price. Their economic relationship is determined separately for each component.

- SYS price (average price of Nordpool power market, of which Lithuania is a member);
- price component equivalent or similar to difference between Lithuania price area and SYS price (commonly referred as EPAD in NASDAQ commodities market).

Source of hedge ineffectiveness is mainly related to limited supply of financial derivatives for Lithuanian electricity price area in the market. Therefore, commodity risk is partly hedged in similar price area's (Latvian, Estonian and other), which results in partial ineffectiveness. The designated risk component of SYS historically covered 100% of the changes in hedged item, while designated price component equivalent or similar to difference between Lithuania price and SYS price historically covered variety of percentages (depending on hedge timing and hedged price area). During the reporting period of 2022, on average 84% of all electricity hedge contracts in terms of value has been effective.

Overview of the Group's derivatives positions:

EUR thousand	31 December 2022		31 December 2021	
	Contractual nominal value	Market value	Contractual nominal value	Market value
Market derivatives – Electricity (Nasdaq commodities)	28,940	101,203	187,458	94,323
Over the counter (OTC) derivatives – Electricity	173,383	(15,534)	35,734	19,362
Over the counter (OTC) derivatives – Natural gas	134,392	27,385	225,753	(65,122)
Total	**336,715**	**113,054**	**448,945**	**48,563**

Nominal amounts (quantities in MW) hedged:

	31 December 2022			
	2023	2024	2025	2026 m.
Electricity hedges	2,555,852	162,982	162,646	-
Natural gas hedges	801,320	631,502	696,980	-
Total	**3,357,172**	**794,484**	**859,626**	**-**

Nominal values hedged:

	31 December 2022			
EUR thousand	2023	2024	2025	2026
Electricity hedges	182,631	10,045	9,647	-
Natural gas hedges	66,924	36,045	31,423	-
Total	**249,555**	**46,090**	**41,070**	**-**

Market value sensitivity analysis, due to changes in market prices:

EUR thousand	31 December 2022		
	Increase by 10%	Current prices	Decrease by 10%
	Market value	Market value	Market value
Market derivatives – Electricity (Nasdaq commodities)	113,480	101,203	87,629
Over the counter (OTC) derivatives – Electricity	(460)	(15,534)	33,308
Over the counter (OTC) derivatives – Natural gas	44,122	27,385	10,644
Total	**157,142**	**113,054**	**131,581**

Negative amount indicates that there are more "sell" positions than "buy" positions.

4.2.1.4 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 Group's exposure to credit risk arises from operating activities (trade and other amounts receivable) and from financing activities (granted loans, finance lease agreements, derivatives). The Group's risk related to cash is limited, as the Group keeps cash balances only in reliable financial institutions.

The Group is not exposed to significant credit risk concentration related to trade and other amounts receivable.

To make optimal decisions on the possibility of concluding agreements with the Group's customers, the Group follows a process and criteria for assessing the solvency of its customer, organises a financial/expert due diligence and, on the basis of the information obtained, makes a decision on the customer's risk. The agreements are concluded with the Group's customers in view of the customer solvency risk assessment by applying customised settlement terms: longer settlement periods are applied to customers with a lower risk and customers with a higher risk are subject to more stringent settlement terms and (or) additional collaterals, including funds deposited in the Group's account, sureties, bills of exchange, etc. To manage the risk of counterparty default, the Group applies an approved Customer Solvency Risk Management Standard.

The Group measures receivables using expected credit loss provision matrix (Note 5.3.1) or on an individual basis (Note 5.3.2), where the financial position and credit risk of each borrower are measured individually by analysing the borrower's financial statements, settlement discipline and other publicly available information about the debtor that may be affected by the debtor's credit assessment.

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

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

EUR thousand	Note	31 December 2022	31 December 2021
Financial assets measured at amortised cost:			
Non-current receivables		91	86,705
Trade receivables	19	498,875	203,004
Other receivables	20	82,544	99,747
Cash and cash equivalents	21	306,636	81,717
Amounts receivable under finance lease agreements			
Non-current portion	17.2	3,536	3,553
Current portion	20	642	565
Financial assets measured at FVPL or FVOCI			
Derivatives	31.1	62,213	25,690
Total		**954,537**	**500,981**

4.2.2 Liquidity risk

The liquidity risk is managed by planning future cash flows of the entities of the Group and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support the Group'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 Group over that period, and from unwithdrawn committed credit facilities which have to be repaid in later periods.

As at 31 December 2022, the Group's current liquidity ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 1.60 and 1.16 respectively (31 December 2021: 1.54 and 1.21 respectively). As at 31 December 2022, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 291,206 thousand (31 December 2021: EUR 128,845 thousand).

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

EUR thousand	Note	31 December 2022	31 December 2021
Amounts payable measured at amortised cost			
Loan	25	667,867	514,951
Lease liabilities	26	471	623
Trade payables	29	163,149	69,246
Deposits received for derivatives	30	55,990	-
Other amounts payable and liabilities	30	3,144	344
Financial liabilities measured at FVPL or FVOCI			
Derivatives	31.1	50,362	71,450
Total		**940,983**	**656,614**

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

EUR thousand	2022				
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	Total
Loans	177,459	129,079	351,305	46,237	**704,080**
Lease liabilities	79	237	276	-	**592**
Trade payables	163,149	-	-	-	**163,149**
Other payables	59,134	-	-	-	**59,134**
Derivatives	23,561	25,093	1,708	-	**50,362**
31 December 2022	**423,382**	**154,409**	**353,289**	**46,237**	**977,317**

EUR thousand	2021				
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	Total
Loans	121,351	104,725	27,011	263,790	**516,877**
Lease liabilities	80	239	490	-	**808**
Trade payables	69,246	-	-	-	**69,246**
Other payables	86	258	-	-	**344**
Derivatives	19,704	50,540	1,206	-	**71,450**
31 December 2021	**210,467**	**155,762**	**28,707**	**263,790**	**658,725**

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

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

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

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

5.1 Impact of climate change

The Group pays special attention in order to reveal a potential impact of climate change and its related economic, transitional changes on the activities of the parent company. This impact may arise from physical (extreme) weather phenomena and from the aspiration of states to switch to the Green Deal, which could cause additional requirements for energy sector: to comply with new regulations, implement new technological solutions, manage reputational risks, respond to fast growing market demand for green solutions, etc. Read more on the impact of climate change and the parent company's approach on managing it in section "5.1 Sustainability overview" of the annual report.

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

Valuation of property, plant and equipment, and impairment assessment of goodwill

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

Impact of climate change on provision for risk and on ECL

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

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

5.2 Determining whether the Group acts as a Principal or an Agent in relation to PSO fees and LNGT security component

5.2.1 Collection and transfer of PSO and LNGT security component fees

Management has applied a significant judgment and concluded that the Group acts as an Agent in relation to collection of PSO fees and LNGT security component from customers due to the following argumentation:
- the Group is not responsible for PSO and LNGT projects/initiatives, accordingly it is not responsible that collected PSO fees and LNGT security component are used for their intended purpose;
- the Group is not exposed to any inventory risk,
- the Group has no legal power to establish pricing of these components.

5.2.2 Collection and transfer of fees for electricity transmission and distribution components

The Group's management has identified that in respect of gas distribution and transmission services the Group acts as an agent. The management relied on the following arguments:
- for all transmission and distribution services the Group is not ultimately responsible, since the owners of the transmission and distribution grid take full responsibility, as provided for in the laws and regulations, and agreements with customers;
- the Group also does not bear inventory risk since price of distribution and transmission services is determined based on meter readings, i.e. fee of transmission and distribution components is charged to the Group only to the amount of electricity consumed by the end customer;
- the prices of transmission and distribution components are determined by the grid operator and approved by the NERC.

5.2.3 Collection and transfer of fees for gas transmission and distribution components

The Group's management has identified that in respect of gas distribution and transmission services the Group acts as an agent. The management relied on the following arguments:
- for all distribution services the Group is not ultimately responsible, since the owners of the transmission and distribution grid take full responsibility, as provided for in the laws and regulations, and agreements with customers;
- the Group also does not bear inventory risk since price of distribution services is determined based on meter readings, i.e. distribution fee is charged to the Group only to the amount of electricity consumed by the end customer;
- the prices of distribution components are determined by the grid operator and approved by the NERC.

5.3 Expected credit losses of trade receivables

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

5.3.1 Collective assessment of ECL applying provision matrix

The Group uses provision matrices to calculate ECL for trade receivables. The provision rates are based on days past due or allocation to the Group's internal credit rating system for groupings of various customer segments that have similar loss patterns (i.e. by customer type).

The provision matrixes are initially based on the Group's historical observed default rates. For instance, if forecast economic conditions (i.e., changes in gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Group's trade receivables is disclosed in Note 19.

5.3.2 Individual assessment of ECL

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

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

5.4 Estimation of over-declaration of electricity and natural gas consumption by private customers and accounting for deferred income

In the circumstances when the tariff in subsequent period is higher than in current period according to the historical evidence of the Group it has been identified that private customers tend to over-declare the consumption of electricity and natural gas in the last months of the year (in case of independent electricity supply – before the expiry of existing agreements).

Since the Group's electricity supply revenue depends on declarations of electricity consumed by the customers, over-declaration increases the Group's revenue and therefore the Group needs to estimate the amount of the over-declared consumption of electricity to evaluate the amount of deferred income. Estimation of over-declared electricity is based on historical consumption by the customers as well as the calculations by the distribution system's operator regarding potentially over-declared quantity based on the assessment of technological losses in the electricity grid.

Estimation of over-declared natural gas is based on the quantities declared by customers and on the information presented in the system by gas distribution operator on natural gas quantities consumed during the period. All assumptions are reviewed at each reporting date.

5.5 Regulated activities: accrued income and provisions

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

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

5.5.1 Public electricity supply

On 25 September 2020, NERC adopted a resolution No O3E-879 "On approval of the methodology for determining electricity transmission, distribution and public supply services and the public price cap". The resolution includes the methodology of determination of the additional component for distribution services to household consumers to compensate the difference between the actual and forecasted reasonable costs of a public supplier. The additional component is paid by household customers through the electricity distribution service price which is included as one of the components of public electricity tariff applied to the consumed electricity by household customers. This component is collected by distribution system operator from all electricity suppliers that sell electricity to household customers. The calculation of the difference includes the difference resulting from the discrepancy between the forecast electricity purchase price and the actual electricity purchase price, as well as the amount of costs resulting from the difference between the public supplier's public electricity price cap and the actual electricity distribution service price caps. If the difference is negative a loss is compensated through the increased price of additional component applied in the next year and accordingly, if the difference is positive a gain is reduced through the decreased price additional component.

This resolution also stipulates that if the Group discontinues public supply services, the Group must refund raised discrepancies between the forecasted and actual costs of providing these services if the costs actually incurred by the Group were less than the income received. The amount must be refunded to the Group if the costs actually incurred by the Group were higher than the income received. The difference shall be reimbursed by 31 December 2025.

With regard what is said above, the Group recognises contract assets and/or contract liabilities of the difference to eliminate mismatches between the current year earnings and the regulated level regardless the difference under the provision of services in the future.

As at 31 December 2022, the current part of a payable of EUR 20,335 thousand (31 December 2021: receivable of EUR 125,544 thousand) to be set-off with the future regulatory differences of public supply activity within one year. The payable amount was accounted in the current liabilities under the caption ‘Provisions’ (Note 28).

5.6 Determining whether the Group acts as a Principal or an Agent in relation to electricity transfer, which includes both transmission and distribution, gas distribution services and gas transmission services

5.6.1 Electricity transmission and distribution services

In providing electricity transfer service, which includes transmission and distribution services, to end-users, the Group in Lithuania and Latvia acquires electricity transmission services from transmission grid operator (not a part of the Group), and in Latvia acquires electricity distribution services from distribution grid operator which is not a part of the Group. Management of the Group analysed related contracts with electricity transmission and distribution grid operators and contracts with customers, also evaluated applicable regulatory environment for the conclusion whether the Group is acting as a Principal or as an Agent in relation of electricity transmission services in Lithuania and electricity transfer (includes both transmission and distribution) services in Latvia , management has concluded that the Group acts:

– as an Agent in relation to electricity transmission and distribution services acquired from the Latvian operator of electricity transfer system;

as a Principal in relation to electricity transmission services acquired from the Lithuanian operator of transmission system.

5.6.2 Gas distribution services

In providing gas distribution services to customers in Lithuania the Group uses its own distribution network, in Latvia – the Group acquires these services from the company which is not a part of the Group. Management of the Group analysed related contracts with the Latvian gas distribution grid operator and contracts with customers, also evaluated applicable regulatory environment and for the conclusion whether the Group is acting as a Principal or as an Agent in relation to gas distribution services in Latvia have considered arguments provided further:

for gas distribution services the Group is not ultimately responsible, since according to the laws and regulations and agreements with customers the owner of the distribution grid takes full responsibility;

the Group also does not bear inventory risk since price of distribution services is determined based on meter readings – i.e. distribution fee is charged to the Group only to the amount of gas consumed by the end-customer;

the price of distribution component is determined by the grid operator, which is not a part of the Group, and approved by regulator.

Following the arguments presented above the Management has applied a significant judgement and concluded that the Group acts as an Agent in relation to gas distribution services acquired from the Latvian operator of gas distribution system.

6 Revenue from contracts with customers

6.1 Disaggregated revenue information

EUR thousand 2022	Non-household customers	Household customers	Total
Revenue from gas sales	1,312,817	348,403	1,661,220
Revenue from the sale of electricity	1,068,755	163,820	1,232,575
Revenue from public electricity supply	-	239,414	239,414
Revenue from project activities	10,783	8,477	19,260
Revenue of LNGT security component	18,995	-	18,995
Other	407	-	407
Total	**2,411,757**	**760,114**	**3,171,871**

EUR thousand 2021	Non-household customers	Household customers	Total
Revenue from gas sales	287,236	54,133	341,369
Revenue from the sale of electricity	331,074	42,640	373,714
Revenue from public electricity supply	-	217,508	217,508
Revenue from project activities	4,110	4,753	8,863
Revenue of LNGT security component	27,907	8,049	35,956
	8	-	8
Total	**650,327**	**327,083**	**977,410**

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

EUR thousand	31 December 2022	31 December 2021
Performance obligation settled over time	2,703,017	970,212
Performance obligation settled at a point of time	468,854	7,206
Total	**3,171,871**	**977,418**

6.2 Contract balances

EUR thousand	Notes	31 December 2022	31 December 2021
Trade receivables	19	**498,875**	**203,004**
Contract assets		**33,408**	**151,844**
Accrued revenue related to regulatory activity of the public electricity supply		-	125,544
Accrued revenue from gas sales	20	7,669	1,416
Accrued revenue from electricity related sales	20	19,235	24,061
Other accrued income	20	6,504	-
Contract liabilities		**109,400**	**18,431**
Advances received	27.2	11,678	9,732
Deferred income	27.1	97,722	8,699

6.3 Contract assets

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under the contracts. Recognised expected credit losses (if any) are disclosed in Notes 19 and 20.

6.3.1 Contract liabilities

EUR thousand	Notes	31 December 2022	31 December 2021
Current	27	109,400	18,431

6.4 Rights to returned goods assets and refund liabilities

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

6.5 Performance obligations

The remaining performance obligations expected to be recognised after the end of the financial year relate to over-declaration of gas and deferred income related to gas (Note 27.1). All other performance obligations amounting to EUR 97,722 thousand (31 December 2021: EUR 8,699 thousand) will be recognised within one year after the end of the reporting period.

7 Other income

EUR thousand	2022	2021
OTC and Nasdaq contracts (Note 31.2)	58,495	18,563
Interest on late payments	581	3
Gain on disposal of non-current assets	121	-
Income from LNG congestion services	-	930
Other income	352	295
Total	**59,549**	**19,791**

8 Purchases of electricity, natural gas and other services

EUR thousand	2022	2021
Purchases of natural gas and related services for trade in gas	1,554,108	632,954
Purchases of electricity and related services for trade	1,524,774	315,149
Purchases of sub-contractual services	16,596	6,619
Total	**3,095,478**	**954,722**

9 Other expenses

EUR thousand	2022	2021
Customer service	9,230	6,203
Telecommunications and IT services	3,963	3,611
Consultation services	2,379	2,032
Public relationship and marketing services	1,447	1,001
Write-offs of non-current and current amounts receivable (bad debts)	1,367	382
Tax (other than income tax) expenses	1,066	296
Personnel development	555	475
Other	4,601	2,873
Total	**24,608**	**16,868**

10 Finance income

EUR thousand	2022	2021
Interest income at the effective interest rate	714	310
Other income from financing activities	632	45
Total	**1,346**	**355**

10.1 The Group's interest income

In 2022, the Group received EUR 120 thousand of interest income in cash (2021: EUR 90 thousand), which is presented in the cash flow statement under "Interest received".

11 Finance expenses

EUR thousand	2022	2021
Interest expenses	19,684	3,170
Negative effect of changes in exchange rates	277	28
Other finance costs	77	182
Total	**20,038**	**3,380**

11.1 The Group's interest expense

The Group incurs interest expenses on non-current and current loans payable (Note 24). In 2022, the Group paid EUR 12,289 thousand of interest in cash (2021: EUR 2,536 thousand), which is presented in the cash flow statement under "Interest paid".

12 Income taxes

12.1 Recognised in profit or loss

EUR thousand	2022	2021
Income tax expenses (benefit) for the year	30,219	2,948
Deferred income tax expenses (benefit)	(18,401)	(1,186)
Total	**11,818**	**1,762**

12.2 Reconciliation of effective tax rate

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

EUR thousand	2022	2022	2021	2021
Profit (loss) before tax		76,230		8,967
Income tax expenses (benefit) at tax rate of 15%	15.00%	11,435	15.00%	1,345
Effect of tax rates in foreign jurisdictions	(0.91%)	(690)	(0.85%)	(76)
Non-deductible expenses	16.37%	12,476	20.25%	1,816
Non-taxable income	(14.94%)	(11,391)	(15.26%)	(1,368)
Taxable income	11.00%	8,386	44.06%	3,951
Income tax recognised in other comprehensive income	10.23%	(8,386)	(44.06%)	(3,951)
Other	(0.02%)	(12)	0.50%	45
Income tax expenses (benefit	**15.50%**	**11,818**	**19.65%**	**1,762**

The amount of income tax recognised in other comprehensive income is related to the gain on the change in fair value of the Group's effective hedging derivatives (Note 24). For income tax purposes, this change in the fair value of the hedging derivatives is treated as deductible expenses (negative) or taxable income (positive).

12.3 Deferred tax

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

EUR thousand	31 December 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2021	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2022
Deferred tax assets							
Inventories write down to NRV	-	99	99	-	15,438	-	15,537
Accrued expenses	824	1,399	-	2,223	1,339	-	3,562
Impairment of trade and other receivables	897	90	-	987	213	-	1,200
Differences in depreciation rates	2,477	(260)	-	2,217	(258)	-	1,959
Non-current employee benefits	176	(52)	(1)	123	(67)	(3)	53
Other	636	29	-	665	(2,105)	-	(1,440)
Deferred tax asset, net	**5,010**	**1,305**	**(1)**	**6,314**	**14,560**	**(3)**	**20,871**
Deferred income tax liability							
Derivatives	2,900	(952)	1,060	3,008	117	-	**3,125**
Other	942	1,071	(3)	2,010	(1,999)	-	**11**
Deferred income tax liability, net	**3,842**	**119**	**1,057**	**5,018**	**(1,882)**	**-**	**3,136**
Net deferred tax	**1,168**	**1,186**	**(1,058)**	**1,296**	**18,401**	**(3)**	**19,694**

The Group's statement of financial position as at 31 December 2022 presents separately deferred tax assets EUR 19,694 thousand related to different subsidiaries. The net balance of deferred tax is liability of EUR 19,694 thousand. Deferred tax assets and liabilities arising from the same entity are presented on net basis in the statement of financial position (as at 31 December 2021 deferred tax assets EUR 14.1 million and deferred tax liabilities EUR 1,296 thousand).

13 Intangible assets

EUR thousand	Patents and licences	Computer software	Intangible assets identified during business combination	Software projects in progress	Total
1 January 2021					
Acquisition cost	14	2,565	43,958	971	**47,508**
Accumulated amortisation	(10)	(1,044)	(26,442)	-	**(27,496)**
Carrying amount	**4**	**1,521**	**17,516**	**971**	**20,012**
Carrying amount as at 1 January 2021	**4**	**1,521**	**17,516**	**971**	**20,012**
Additions	-	115	-	1,261	**1,376**
Reclassified (to) from property, plant and equipment	-	(10)	-	(1)	**(11)**
Reclassified (to) from inventory	-	-	-	(981)	**(981)**
Reclassifications between categories	-	1,231	-	(1,231)	**-**
Amortisation charge	(2)	(616)	(1,198)		**(1,816)**
Carrying amount as at 31 December 2021	**2**	**2,241**	**16,318**	**19**	**18,580**
31 December 2021					
Cost or revalued amount	10	3,859	43,958	19	**47,845**
Accumulated amortisation	(8)	(1,618)	(27,640)	-	**(29,265)**
Carrying amount	**2**	**2,241**	**16,318**	**19**	**18,580**
Carrying amount as at 1 January 2022	**2**	**2,241**	**16,318**	**19**	**18,580**
Additions	-	847	-	1,914	**2,761**
Reclassified (to) from property, plant and equipment	-	-	-	-	**-**
Reclassifications between categories	-	711	-	(711)	**-**
Amortisation charge	2	(1,198)	(1,198)	-	**(2,398)**
Carrying amount as at 31 December 2022	**-**	**2,601**	**15,120**	**1,222**	**18,943**
31 December 2022					
Cost or revalued amount	10,	5,423	43,957	1,222	**50,612**
Accumulated amortisation	(10)	(2,822)	(28,837)	-	**(31,669)**
Carrying amount	**-**	**2,601**	**15,120**	**1,222**	**18,943**

Assets identified during business combination: hedging activity
The carrying amount of derivative trading activities that were acquired in previous periods as at 31 December 2022 was EUR 5,395 thousand (31 December 2021: EUR 5,810 thousand). Amortisation is calculated over a period of 20 years. The Group has not identified any evidence of impairment of these intangible assets, and no impairment tests have been performed as at 31 December 2022.

Assets identified during business combination: balancing services
The carrying amount of balancing services that were acquired in previous periods was EUR 7,458 thousand as at 31 December 2022 (31 December 2021: EUR 8,031 thousand). Amortisation is calculated over a period of 20 years. The Group has not identified any evidence of impairment of these intangible assets, and no impairment tests have been performed as at 31 December 2022.

Assets identified during business combination: public electricity supply service, client contracts and relationships
The carrying amount of client contracts and relations relate to public electricity supply that were acquired in previous periods as at 31 December 2022 was EUR 2,267 thousand (31 December 2021: EUR 2,477 thousand). Amortisation is calculated over a period of 15 years. The Group has not identified any evidence of impairment of these intangible assets, and no impairment tests have been performed as at 31 December 2022.

13.1 Fully amortised intangible assets

As at 31 December 2022 and 2021, the cost of acquisition of fully amortised intangible assets used by the Group were as follows:

EUR thousand	31 December 2022	31 December 2021
Patents and licences	1	1
Computer software	153	176
Cost of fully amortised assets, total	**154**	**177**

13.2 Acquisition commitments

The Group has no significant acquisition commitments of intangible assets which will have to be fulfilled during the later years.

13.3 Pledged assets

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

14 Property, plant and equipment

14.1 Group's property, plant and equipment

EUR thousand	Solar plants	Other property, plant and equipment	Construction in progress	Total
1 January 2021				
Acquisition cost	1,254	1,755	118	**3,127**
Accumulated depreciation	(120)	(224)	-	**(344)**
Carrying amount	**1,134**	**1,531**	**118**	**2,783**
Carrying amount as at 1 January 2021	**1,134**	**1,531**	**118**	**2,783**
Additions	-	133	488	**621**
Reclassifications between categories	1,156	45	(1,201)	**-,**
Reclassified from (to) intangible assets	-,	10,	1	**11**
Reclassified from (to) inventories	-	-	729	**729**
Depreciation charge	(153)	(369)	-	**(522)**
Carrying amount as at 31 December 2021	**2,137**	**1,350**	**135**	**3,622**
31 December 2021				
Acquisition cost	2,414	1,943	135	**4,492**
Accumulated depreciation	(277)	(593)	-	**(871)**
Carrying amount	**2,137**	**1,350**	**135**	**3,622**
1 January 2022	**2,137**	**1,350**	135	**3,622**
Additions	-	16	3,633	**3,649**
Sales	(224)	-	-	**(224)**
Reclassifications between categories	-	63	(63)	**-,**
Depreciation charge	(239)	(384)	-	**(623)**
Carrying amount as at 31 December 2022	**1,674**	**1,045**	**3,705**	**6,424**
31 December 2022				
Acquisition cost	2,111	2,022	3,705	**7,838**
Accumulated depreciation	(437)	(977)	-	**(1,414)**
Carrying amount	**1,674**	**1,045**	**3,705**	**6,424**

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

EUR thousand	31 December 2022	31 December 2021
Other property, plant and equipment	20	-
Total	**20**	**-**

14.2 Pledged property, plant and equipment and acquisition commitments

As at 31 December 2022 and 2021, the Group did not have property, plant and equipment pledged. As at 31 December 2022 and 2021, the Group had no significant acquisition commitments of intangible assets which will have to be fulfilled during the later years.

15 Structure of the group

The Group's structure as at 31 December 2022 and 2021:

Company name	Country of registered office	Activities profile	Effective ownership interest, %	Non-controlling interest's effective ownership interest, %
UAB „Ignitis“	Lithuania	Electricity and gas supply, trading, energy efficiency projects	-	-
Subsidiaries of the Group:				
Ignitis Polska Sp. Z o. o.	Poland	Supply and trading of electricity	100,00	-
Ignitis Latvija SIA	Latvia	Supply of electricity and natural gas	100,00	-
Ignitis Eesti, OÜ	Estonia	Supply of electricity	100,00	-
Ignitis Suomi OY[1]	Finland	Supply of natural gas	100,00	-

[1]Established 22 April 2021.

16 Non-current receivables

EUR thousand	31 December 2022	31 December 2021
Finance lease	3,536	3,553
Accrued revenue related to regulatory activity of the public electricity supply (Note 5.5.1)	-	86,520
Other non-current amounts receivable	91	185
Total	**3,627**	**90,258**
Less: loss allowance	-	-
Carrying amount	**3,627**	**90,258**

16.1 Finance lease received

EUR thousand	31 December 2022	31 December 2021
Non-current receivables	3,536	3,553
Other amounts receivable (Note20)	642	565
Carrying amount	**4,178**	**4,118**

The Group's amounts receivable under the energy saving services agreements are included in the line items "Amounts receivable after one year" and "Other amounts receivable".

EUR thousand	31 December 2022	31 December 2021
Minimum payments		
Within the first year	772	660
From two to five years	2,994	2,890
More than five years	865	968
Total	**4,631**	**4,518**
Unearned finance income		
Within the first year	(130)	(95)
From two to five years	(293)	(267)
More than five years	(30)	(38)
Total	**(453)**	**(400)**
Carrying amount	**4,178**	**4,118**

As at 31 December 2022 and 2021, the Group assessed whether credit risk of finance lease clients has increased significantly and did not establish a significant increase in credit risk.

17 Inventories

EUR thousand	31 December 2022	31 December 2021
Natural gas	366,063	148,449
Consumables, raw materials and spare parts	11,928	1,271
Other	813	693
Carrying amount	**378,804**	**150,413**

Under the Lithuanian legislation the Group is required to store a quantity of natural gas in the underground storage facility as a reserve for the smallest (the most sensitive) consumers of the Group. As at 31 December 2022, the latter quantity comprised 496 GWh or EUR 53,209 thousand (31 December 2021: 472 GWh or EUR 26,375 thousand).

The Group's inventories expensed were as follows:

EUR thousand	2022	2021
Natural gas	1,399,227	291,985
Total	**1,399,227**	**291,985**

During 2022, the Group wrote down inventories for EUR 102,912 thousand (during 2021, the Group wrote down inventories for EUR 470 thousand). The write-down is recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

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

EUR thousand	2022	2021
Carrying amount as at 1 January	**664**	**262**
Additional write-down to net realisable value	102,912	470
Reversal of write-down to net realisable value	-	(68)
Carrying amount as at 31 December	**103,576**	**664**

18 Prepayments and deferred expenses

EUR thousand	31 December 2022	31 December 2021
Deferred expenses	5,949	2,075
Prepayments for other goods and services	896	523
Prepayments for natural gas	46	57,003
Other advances	110	355
Carrying amount	**7,001**	**59,956**

19 Trade receivables

EUR thousand	31 December 2022	31 December 2021
Amounts receivable from contracts with customers		
Receivables for gas from non-household customers	231,886	100,677
Receivables for electricity from non-household customers	167,513	58,986
Receivables for electricity from household customers	66,124	33,306
Receivables for gas from household customers	7,243	4,309
Other trade receivables	35,252	13,252
Total	**508,018**	**210,530**
Less: loss allowance	(9,143)	(7,526)
Carrying amount	**498,875**	**203,004**

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

No interest is charged on trade receivables and the regular settlement period is 15 to 30 days. Trade receivables for which the settlement period is more than 30 days comprise insignificant part of total trade receivables. The Group didn’t identify any significant financing component. For terms and conditions on settlement between related parties see Note 33.

19.1 Loss allowance of amounts receivable (lifetime expected credit losses) assessed using the loss ratio matrix

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

EUR thousand	Loss ratio	Trade receivables	Loss allowance
Not past due	0.20	95,836	195
Up to 30 days	1.48	4,044	60
30-60 days	3.45	1,335	46
60-90 days	9.20	522	48
90-120 days	21.93	342	75
More than 120 days	79.15	5,783	4,577
31 December 2022	**4.64**	**107,862**	**5,001**

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

EUR thousand	Loss ratio	Trade receivables	Loss allowance
Not past due	0.23	40,354	93
Up to 30 days	1.36	2,127	29
30-60 days	3.25	891	29
60-90 days	9.93	272	27
90-120 days	16.27	166	27
More than 120 days	75.66	4,742	3,588
31 December 2021	**7.81**	**48,552**	**3,793**

The loss ratio matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss ratios are updated during the preparation of the annual financial statements with respect to the impact of forward-looking information where forward-looking information is indicative of any exacerbation of economic conditions during upcoming years.

19.2 Loss allowance of amounts receivable (lifetime expected credit losses) calculated using internal rating system

The table below presents information on the Group’s trade receivables from contracts with customers as at 31 December 2022 that are assessed on a collective basis using the internal rating system:

Internal ratings	Trade receivables	Loss allowance
A	165,758	995
B	37,002	466
C	11,818	304
D	2,809	383
E	1,879	1,763
31 December 2022	**219,266**	**3,911**

The table below presents information on the Group’s trade receivables from contracts with customers as at 31 December 2021 that are assessed on a collective basis using the internal rating system:

Internal ratings	Trade receivables	Loss allowance
A	112,695	149
B	32,874	358
C	9,216	415
D	2,224	386
E	1,272	1,206
31 December 2021	**158,281**	**2,514**

The assessment on the basis of the internal ratings assigned takes into account external and internal information about the debtor, which may be material to determine the debtor's ability to settle with the Group. External sources of information include financial status, court involvement, and debt to other entities, employee trends, arrests, and other information that is used as the basis for establishing a bankruptcy rating (bankruptcy probability model) or risk class. This external information is obtained through service agreements with third parties (Credit Agencies). The internal sources of information include the debtor’s profile of actual settlements with the Group based on which the settlement rating is determined. Based on the ratio of bankruptcy ratings or risk classes to settlement ratings, the borrower is assigned internal rating on a scale from A to E, where A is the lowest risk and E is the highest risk grade.

In doing so, expected credit losses are based on the internal ratings assigned to the borrowers.

19.3 Loss allowance of amounts receivable (lifetime expected credit losses) calculated on an individual basis

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

	31 December 2022		31 December 2021	
EUR thousand	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Not past due	179,673	-	1,952	-
Up to 30 days	702	-	417	-
30-60 days	46	2	67	2
60-90 days	92	9	19	2
90-120 days	90	27	7	2
More than 120 days	287	193	1,235	1,213
Carrying amount	**180,890**	**231**	**3,697**	**1,219**

Loss allowance of amounts receivable is stated in profit or loss of the statement of profit or loss.

The fair values of trade receivables as at 31 December 2022 and 2021 approximated their carrying amounts.
Movements in the loss allowance of trade receivables during the year 2022 and 2021 were as follows:

EUR thousand	2022	2021
Carrying amount as at 1 January	**7,526**	**7,526**
Loss allowance during the year	2,132	2,132
Reversal of loss allowance	(515)	(515)
Carrying amount as at 31 December	**9,143**	**9,143**

20 Other receivables

EUR thousand	31 December 2022	31 December 2021
Deposits for electricity related derivatives in electricity market	57,594	60,525
Deposits for gas related derivatives to commodity traders	24,950	39,222
Accrued revenue from electricity sales	19,235	24,061
Accrued revenue from natural gas sales	7,669	1,416
Other accrued income	6,504	-
Current portion of finance lease	642	565
Accrued revenue related to regulatory activity of the public electricity supply (Note 5.5.1, 28)	-	39,024
Deferred income related to over declaration	-	10,222
Other receivables	22,234	15,416
Total	**138,828**	**190,451**
Less: loss allowance	-	(327)
Carrying amount	**138,828**	**190,124**

As at 31 December 2022, contract assets comprise EUR 34,408 thousand (31 December 2021: EUR 64,501 thousand); contract assets cover the following items: "Accrued revenue from natural gas sales", "Other accrued revenue", "Accrued revenue from electricity sales" and "Accrued revenue related to regulatory activity of the public electricity supply" (Note 6.2).

As at 31 December 2022, financial assets comprise EUR 83,186 thousand (31 December 2021: EUR 100,312 thousand)); contract assets cover the following items: "Deposits for electricity related derivatives in electricity market", "Deposits for gas related derivatives to commodity traders", "Current portion of finance lease".

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

20.1 Deposits for electricity and gas related derivatives

The Group has made deposits for derivative instruments as assurance of contractual obligations with the Commodities exchange and Commodity traders for trading of derivatives linked to electricity and gas market prices. Deposits are in a form of cash collateral and the value moves on a daily basis, i.e. depends on market prices. The Group estimates that the whole amount of cash collateral will be recovered as the amounts payable are related to the realization of the future hedge and the sales contracts will be realized together with the hedge, thus invoices for derivative instruments will be covered with sales income and after this payment cash collateral will be recovered.

In the Group's assessment, the expected credit losses on derivative-related deposits are insignificant and therefore not accounted for.

21 Cash and cash equivalents

EUR thousand	31 December 2022	31 December 2021
Cash balances in bank accounts	299,649	78,698
Cash in transit	6,978	3,010
Restricted cash	9	9
Carrying amount	**306,636**	**81,717**

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

Based on contracts with solar fleet developers, the Group collects on their behalf client payments for the acquisition, lease and maintenance of remote solar plants. Collected amounts are transferred to bank accounts specified by the developers. As at 31 December 2022, the amount of payments collected on behalf of such developers amounted to EUR 1,556 thousand (31 December 2021: EUR 5,291 thousand).

Restricted cash is held with banks in accordance with certain agreements requirements, for example to guarantee the performance of the contract. These funds are not available to finance the Group's day-to-day operations. To secure liabilities to Swedbank, AB, the Group has pledged funds under contract. The balance of pledged funds amounted to EUR 9 thousand as at 31 December 2022 and 2021.

22 Equity

22.1 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. Foreign subsidiaries are subject for compliance with capital requirement according to regulation adopted in those foreign countries. As at 31 December 2022 the parent company and all subsidiaries met requirements of capital regulation (31 December 2021: the parent company and all the subsidiaries met requirements of capital regulation).

22.2 Issued capital

EUR thousand	31 December 2022	31 December 2021
Issued capital		
Ordinary shares	40,140	40,140
Ordinary shares issued and fully paid	**40,140**	**40,140**

As at 31 December 2022 and 2021, the Group's issued capital comprised EUR 40,140 thousand and was divided in to 138,413,794 registered ordinary shares with par value is EUR 0.29 of each.

22.3 Dividends

Dividends declared during the year:

EUR thousand	2022 m.	2021 m.
AB „Ignitis Grupė"	-	39 715

The Group did not pay dividends in 2022.

Dividends of EUR 39,715 thousand for the year 2020 were approved during the General Shareholders' Meeting held on 25 March 2021.

23 Reserves

23.1 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.

The Group's legal reserve as at 31 December 2022 and as at 31 December 2021 was not fully formed.

23.2 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

		2022			2021	
EUR thousand	Before tax	Tax income (expenses)	After tax	Before tax	Tax income (expenses)	After tax
Cash flow hedges – effective portion of changes in fair value	346,684	(52,003)	294,681	80,344	(12,052)	68,292
Cash flow hedges – reclassified to profit or loss	(257,375)	38,606	(218,769)	(46,939)	7,041	(39,898)
Total	**89,309**	**(13,397)**	**75,912**	**33,405**	**(5,011)**	**28,394**

		2022			2021	
EUR thousand	Before tax	Tax income (expenses)	After tax	Before tax	Tax income (expenses)	After tax
Effective hedging instruments – OTC	7,133	(1,070)	6,063	(31,377)	4,706	(26,671)
Effective hedging instruments – Nasdaq	82,176	(12,327)	69,849	64,782	(9,717)	55,065
Total	**89,309**	**(13,397)**	**75,912**	**33,405**	**(5,011)**	**28,394**

24 Other comprehensive income

EUR thousand	Hedging reserve	Other reserves	Retained earnings	Total
Cash flow hedges – effective portion of change in fair value	68,292	-	-	68,292
Cash flow hedges – reclassified to profit or loss	(39,898)	-	-	(39,898)
Result of change in actuarial assumptions	-	-	3	3
Foreign operations – foreign currency translation differences	-	9	-	9
In total as at 31 December 2021	**28,394**	**9**	**3**	**28,406**
Cash flow hedges – effective portion of change in fair value	226,389	-	-	226,389
Cash flow hedges – reclassified to profit or loss	(178,871)	-	-	(178,871)
Result of change in actuarial assumptions	-	-	14	14
Foreign operations – foreign currency translation differences	-	(122)	-	(122)
In total as at 31 December 2022	**47,518**	**(122)**	**14**	**47,410**

Hedging reserve movement comprises recognition of effective portion of EUR 226,389 thousand (gross before tax EUR 266,340 thousand) (as at 31 December 2021: EUR 68,292 thousand (gross before tax EUR 80,344 thousand)) and reclassification to statement of profit or loss of EUR (178,871) thousand (gross before tax EUR (210,436) thousand) (as at 31 December 2021: EUR (39,898) thousand (gross before tax (46,939) thousand)) recognized in item 'Purchases of electricity, natural gas and other services' (see Note 31.2).

25 Loans

EUR thousand	31 December 2022	31 December 2021
Non-current		
Loan of the parent company's controlling shareholder	370,800	288,800
Current		
Bank loans	-	104,101
Overdraft	172,878	-
Current loans – Group's cash-pool platform	115,916	121,155
Accrued interest	8,273	895
Total	**667,867**	**514,951**

Non-current loans by maturity:

EUR thousand	31 December 2022	31 December 2021
From 1 to 2 years	-	-
From 2 to 5 years	327,000	27,000
After 5 years	43,800	261,800
Total	**370,800**	**288,800**

All loans of the Group are denominated in euros.

25.1 Movement of loans

Movement of loans during the year 2022 mainly consisted of the following:

On 3 March 2022, the Group signed an overdraft agreement for up to EUR 150 million with Swedbank, AB. Balance as at 31 December 2022 amounts to EUR 145,210 thousand. Maturity date is 2 March 2023.

On 17 March 2022, the Group signed an overdraft agreement for up to EUR 150 million with Swedbank, AB. Balance as at 31 December 2022 amounts to EUR 27,668 thousand. Maturity date is 17 March 2023.

25.2 Covenants and unwithdrawn balances

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

As at 31 December 2022, the balance of the Group's current loans – Group's cash-pool platform – amounted to EUR 164,084 thousand (31 December 2021: EUR 128,845 thousand). As at 31 December 2022, the balance of the Group's bank overdraft amounted to EUR 127,122 thousand (31 December 2021: no unwithdrawn loans).

26 Net debt

Net debt is a non-IFRS liquidity metric used to determine the value of debt against highly liquid assets owned by the Group.
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.

Debts to financial institutions, loans under cash-pool agreement to Group companies and related interest payables and lease liabilities are included in the net debt calculation.

Net debt balances:

EUR thousand	31 December 2022	31 December 2021
Cash and cash equivalents	(306,636)	(81,717)
Non-current loans payable after one year	370,800	288,800
Overdraft	172,878	-
Current loans – Group's cash-pool platform	115,916	121,155
Accrued interest	8,273	895
Lease liabilities	471	623
Bank loans	-	104,101
Net debt	**361,702**	**433,857**

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

	Assets	Lease liabilities		Loans		
EUR thousand	Cash	Non-current	Current	Non-current	Current	Total
Net debt as at 1 January 2021	**(26,336)**	**709**	**580**	**38,901**	**9,909**	**23,763**
Cash changes						
(Increase) decrease in cash and cash equivalents	(55,381)	-	-	-	-	**(55,381)**
Loans received	-	-	-	250,000	215,651	**465,651**
Repayments of loans	-	-	-	-	(135)	**(135)**
Lease payments	-	-	(593)	-	-	**(593)**
Interest paid	-	-	(29)	-	(2,507)	**(2,536)**
Non-cash changes						
Lease contracts concluded		178	45	-	-	**223**
Accrual of interest payable	-	-	(305)	-	-	**(305)**
Lease contracts concluded	-	-	38	-	3,132	**3,170**
Reclassifications between items	-	(520)	520	(101)	101	**-**
Net debt at 31 December 2021	**(81,717)**	**367**	**256**	**288,800**	**226,151**	**433,857**
Net debt as at 1 January 2022						
Cash changes						
(Increase) decrease in cash and cash equivalents	(224,919)	-	-	-	-	**(224,919)**
Proceeds from borrowings	-	-	-	82,000	-	**82,000**
Repayments of borrowings	-	-	-	-	(109,341)	**(109,341)**
Lease payments	-	-	(361)	-	-	**(361)**
Interest paid	-	-	(70)	-	(12,219)	**(12,289)**
Bank overdraft received (repaid)	-	-	-	-	172,878	**172,878**
Non-cash changes						
Lease contracts concluded	-	-	195	-	-	**195,**
Lease liabilities written-off	-	-	(2)	-	-	**(2)**
Accrual of interest payable	-	-	86	-	19,598	**19,687**
Reclassifications between items	-	(157)	157	-	-	**-**
Net debt as at 31 December 2022	**(306,636)**	**210**	**261**	**370,800**	**297,067**	**361,702**

27 Deferred income and advances received

27.1 Deferred income

tūkst. Eur	2022	2021
Deferred income under contracts with customers		
Deferred income related to gas	61,125	-
Deferred income related to gas over declaration	33,697	7,197
Deferred income related to electricity over declaration	2,900	1,502
In total	**97,722**	**8,699**

Movement in the Group's deferred income:

EUR thousand	2022	2021
	Current portion	Current portion
Balance as at 1 January	**8,699**	**3,592**
Increase during the year	97,722	7,688
Recognised as revenue	(8,699)	(2,581)
Balance as at 31 December	**97,722**	**8,699**

27.2 Advances received

EUR thousand	31 December 2022	31 December 2021
Current advances from contracts with customers (contract liabilities)	11,678	9,732
Current advances from other contracts	3,002	544
Total	**14,680**	**10,276**

28 Provisions

EUR thousand	31 December 2022	31 December 2021
Non-current	145	177
Current	20,453	38
Total	**20,598**	**215**

Movement of the Group's provisions was as follows:

EUR thousand	Provisions for employee benefits	Regulatory differences of public electricity supply services	Other provisions	Total
Balance as at 1 January 2021	**81**	**-**	**129**	**210**
Increase during the year	64	**-**	82	146
Utilised during the year	(47)	**-**	(90)	(137)
Result of change in assumptions	(4)	**-**	-	(4)
Balance as at 31 December 2021	**94**	**-**	**121**	**215**
Balance as at 1 January 2022	**94**	**-**	**121**	**215**
Increase during the year	-	20,335	76	**20,411**
Utilised during the year	(6)	-	(5)	**(11)**
Result of change in assumptions	(17)	-	-	**(17)**
Balance as at 31 December 2022	**71**	**20,335**	**192**	**20,598**
Non-current portion	51	-	94	145
Current portion	20	20,335	98	20,453
Balance as at 31 December 2022	**71**	**20,335**	**192**	**20,598**

The provision for regulatory differences of public electricity supply activity consists of EUR 20,335 thousand provision related to regulatory differences of public electricity supply activity, set-off with the future regulatory differences of public electricity supply activity will be made within one year (Note 5.5.1).

29 Trade payables

EUR thousand	31 December 2022	31 December 2021
Amounts payable for gas	105,022	8,900
Amounts payable for electricity	47,496	56,438
Other payables	10,631	3,908
Carrying amount	**163,149**	**69,246**

30 Other current amounts payable and liabilities

EUR thousand	31 December 2022	31 December 2021
Taxes (other than income tax)	98,848	26,645
Deposits received for derivatives	55,990	-
Accrued expenses	43,616	40,169
Derivatives (Note 31)	29,434	71,431
Payroll related liabilities	2,295	1,902
Amounts payable for property, plant and equipment	947	17
Other amounts payable and liabilities	2,197	208
Carrying amount	**233,327**	**140,372**

As at 31 December 2022, financial liabilities comprise EUR 88,568 thousand (31 December 2021: EUR 71,775 thousand); financial liabilities include the following: "Deposits received for derivatives", "Derivatives", "Amounts payable for property, plant and equipment", "Other amounts payable and liabilities".

31 Derivatives

The Group's derivatives mainly comprise:

- contracts related to electricity and natural gas commodities (hedge accounting);
- contracts made directly with other parties – over-the-counter (OTC);
- contracts made through Nasdaq Commodities market – Nasdaq;
- other contracts (non-hedge accounting);
- other contracts – derivatives.

Fair value of Nasdaq contracts are set-off with cash on day-to-day basis. Accordingly, no financial assets or liabilities are recognised in statement of financial position. Gain or loss of such transactions is recognised same as all derivatives.

31.1 Derivatives included in the statement of financial position

EUR thousand	Note	Movement during 2022
Derivatives		
Other non-current assets		4,229
Other current assets		21,461
Other non-current amounts payable and liabilities		(19)
Other current amounts payable and liabilities	30	(71,431)
Carrying amount as at 31 December 2021		**(45,760)**
Change in the value		
Fair value change of OTC recognised in Other income		19,076
Fair value change of OTC recognised in other comprehensive income		38,535
Total change during 2022		**57,611**
Derivatives		
Carrying amount as at 31 December 2022		**11,851**
Other non-current assets		17,299
Other current assets		44,914
Other non-current amounts payable and liabilities		(20,928)
Other current amounts payable and liabilities	30	(29,434)

31.2 Derivatives in the statements of profit or loss and other comprehensive income

EUR thousand	Note	2022	2021
Fair value change of OTC	31.1	19,076	(15,571)
Fair value change of Nasdaq		(10,632)	10,664
Recognised ineffective hedging instruments – OTC		26,312	5,123
Recognised ineffective hedging instruments – Nasdaq		23,739	18,347
Total recognised in Other income and Other expenses	7	**58,495**	**18,563**
Effective hedging transactions reclassified from Hedging reserve to the Statement of profit or loss	24	210,436	46,939
Total		**268,931**	**65,502**

32 Contingent liabilities and assets

32.1 Litigations

32.1.1 Litigation concerning the designated supplier state aid scheme and LNG price component

Following the General Court on the European Union (the General Court) on 8 September 2021 judgement in case T-193/19, AB „Achema" initiated the reopening of the previously suspended proceedings in the administrative courts of the Republic of Lithuania in respect of the complaints it has lodged against the National Energy Regulatory Council (hereinafter referred to 'the Council') regarding the Council's decisions of the setting of the LNG price supplement. The Group's subsidiary UAB „Ignitis" in these cases is intervened as a third party.

The General Court on 8 September 2021 in case T-193/19 decided to partially annul on procedural grounds the European Commission decision in case SA.44678 (2018/N) (hereinafter referred to 'Decision'). The General Court considered that the European Commission should have had doubts on the amendments regarding the designated supplier state aid scheme which have been valid for a period from 2016 to 2018 and annulled Decision on that part, however maintained the validity of the remainder of the Decision i.e. the designated supplier state aid scheme valid from 2019.

Following the General Court's judgment, the Commission has re-examined the compatibility of the 2016 amendments and has decided to open an in-depth investigation under EU State aid rules. The Commission will now investigate further to determine whether the amount of compensation received by Litgas for the period 2016-2018, in particular regarding the boil-off and balancing costs, is in line with the SGEI Framework.

The European Commission's formal investigation procedure, limited to the points of doubt raised by the General Court, should lead to the adoption of a final and complete decision of the European Commission.

After the formal investigation procedure (which stared in December 2022) there will be more certainty in assessing the actual financial impact for the Group.

32.2 Regulatory assets and liabilities

32.2.1 Natural gas distribution to household customers

Natural gas supply to household customers activity is regulated by NERC. The NERC regulates natural gas tariff paid by customers. Regulatory differences defined as the difference between the fixed natural gas sale price and the actual natural gas purchase price were not recognized in the financial statements till 31 December 2022 as Group had no guarantee for this difference to be considered when setting tariffs in the future according to the legislation base.

The overcollected unrecognised amount as of 31 December 2022 is EUR (16,072) thousand, amount is related to year 2022 (undercollected amount of EUR 70,903 thousand as of 31 December 2021). The management expects that overcollected unrecognised amount EUR (16,072) thousand to household customers will be included in future tariffs for upcoming next 12 months period.

32.2.2 Designated supply of natural gas

Designated supply activity is also regulated by NERC. Regulatory differences arise when the actual costs differ from those estimated, but the Group does not recognize regulated assets or liabilities in the financial statements as the difference will be refunded by providing the services in the future. The overcollected amount of EUR (52,989) thousand as of 31 December 2022 will be included in the LNGT security component in the future (overcollected amount of EUR (52,989) thousand as of 31 December 2021).

33 Related-party transactions

Related parties, in EUR thousand	Amounts receivable 31 December 2022	Amounts payable 31 December 2022	Loans received 31 December 2022	Sales 2022	Purchases 2022	Finance income (costs) 2022
AB „Ignitis grupė“	-	8,398	483,325	-	781	(17,081)
AB „Ignitis grupė“ group’s companies	9,114	75,197	3,391	306,249	297,843	37
State-controlled UAB EPSO-G group companies	6,043	5,402	-	152,282	96,257	-
Total	**15,157**	**88,997**	**486,716**	**458,531**	**394,881**	**(17,044)**

Related parties, in EUR thousand	Amounts receivable 31 December 2021	Amounts payable 31 December 2021	Loans received 31 December 2021	Sales 2021	Purchases 2021	Finance income (costs) 2021
AB „Ignitis grupė“	-	968	362,661	-	766	(2,277)
AB „Ignitis grupė“ group’s companies	4,506	44,316	47,294	49,289	245,056	(334)
State-controlled UAB EPSO-G group companies	10,922	16,661	-	76,221	63,887	-
Other related parties	100	-	-	2	-	-
Total	**15,528**	**61,945**	**409,955**	**125,512**	**309,709**	**(2,611)**

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

During 2022 and 2021, the Group used the group’s cash-pool platform. In 2022, the funds granted were repaid and additional funds were withdrawn (Note 25). Movements of loans from related parties are disclosed in a Note 25. Derivatives with related parties are disclosed in Note 31.

33.1 Terms of transactions with related parties

The payment terms set range from 30 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. There were no guarantees given or received in respect of the related party payables and receivables.

33.2 Compensation to key management

EUR thousand	2022	2021
Wages and salaries and other current benefits to key management	623	576
Whereof:		
Short-term benefits	623	563
Share-based payment expenses	-	13
Number of key management personnel	8	8

In 2022 and 2021, members of Board, Supervisory Board and Chief Executive Officer are considered to be the Group’s key management personnel. For more information on the key management personnel, see the “Governance report” of Annual report.

34 Fair values of financial instruments

34.1 Financial instruments measured at fair value

As at 31 December 2022 and 2021, the Group has accounted for assets and liabilities arising from financial derivatives. The Group accounts for financial derivative assets and liabilities at fair value and their accounting policies are set out in Note 3.10.3. Market values that are based on quoted prices (Level 1) comprise quoted commodities derivatives that are traded in active markets. The market value of derivatives traded in an active market are often settled on a daily basis, thereby minimising the market value presented on the statement of financial position.

Market values based on observable inputs (Level 2) comprise derivatives where valuation models with observable inputs are used to measure fair value. All assets and liabilities measured at market value are measured on a recurring basis. The Group attributes to Level 2 of the fair value hierarchy derivatives linked with the Lithuanian/Latvian and Estonian/Finish electricity price areas. Derivatives acquired directly from other market participants (OTC contracts) and physical transmission rights acquired are estimated based on the prices of the NASDAQ Commodities exchange.

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

34.2 Financial instruments for which fair value is disclosed

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

34.3 Financial instruments' fair value hierarchy levels

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

EUR thousand	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Financial instruments at FVPL or FVOCI						
Assets						
Derivatives	31	**62,213**	-	62,213	-	62,213
Liabilities						
Derivatives	31	**50,362**	-	50,362	-	50,362
Financial instruments for which fair value is disclosed						
Liabilities						
Loan of the parent company's controlling shareholder	25	**377,006**	-	344,148	-	**344,148**
Overdraft	25	**172,878**		172,878		**172,878**
Current loans – Group's cash-pool platform	25	**116,305**	-	116,305	-	**116,305**

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

EUR thousand	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Financial instruments at FVPL or FVOCI						
Assets						
Derivatives	31	**25,690**	-	25,690	-	25,690
Liabilities						
Derivatives	31	**71,450**	-	71,450	-	71,450
Financial instruments for which fair value is disclosed						
Liabilities						
Loan of the parent company's controlling shareholder	25	**289,671**	-	287,534	-	**287,534**
Bank loans	25	**104,101**	-	104,101	-	**104,101**
Current loans – Group's cash-pool platform	25	**121,179**	-	121,179	-	**121,179**

35 Events after the reporting period

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

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6.2 Parent company's financial statements

Prepared for the year ended 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the European Union

The Company's financial statements were prepared and signed by UAB "Ignitis" management on 31 March 2023:

Artūras Bortkevičius	**Darius Šimkus**	**Natalija Timofejeva**
General Manager	Director of Finance and Business Support Department	Accounting expert of UAB „Ignitis grupės paslaugų centras", acting under Decision No 23_GSC_SP_0010 of 17 February 2023

Statement of profit or loss

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Revenue from contracts with customers	3	2,928,524	862,286
Other income	7	40,017	14,546
Total revenue and other income		**2,968,541**	**876,832**
Purchases of electricity, natural gas and other services	8	(2,846,501)	(838,347)
Salaries and related expenses		(11,165)	(9,283)
Depreciation and amortisation		(3,184)	(2,782)
Impairment of investments in subsidiaries	15	(4,100)	-
Other expenses	9	(21,161)	(15,704)
Total expenses		**(2,886,111)**	**(866,116)**
Operating profit (loss)		**82,430**	**10,716**
Finance income	10	2,600	618
Finance expenses	11	(19,754)	(3,283)
Finance activity, net		**(17,154)**	**(2,665)**
Profit (loss) before tax		**65,276**	**8,051**
Current income tax (expenses)/benefit	12	(31,927)	(2,948)
Deferred tax (expenses)/benefit	12	18,235	858
Net profit for the year		**51,584**	**5,961**

Statement of comprehensive income

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Net profit for the year		**51,584**	**5,961**
Other comprehensive income (expenses)			
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)			
Change in actuarial assumptions		14	3
Items that will not be reclassified to profit or loss in subsequent periods, total		**14**	**3**
Items that may be reclassified to profit or loss in subsequent periods (net of tax)			
Cash flow hedges – effective portion of changes in fair value		205,671	55,570
Cash flow hedges – reclassified to profit or loss		(167,831)	(33,180)
Items that may be reclassified to profit or loss in subsequent periods, total		**37,840**	**22,390**
Total other comprehensive income (expenses) for the year		**37,854**	**22,393**
Total comprehensive income (expenses) for the year		**89,438**	**28,354**

Statement of financial position

31 December 2022

EUR thousand	Notes	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Intangible assets	14	18,821	18,423
Property, plant and equipment	15	4,388	3,433
Right-of-use assets		286	404
Investments in subsidiaries	15	6,027	6,274
Non-current receivables	16	42,936	130,523
Other financial assets		177	177
Other non-current assets	31.1	17,299	4,229
Deferred tax assets	12	19,980	1,748
Total non-current assets		**109,914**	**165,211**
Current assets			
Inventories	17	314,372	149,720
Prepayments and deferred expenses	18	6,552	59,791
Trade receivables	19	448,507	190,050
Other receivables	20	119,827	155,028
Other current assets	31.1	43,826	21,461
Current loans	16	17,200	62
Cash and cash equivalents	21	278,482	72,953
Total current assets		**1,228,766**	**649,065**
TOTAL ASSETS		**1,338,680**	**814,276**
EQUITY AND LIABILITIES			
Equity			
Issued capital	22	40,140	40,140
Reserves			
Legal reserve	23.1	2,572	2,572
Hedging reserve	23.2	60,230	22,390
Retained earnings (deficit)		57,575	5,977
Total equity		**160,517**	**71,079**
Liabilities			
Non-current liabilities			
Non-current loans	24	370,800	288,800
Non-current lease liabilities	26	47	180
Provisions	28	145	177
Other non-current amounts payable and liabilities		26,848	1,206
Total non-current liabilities		**397,840**	**290,363**
Current liabilities			
Loans	24	297,067	226,151
Lease liabilities		241	229
Trade payables	29	148,329	60,974
Prepayments received	27.2	12,026	10,179
Income tax payable		33,459	3,412
Provisions	28	20,453	38
Deferred income	27.1	36,597	8,699
Other current amounts payable and liabilities	30	232,151	143,152
Total current liabilities		**780,323**	**452,834**
Total liabilities		**1,178,163**	**743,197**
TOTAL EQUITY AND LIABILITIES		**1,338,680**	**814,276**

Statement of changes in equity

For the year ended 31 December 2022

EUR thousand	Notes	Issued capital	Legal reserve	Hedging reserve	Retained earnings (deficit)	Total
Balance as at 1 January 2021		**40,140**	**468**	**-**	**41,819**	**82,427**
Net profit for the year		-	-	-	5,961	**5,961**
Other comprehensive income (expenses)						
Cash flow hedges	23.2	-	-	22,390	-	22,390
Result of change in actuarial assumptions		-	-	-	3	**3**
Total other comprehensive income (expenses) for the year		**-**	**-**	**22,390**	**3**	**22,393**
Total comprehensive income (expenses) for the year		**-**	**-**	**22,390**	**3**	**22,393**
Transfer to legal reserve		-	2,104	-	(2,104)	**-**
Dividends	13	-	-	-	(39,715)	**(39,715)**
Share-based payments		-	-	-	13	**13**
Balance as at 31 December 2021		**40,140**	**2,572**	**22,390**	**5,977**	**71,079**
Balance as at 1 January 2022		**40,140**	**2,572**	**22,390**	**5,977**	**71,079**
Net profit for the year		-	-	**-**	51,584	**51,584**
Other comprehensive income (expenses)						
Cash flow hedges		-	-	37,840	-	37,840
Result of change in actuarial assumptions		-	-	**-**	14	**14**
Total other comprehensive income (expenses) for the year		**-**	**-**	**37,840**	**14**	**37,854**
Total comprehensive income (expenses) for the year		**-**	**-**	**37,840**	**51,598**	**89,438**
Balance as at 31 December 2022		**40,140**	**2,572**	**60,230**	**57,575**	**160,517**

Statement of cash flows

For the year ended 31 December 2022

EUR thousand	Notes	2022	2021
Cash flows from operating activities			
Net profit for the year		51,584	5,961
Adjustments to reconcile net profit to net cash flows:			
Depreciation and amortisation		3,184	2,782
Change in the fair value of derivatives		(12,831)	16,347
Impairment/(reversal of impairment) of investments in subsidiaries	15	4,100	-
Income tax expenses (benefit)	12	13,692	2,091
Increase (decrease) in provisions		20,400	9
Inventory write-down to net realisable value (reversal)	17	102,912	402
Impairment/(reversal of impairment) of financial assets	19	1,394	558
Loss on disposal/write-off of property, plant and equipment		(121)	-
Share-based payment expenses		-	13
Interest income	10	(2,053)	(605)
Interest expenses	11	19,607	3,120
Other finance (income)/costs		(400)	151
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(137,787)	(246,768)
(Increase) decrease in inventories, advances and deferred expenses, other non-current and current assets		(214,325)	(173,108)
Increase (decrease) in trade payables, deferred revenue, advances received, other non-current and current amounts payable and liabilities		252,956	59,301
Income tax (paid) recovered		(8,774)	(7,340)
Net cash from/(used in) operating activities		**93,538**	**(337,086)**
Cash flows used in investing activities			
Acquisition of property, plant and equipment and intangible assets		(3,704)	(2,094)
Proceeds from sale of property, plant and equipment and intangible assets		345	-
Acquisition of subsidiary/Increase in share capital	15	-	(200)
Loans granted	17.1	(163,290)	(66,950)
Loan repayments received	17.1	143,437	32,100
Interest received		1,471	331
Finance lease payments received		703	776
Other increases/(decreases) in cash flows from investing activities		12	13
Net cash flows from investing activities		**(21,026)**	**(36,024)**
Cash flows from/(used in) financing activities			
Loans received	24	82,000	465,651
Repayments of loans	24	(109,341)	(135)
Lease payments	24	(292)	(509)
Interest paid	24	(12,228)	(2,520)
Dividends	13	-	(39,715)
Overdraft	26	172,878	-
Net cash flows from/(used in) financing activities		**133,017**	**422,772**
Increase (decrease) in cash and cash equivalents		**205,529**	**49,662**
Cash and cash equivalents at the beginning of the period	21	72,953	23,291
Cash and cash equivalents at the end of the period		**278,482**	**72,953**

Explanatory notes

For the year ended 31 December 2022

1 General information

UAB „Ignitis" (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The Company was registered on 02 September 2014 with the Register of Legal Entities managed by the public institution the Centre of Registers. The Company's registered office address is Laisvės pr. 10, LT-04215, Vilnius, Lithuania. Company code 303383884, VAT code LT100008860617. The Company has been founded for an indefinite period. Reporting period is one year ended 31 December 2022.

The Company's core line of business is the supply, purchase (import), planning and sale of natural gas and electricity to consumers. The Company supplies natural gas to corporate customers operating in the sectors of energy, industry and small commercial businesses, and to private customers, including supply of liquefied natural gas (hereinafter – LNG) through the Klaipėda LNG Terminal. The Company started the activity of independent electricity supply to household customers with effect from 1 November 2020. The Company also develops a range of smart services, offers charging solutions for electric vehicles, an electricity balancing service, solar power and other energy solutions based on technological innovations, and sells electricity origin certificates.

Shareholder of the Company:

	31 December 2022		31 December 2021	
	Number of shares held	Ownership interest (%)	Number of shares held	Ownership interest (%)
AB „Ignitis grupė"	138,413,794	100	138,413,794	100
Total	**138,413,794**	**100**	**138,413,794**	**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 2022 and 2021. As at 31 December 2022, the shareholder structure of AB "Ignitis grupė" is as follows: the Ministry of Finance of the Republic of Lithuania (74.99%), and retail and institutional investors (25.01%). As at 31 December 2021: the Ministry of Finance of the Republic of Lithuania (73.08%), retail and institutional investors (25.25%) and own shares (1.67%).

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

As at 31 December 2022, the Company's subsidiaries were as follows:

Subsidiary	Registered office	The Company's ownership interest, %	Main activities
Ignitis Eesti OÜ	Narva mnt 5, 10117 Tallinn, Estonia	100	Supply of electricity
Ignitis Latvija SIA	Cēsu g. 31, k-3 LV-1012 Riga, Latvia	100	Supply of electricity and natural gas
Ignitis Polska Sp.z.o.o.	Puławska g. 2A, Warsaw, 02-566, Poland	100	Supply and trading of electricity and natural gas
Ignitis Suomi OY	Firdonkatu 2, Workery West, 6th floor 00520 Helsinki, Finland	100	Natural gas supply

These financial statements were prepared and signed for issue by the Company's management on 31 March 2023. These financial statements of the Company have been prepared in accordance with IFRS, as required by local law. The Company also prepares consolidated financial statements.

2 Basis of preparation

2.1 Basis of accounting

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 2022 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 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.

3 Significant accounting policies

3.1 New standards, amendments and interpretations

3.1.1 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, 31 December 2021, except for the new standards which became effective in 2022.

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

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

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

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

3.1.3 Standards issued but not yet effective and not early adopted

In preparation of these financial statements, the Company did not apply new IFRS issued by IASB, IAS, amendments and interpretations, the effective date of which is later than 31 December 2022 and early adoption whereof is permitted. The following are new standards and/or amendments to the standards that have been issued but not yet effective:

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

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. Amendments are endorsed for application in the European Union (hereinafter – EU).

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

Disclosure of Accounting Policies (amendments to IAS 1 and IFRS Practice statement 2)

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

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

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

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

Other standards

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

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

3.2 Revenue from contracts with customers

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

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

The Company's performance obligations set out in the agreements with customers are as follows:

– Sale of electricity (Note 3.2.1)
– Supply of electricity (Note 3.2.1)
– Sale of natural gas (Note 3.2.2)
– Liquefied Natural Gas Terminal Security Component Services (hereinafter "LNGT services") (Note 3.2.2)
– Project activities (Note 3.2.3)

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

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

3.2.1 Electricity related revenue

The Company's revenue related to electricity comprises the following:

– revenue from the sale of electricity,
– revenue from supply of electricity.

Electricity related revenue is received from non-household and household customers. Electricity to household customers is supplied at electricity tariff applied for public supply (Note 3.2.1.2) or independent supply tariff (Note 3.2.1.1). Electricity to non-household customers is supplied at independent supply tariff (Note 3.2.1.1).

Accounting policy for electricity related revenue may be presented in accordance with the components of the electricity tariff applied to the consumed electricity by household and non-household customers. The tariff consists of the following components:

(f) price of electricity (Note 3.2.1.1, 3.2.1.2);
(g) fee for electricity supply services (Note 3.2.1.1, 3.2.1.2);
(h) price of electricity distribution services, which include two components: transmission over high voltage grid and distribution over medium and low voltage grid (Note 3.2.1.1);
(i) price of electricity system services (includes capacity reserve services) (Note 3.2.1.1);
(j) fee for PSO services (hereinafter "PSO fees") (Note 3.2.1.1).

Regulation of tariffs and the Company's profitability is presented in Note 3.2.4.1.

3.2.1.1 Revenue from the sale of electricity

Revenue from sales of electricity (Note 3 line item "Revenue from the sale of electricity") mainly consists of sale of electricity to non-household and household customers by providing independence supply according to bilateral agreement.

Revenue includes the price of electricity and the fee for electricity supply services. Revenue is recognised over time in each reporting period on the basis of VAT invoices issued, which includes the calculated amount of electricity consumed. Electricity consumption is calculated on the basis of the declared meter readings provided by consumers.

When performing electricity supply, through tariff paid by customers, the Company collects fees and other tariff components (Note 3.2.1) and transfers them to other entities:

- *Tariff component: transmission over high voltage grid and distribution over medium and low voltage grid*

Electricity distribution and transmission services are acquired from transmission grid operator. The Company collects fees for these services through the electricity tariff and transfers to aforesaid operator. The Company's management has identified that in respect of electricity distribution and transmission services (Note 5.2.2) the Company acts as an agent. Revenue and costs from these services are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

- *Tariff component: system services*

System services are provided by and acquired from the electricity transmission system operator. The Company collects fees for these services through electricity tariff and transfers to aforesaid operator. On the basis of the same arguments used to determine the agent's activities with regard to electricity transmission and distribution services (Note 5.2.2), the Company's management has identified that the Company acts as an agent system services also. Revenue and costs from these services are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

- *Tariff component: PSO fee*

PSO fee is an integral part of electricity tariff. The Company collects PSO fees through electricity tariff from the end-customers connected to the electricity distribution network and transfers them to the PSO fund administrator UAB Baltpool. The Company's management has identified that in respect of PSO fees the Company acts as an agent (Note 5.2.1). Revenue and costs from these fees are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

3.2.1.2 Revenue from public supply of electricity

Revenue from public electricity supply (Note 3 line item "Revenue from public electricity supply") consists of the following components of public supply electricity tariff:

(iii) price of public electricity, and
(iv) price of public electricity supply.

Revenue from public electricity supply to the customers is recognised over time referring to the supplied electricity quantity reading devices provided by them and verified by the distribution system operator. In case of difference between provided and verified quantities due to over-declaration (Note 5.4) the Company estimates the amount of deferred revenue (Note 27) and accounts for as a contract liability. If the Company doesn't receive the data of electricity consumed according to the readings of meters due to specific reasons (customer's delays to present readings, fails of the remote meter's scanner or other agreements with the customer) the revenue from sale of electricity is recognised based on the average usage estimation method. By applying the average usage estimation method consumption of the electricity is calculated according to the historical 12 months data of electricity consumption, i.e. the average consumption for the certain period is calculated, and at the end of year is adjusted according to the actual readings.

Public electricity supply is regulated (Note 3.2.4.1).

When performing public electricity supply, through tariff paid by customers, the Company collects fees (Note 3.2.1) for other tariff components and transfers them to other entities (Note 3.2.1.1).

3.2.2 Gas related revenue

The Company's gas related revenue includes:

- sale of natural gas (Note 3.2.2.1),
- income of LNGT security component (Note 3.2.2.2).

Gas related revenue is received from business customers and household customers by providing gas supply services. Income of LNGT security component is received as a compensation for providing services of designated supplier. For the purpose of these financial statements, terms "gas" and "natural gas" are inter-changeable.

Accounting policy for revenue from natural gas supply to household customers may be presented in accordance with the components of the natural gas tariff applied to the consumed gas by household customers. Final natural gas tariff to household customers comprise of the following components:

(a) price of gas (Note 3.2.2.1);
(b) price of natural gas transmission over high-pressure grid;
(c) price of natural gas distribution over medium and low pressure grid services;
(d) LNGT security component (Note 3.2.2.2).

The Company as a natural gas supplier collects payments for all tariff components from customers. The component of transmission service price and LNGT security component are transferred to transmission grid operator, gas distribution service price component – to the operator of natural gas distribution network. The Company is an agent in collection of transmission service component (Note 5.2.3), LNGT security component (Note 5.2.1) and distribution service component fees (Note 5.2.3). Revenue and costs from are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

Regulation of tariffs and the Company's profitability is presented in Note 3.2.4.2.

Accounting policy for revenue from business customers is presented in Note 3.2.2.1.

3.2.2.1 Revenue from gas sales

Revenue from sales of gas (Note 3 line item "Revenue from gas sales") consists of gas price and supply margin. Gas sales are performed by the Company as a natural gas supplier to household customers and as a designated LNG supplier to gas market.

Revenue from sale of gas to end-customers is recognised on a monthly basis referring to the supplied gas quantity readings devices provided by them and verified by the distribution system operator (an accrual basis). In case of difference between provided and verified quantities due to over-declaration (Note 5.4) the Company estimates the amount of deferred revenue (Note 27) and accounts for as a contract liability. Revenue and costs from are recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

3.2.2.2 LNGT security component

The Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania provides that contribution so-called security component related to the following securities of natural gas supply shall be collected from end-customers and added to the natural gas transmission price:

- for the installation of LNGT, its infrastructure and connection and all fixed operating costs that are not included in other state regulated prices, and
- to compensate for the reasonable costs of supplying the minimum quantity required to ensure the necessary operation of the LNGT.

Similarly to PSO fees, LNGT security component is collected from end-customers through the natural gas tariff and transferred then to the state budget, from which the LNGT funds are distributed (i.e. disbursed) to LNGT service providers.

The Company acts as a natural gas supplier that collects LNGT security component from end-customers and as designated liquefied natural gas supplier (hereinafter "designated supplier") the function of which is to ensure the necessary operation of the LNGT by supplying the minimum quantity of natural gas.

3.2.2.2.1 The Company's activity as a natural gas supplier to end users

LNGT security component is an integral part of natural gas tariff to the customer. Payments for LNGT security component collected directly from customers or natural gas suppliers, if the customers don't have a direct contract with the operator of transmission system. Collected amounts of LNGT security component are transferred to gas transmission system operator AB "Amber Grid" which is appointed to perform the function of administering the LNGT security component. In accordance of IFRS 15 the Company in providing these services consider itself by acting as an Agent and recognises the revenue on a net basis (Note 5.2). Income and disbursements of LNGT security component (regardless of whether the net of it is positive or negative) are recognised under the item "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

Income and disbursements of LNGT security component (regardless of whether the net of it is positive or negative) are recognised under the item "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

3.2.2.2.2 The Company's activity as designated LNGT supplier to gas market

The Company provides designated LNG supply function.

In order to maintain the LNG Terminal infrastructure in minimum mode, a certain amount of natural gas, which is to be supplied through the LNG Terminal, is required for filling, regasification or transhipment and supply to the Lithuanian natural gas system or the international LNG market.

The Law on the LNG Terminal and the Description of the Natural Gas Supply Diversification Procedure determines that the required quantity shall be supplied by the designated supplier (nominated by the Ministry of Energy for 10 years, term ends on 31 December 2024) by concluding a contract with the LNG supplier.

To ensure the operation of LNG Terminal the designated supplier shall sell the required quantity on a competitive market and therefore its costs which due to the nature of its activities are exclusively borne (whereas other suppliers don't incur) are compensated by operator of transmission system paying LNGT funds that are paid from the budget of LNGT security component collected by natural gas suppliers from end customers. Accordingly, the Company receives revenue from LNGT funds. Natural gas designated supply activities are regulated by NERC (Note 3.2.4.2).

The revenue of LNGT funds is recognised over time by issuing VAT invoices to the operator of transmission system according to the statements which are received from it and include information of degassed and (or) reload quantity of LNG and the quantity of LNG used for the Company's technological needs at LNG Terminal. Revenue of LNGT funds is recognised under the "Revenue from contracts with customers" item in the statement of profit or loss. LNGT security component income is presented in Note 3 line item "LNGT security component income".

Revenue from LNGT security component is regulated by NERC (Note 3.2.4.2).

3.2.3 Other significant revenue from contracts with customers

3.2.3.1 Revenue from project activities

Project-based activity comprise a number of interrelated works. Accordingly, the promise of the seller to render solar park, power saving, electric car charging and other installation services to the customer is identified as a performance obligation in the agreement concluded with the customer. The performance obligation under the agreement concluded with the customer is to be carried as soon as the object specified in the contract has been transferred to the customer. The progress of completion of the performance obligation is measured using the input method. The Company has determined that the input method, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation.

After the completion of construction and contractual works, the seller grants a warranty period for these works and goods used. Pursuant to paragraph B31 of IFRS 15, whether the warranty is required by law, the warranty is aimed at protecting customers from the risk of purchasing defective products, therefore, it is not deemed a separate performance obligation of the seller.

The agreement concluded with the customer indicates the total price that the seller will recognise as revenue upon execution of the performance obligation over the validity period of the agreement. The seller and the customer may agree that the consideration for contractual works might increase due to additional works or other costs, but no variable consideration arises in the agreement concluded with the customer as a result of this condition.

Revenue under the agreement concluded is recognised over the time based on a stage of completion percentage. At the date of preparation of the financial statements, the seller assesses the ratio between the actually incurred expenses and the expenses projected in the estimate to the agreement and accounts for the amount of revenue as the product of the price of the agreement and the established stage of completion ratio.

3.2.4 Regulation of tariffs and profitability

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

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

The Company usually does not recognise assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level, provided the difference will be recovered/refunded only through the provision of services in the future, except those presented in Note 5.2.

3.2.4.1 Regulation of electricity related activities

The public electricity price is regulated by NERC by setting price caps for electricity purchase price and distribution services and by adding the difference between actual purchase price of electricity and the forecasted electricity price for the previous period.

3.2.4.2 Regulation of gas related activities

The NERC regulates the prices of gas transmission and distribution services and LNGT security component, in respect of which the Company acts as an agent, which are included in gas tariff for household customers.

Liquefied natural gas is sold to regulated (supervised) energy producers at the market price set and approved by NERC. Non-regulated sales of natural gas are conducted at the prices agreed between the parties.

Activity of designated supply activities is regulated by the NERC. The Company receives a compensation to cover the difference between the price of designated supply and weighted average natural gas import price, which is recognised as revenue. Revenue is received through the LNGT component. The security component of the LNGT depends on the projected gas prices and other costs for the upcoming year, the forecasted gas supply volumes, the deviation of the revenue received in previous periods from the regulated amount and other things. Actual costs incurred by the Company during the year may differ from those estimated when approving prices and the actual amount of supply may differ from the forecast. As a result, the Company's actual revenue level may deviate from the regulated level and the difference will affect the future LNG terminal security component and thus future revenue. The Company does not recognise a regulated asset or liability that is intended to equalize current year revenue to a regulated level if the difference affects future supply prices and is recovered / refunded in the future provision of services.

3.3 Expense recognition

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

3.4 Dividend distribution

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

3.5 Current and deferred tax

3.5.1 Income tax

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

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

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

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

3.5.2 Deferred tax

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

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

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

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

3.5.3 Current and deferred tax for the reporting period

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

3.6 Intangible assets

3.6.1 Patents, licences

Patents and licenses are measured initially at acquisition cost and are amortised on a straight-line basis over the estimated useful life of 3 to 5 years or a specific validity term of a license and/or patent, if any. Useful life is reviewed on year-by-year basis.

3.6.2 Computer software

Computer software is stated at cost, less accumulated amortisation and impairment losses.

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 4 years. Useful life is reviewed on year-by-year basis.

3.6.3 Assets identified during business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

For assets acquired during business combination, useful life of 20 years was set for balancing services and trade in derivatives, and 15 years for customer relation assets. Amortisation is computed on a straight-line basis. Useful life is reviewed on year-by-year basis.

3.7 Property, plant and equipment

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

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

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

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

Depreciation periods (number of years):

Category of property, plant and equipment	Useful lives (number of years)
Solar plants	5-10
Other property, plant and equipment	3-4

3.8 Right-of-use assets

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

3.8.1 Initial measurement of right-of-use assets

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

3.8.2 Subsequent measurement of right-of-use assets

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

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

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

Group of right-of-use assets	Depreciation period (in years)
Buildings	8-75

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

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

3.9 Impairment of non-financial assets

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

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

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

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

3.10 Investments in subsidiaries

Investments in subsidiaries are stated in the statement of financial position of the parent company at acquisition cost less impairment loss, when the investment's carrying amount exceeds its estimated recoverable amount. An adjustment to the value is made to write-down the difference as expense in the statement of profit or loss. If the basis for the write-down can no longer be justified at the statement of financial position date, it is reversed. If there is a present obligation to cover a deficit in subsidiaries, a provision is recognised for this.

3.11 Financial instruments

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

3.11.1 Financial assets

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

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

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

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

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

3.11.1.1 Financial assets subsequently measured at FVOCI

The Company only has derivatives subsequently measured at FVOCI. More information is disclosed in Note 3.10.3.

3.11.1.2 Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest rate (herein after "EIR") method and are subject to impairment. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses. Financial assets are recognised as current assets, except for maturities greater than 12 months after the date of the statement of financial position, in which case they are classified as non-current assets.

3.11.1.3 Financial assets at FVPL

Debt and equity instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at FVOCI are stated as financial assets to be measured at FVPL. The Company includes Derivatives in this category (see Note 3.10.3).

3.11.1.4 Effective interest rate method

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

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

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

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

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

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

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

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

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

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

- For receivables from Group companies, ECLs are assessed on an individual basis;
- For other receivables, prepayments and accrued income, ECLs are assessed 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 ECL in respect of that particular borrower. In the absence of reliable sources of information on the credit history of a particular debtor its financial position as at the date of assessment, including forward-looking information, the Company assesses the debt on a collective basis.

Recognition stages of expected credit losses:

4. Upon granting of a loan or concluding a finance lease agreement, the Company recognises the expected credit losses for the twelve-month period. Interest income from the loan is calculated on the carrying amount of financial assets without adjusting it by the amount of ECL;
5. Upon establishing that the credit risk related to the borrower or lessee has significantly increased, the Company accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower or lessee. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses;
6. Where the Company establishes that the recovery of the loan or finance lease debt is doubtful, the Company classifies these debts as credit-impaired financial assets (doubtful loans and receivables). Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets which is reduced by the amount of expected credit losses.

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

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

3.11.1.6 Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the borrower;
(b) a breach of contract, such as a default or past due event for more than 90 days;
(c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties;
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

3.11.1.7 Derecognition of financial assets

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

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

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

3.11.2 Financial liabilities and equity instruments issued

Debt or equity instruments are classified as financial liabilities or equity based on the substance of the arrangement.

The Company has not issued any equity instruments, except for issued capital.

3.11.2.1 Initial recognition and measurement of financial liabilities

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

3.11.2.2 Subsequent measurement

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

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

3.11.2.3 Financial liabilities at FVPL

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

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

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

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

3.11.2.4 Financial liabilities at amortised cost

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

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

3.11.2.5 Presentation

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

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

3.11.2.6 Effective interest method

The EIR method is used in the calculation of the amortised cost of a financial liabilities and in the allocation of the interest expenses in the statement of profit or loss over the relevant period.

The EIR is the rate that exactly discounts estimated future cash outflows through the expected life of the financial liability to the gross carrying amount of the financial liability that shows the amortised cost of the financial liability.

3.11.2.7 Derecognition of financial liabilities

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

3.11.3 Derivatives and hedge accounting

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

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

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

– there is 'an economic relationship' between the hedged item and the hedging instrument;
– the effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
– the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

3.11.3.1 Presentation

Fair value of derivatives is presented in the statement of financial position as "Other non-current assets", "Other current assets", "Other non-current amounts payable and liabilities" and "Other current amount payables and liabilities" (Note 31.1).

Changes in fair value and result of settled derivatives for hedges that do not meet the qualifying criteria for hedge accounting are disclosed in the statement of profit or loss either as "Other income" (Note 7), if result for a period of such derivatives is profit, or "Other expenses" if result of such derivatives for a period is loss (Note 9).

Changes in fair value and the result of financial instruments that have been settled and that are held for hedging and that qualify for hedge accounting are accounted for as follows:

3.11.3.2 Fair value hedges

The change in the fair value of a hedging instrument that is related to electricity or natural gas prices is recognised in the statement of profit or loss as "Purchases of electricity, natural gas and other services". The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the same line of the statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through in the statement of profit or loss over the remaining term of the hedge using the Effective Interest Rate (EIR) method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss. The Company did not have such hedges as at 31 December 2022.

3.11.3.3 Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in the statement of financial position, in the hedging reserve, while any ineffective portion is recognised immediately directly profit or loss of the statement of profit or loss in other income or expenses (accounting method is similar to derivatives that do not meet the hedge criteria – Note 3.10.3.1). The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. However, at least 67% hedged item coverage not exceeding 150% is expected in order for derivative to be classified as effective for hedge accounting purposes.

When cash flow hedges are realised, gain or losses are transferred from equity and recognised in the statement of profit or loss as "Purchases of electricity, natural gas and other services". Monetary change in fair value of effective hedging instruments is shown in the statement of cash flows under "(Increase) decrease in trade and other non-current and current receivables"; change in fair value of ineffective derivatives is shown in the statement of cash flows under "Change in the fair value of derivatives".

3.12 Energy saving solutions – Finance lease — the Company is a lessor

The Company provides energy saving services by preparing an energy saving project, for the implementation of which it is necessary to install special equipment and carry out construction works in the client's facilities. Based on the contract with the client, acquisition of special equipment can be financed by the client or the Company. For the contracts where acquisition of equipment and construction works is financed by the Company, the recognised sales revenue of the system correspond to the minimum payments accumulated by the Company and allocated to cover the value of the installed system. The acquisition cost of the installed system, net of the present value of unguaranteed residual value, is expensed. The costs incurred in relation to negotiation and finance lease organisation at the inception of lease are expensed.

Amounts receivable are accounted for at amortised cost. On initial recognition, amounts receivable are estimated by discounting all future payments of the client for the installed energy saving system. Subsequently, amounts receivable are estimated using the annual interest rate, which was used on initial recognition when discounting the future payments of clients, and by recognising interest income from financing activities.

Interest income from financing activities is recognised over the period of lease using the effective interest rate, which was used when discounting the future payments of clients on initial recognition. Interest income from financing activities is accounted for irrespective of whether such interest is stipulated in the contract with the client.

The installed systems are transferred into the ownership of a client at no extra pay following the receipt of a full payment under the contract.

3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method, except for natural gas and liquefied natural gas, the cost of which is determined using the weighted average costing method (see below). The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Company from the tax authorities), transportation, handling and other costs directly attributable to the acquisition of inventories. Cost does not include loan costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The cost of the remaining natural gas in the pipeline and storage is established using the weighted average cost method, and of liquefied natural gas stored at the terminal – the acquisition cost. Weighted average cost is calculated as weighted average of inventories at the beginning of the months and purchases made during that month.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are presented under liabilities within current loans in the statement of financial position.

3.15 Issued capital, share premium

Ordinary shares are classified as equity.

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

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

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

3.16.2 Company as a lessor in finance leases

Leases in which the Company does transfer substantially all the risks and rewards incidental to ownership of an asset or the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent, are classified as finance leases. At the commencement date, the Company recognises assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. Finance lease income for the lease term based on periodic net investment in the lease is accounted for on a straight-line basis over the lease term and included into finance income in the statement of profit or loss. Lease payments are apportioned between finance income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable. Finance charges are recognised in finance income in the statement of profit or loss.

3.17 Provisions

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

3.18 Employee benefits

3.18.1 State plans

The Company participates only in State plans. State plans are established by legislation to cover all entities and are operated by national or local government or by another body (for example, in the case of the Company, the State Social Security Fund). State plans are defined benefit plan under which the Company pay fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. This contributions are recognised as an expense on an accrual basis and are included within remuneration expenses.

3.18.2 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. Non-current benefits are recognised at present value discounted using market interest rate.

Actuarial gains or losses arising from adjustments based on experience or from changes in actuarial assumptions are recognised immediately within the Company's other comprehensive income. All past service costs are recognised immediately.

3.18.3 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. 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. Actuarial gains or losses are recognised immediately in other comprehensive income.

3.19 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

3.20 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.

3.21 Offsetting

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

3.22 Fair value

The Company measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date. Determination of the fair value is based on the assumption that the asset sale or liability transfer transaction is performed either:
– in the principal market for the asset or liability
or
– 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.

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

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

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

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

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

3.23 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 35.

4 Risk management

4.1 Overview

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

4.2 Financial risk factors

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

4.2.1 Market risk

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

4.2.1.1 Foreign currency exchange risk

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

The sale/purchase contracts of the Company are denominated in the euro. Foreign exchange risk is mainly characteristic to contracts concluded by the Company for the purchase of natural gas from third parties. Aiming to reduce foreign exchange risk the agreement on natural gas purchase and supply is concluded in the same currency.

4.2.1.2 Interest rate risk

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

The Company's income and cash flows are affected by fluctuations in market interest rates because the Company's loans had variable interest rates as at 31 December 2022; therefore, it is exposed to interest rate risk.

Assuming debt obligations, it is aimed that non-current liabilities would bear a fixed interest rate. If the fixing of the interest rate is not possible due to objective reasons and the liability assumed comprises a significant amount, interest rate derivatives would be used for the purpose of interest management (the Company did not use interest rate derivatives during 2022 and 2021). The aim is that non-current loans with fixed interest rates comprised no less than 50% of the Company's non-current loans portfolio. The usage of any of the interest rate derivatives requires the expiry date of the derivative to correspond to the maturity date of the debt obligation.

The risk of adverse changes in the interest rate of the investment is not actively insured. Risk management measures are applied only when the market has obvious indications that the interest rate might significantly decrease, resulting in negative investment returns.

As at 31 December 2022, loans received with variable interest rate amounted to EUR 199,878 thousand (EUR 131,101 thousand as at 31 December 2021). As at 31 December 2022, loans granted with variable interest rate amounted to EUR 56,450 thousand (EUR 40,450 thousand as at 31 December 2021) (Note 17.1).

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

	Increase/decrease, percentage points	(Decrease)/increase in profit
2022	1/(1)	(1,434)/1,434
2021	1/(1)	(907)/907

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

4.2.1.3 Energy and commodity risk

Commodity risk is the risk that changes in market prices (i.e. commodity prices) will affect the Company's results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company uses derivatives to manage the commodity risk. All such transactions are carried out according to Group's risk management policy. Generally, the Company seeks to apply hedge accounting to manage volatility in the statement of profit or loss.

In the ordinary course of its operations, the Company is exposed to commodity risks on natural gas and electricity products.

The source of exposure lies with cash flows from sales of natural gas and electricity or cost cash flows incurred to procure fixed price electricity/natural gas power for sales contracts. Majority of this type of exposure is based on changes of respective commodity price in the market that the Company operates.

Commodity risk arises primarily from the following activities:

- fixed price commodity sales contracts (electricity and natural gas) for household and business customers;
- fixed price natural gas purchases contracts.

In order to manage commodity risk, the Company enters into financial derivatives contracts (cash flow hedges).

This is performed in order to secure a fixed acquisition price of the above mentioned commodities, so that optimum profit margins could be obtained from contracted or expected fixed price sales.

For electricity related hedges, the Company uses price component based hedges in the derivatives market (NASDAQ commodities) or equivalent over-the-counter contracts (OTC), and for natural gas related hedges – OTC contracts with price indexes matching hedged contracts. Assessment of economic relationship and hedge effectiveness is performed by:

- dollar offset method for electricity hedges;
- descriptive method for natural gas hedges.

The two separate components that are being used as a hedged item for electricity related hedges are SYS price and price component equivalent or similar to difference between Lithuania price area and SYS price. Their economic relationship is determined separately for each component.

- SYS price (average price of Nordpool power market, of which Lithuania is a member);
- price component equivalent or similar to difference between Lithuania price area and SYS price (commonly referred as EPAD in NASDAQ commodities market).

Source of hedge ineffectiveness is mainly related to limited supply of financial derivatives for Lithuanian electricity price area in the market. Therefore, commodity risk is partly hedged in similar price area's (Latvian, Estonian and other), which results in partial ineffectiveness. The designated risk component of SYS historically covered 100% of the changes in hedged item, while designated price component equivalent or similar to difference between Lithuania price and SYS price historically covered variety of percentages (depending on hedge timing and hedged price area). During the reporting period of 2022, on average 84% of all electricity hedge contracts in terms of value has been effective.

Overview of the Company's derivatives positions:

EUR thousand	31 December 2022		31 December 2021	
	Contractual nominal value	Market value	Contractual nominal value	Market value
Market derivatives – Electricity (Nasdaq commodities)	28,822	101,085	187,458	94,323
Over the counter (OTC) derivatives – Electricity	154,003	(39,261)	57,925	10,252
Over the counter (OTC) derivatives – Natural gas	131,892	24,883	226,294	(64,585)
Total	**314,717**	**86,707**	**471,677**	**39,990**

Nominal amounts (quantities in MW) hedged:

	31 December 2022			
	2023	2024	2025	2026 m.
Electricity hedges	2,830,448	238,524	285,286	-
Natural gas hedges	801,320	631,502	696,980	-
Total	**3,631,768**	**870,026**	**982,266**	**-**

Nominal alues hedged:

	31 December 2022			
EUR thousand	2023	2024	2025	2026
Electricity hedges	167,526	8,358	6,940	-
Natural gas hedges	64,464	36,006	31,423	-
Total	**231,990**	**44,364**	**38,363**	**-**

Market value sensitivity analysis, due to changes in market prices:

EUR thousand	31 December 2022		
	Increase by 10%	Current prices	Decrease by 10%
	Market value	Market value	Market value
Market derivatives – Electricity (Nasdaq commodities)	113,362	101,085	87,511
Over the counter (OTC) derivatives – Electricity	(27,786)	(39,261)	(50,735)
Over the counter (OTC) derivatives – Natural gas	41,622	24,883	8,144
Total	**127,199**	**86,707**	**44,920**

Negative amount indicates that there are more "sell" positions than "buy" positions.

4.2.1.4 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 (trade and other amounts receivable) and from financing activities (granted loans, finance lease agreements, derivatives). The Company's risk related to cash is limited, as the Company keeps cash balances only in reliable financial institutions.

The Company is not exposed to significant credit risk concentration related to trade and other amounts receivable.

To make optimal decisions on the possibility of concluding agreements with the Company's customers, the Company follows a process and criteria for assessing the solvency of its customer, organises a financial/expert due diligence and, on the basis of the information obtained, makes a decision on the customer's risk. The agreements are concluded with the Company's customers in view of the customer solvency risk assessment by applying customised settlement terms: longer settlement periods are applied to customers with a lower risk and customers with a higher risk are subject to more stringent settlement terms and (or) additional collaterals, including funds deposited in the Company's account, sureties, bills of exchange, etc. To manage the risk of counterparty default, the Company applies an approved Customer Solvency Risk Management Standard.

The Company measures receivables using expected credit loss provision matrix (Note 5.3.1) or on an individual basis (Note 5.3.2), where the financial position and credit risk of each borrower are measured individually by analysing the borrower's financial statements, settlement discipline and other publicly available information about the debtor that may be affected by the debtor's credit assessment.

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

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

EUR thousand	Note	31 December 2022	31 December 2021
Financial assets measured at amortised cost:			
Non-current receivables		-	86,520
Loans granted	17.1	56,600	40,512
Trade receivables	19	448,507	190,050
Other receivables	20	82,554	103,553
Cash and cash equivalents	21	278,482	72,953
Amounts receivable under finance lease agreements			
Non-current portion	17.2	3,536	3,553
Current portion	20	642	565
Financial assets measured at FVPL or FVOCI			
Derivatives	31.1	61,125	25,690
Total		931,446	523,396
Off-balance sheet commitments:			
Nominal value of guarantees granted	32.3	1,594	1,380
Total		**933,040**	**524,776**

4.2.2 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 loans over a certain period were repaid from available cash, from cash flows expected from operating activities of the Company over that period, and from unwithdrawn committed credit facilities which have to be repaid in later periods.

As at 31 December 2022, the Company's current liquidity ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 1.57 and 1.17 respectively (31 December 2021: 1.43 and 1.10 respectively). As at 31 December 2022, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 291,206 thousand (31 December 2021: EUR 128,845 thousand).

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

EUR thousand	Note	31 December 2022	31 December 2021
Amounts payable measured at amortised cost			
Loans	24	667,867	514,951
Lease liabilities		288	409
Trade payables	29	148,329	60,974
Deposits received for derivatives		55,990	-
Other amounts payable and liabilities		2,502	83
Financial liabilities measured at FVPL or FVOCI			
Derivatives	31.1	75,502	80,022
Total		**950,478**	**656,439**

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

EUR thousand	2022				Total
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	
Loans	177,459	129,079	351,305	46,237	**704,080**
Lease liabilities	76	170	47	-	**293**
Trade payables	148,329	-	-	-	**148,329**
Other payables	58,492	-	-	-	**58,492**
Derivatives	23,561	25,093	26,848	-	**75,502**
31 December 2022	**407,917**	**154,342**	**378,200**	**46,237**	**986,696**

EUR thousand	2021				Total
	Less than 3 months	3 months to 1 year	From 1 to 5 years	After 5 years	
Loans	121,351	104,725	27,011	263,790	**516,877**
Lease liabilities	59	177	183	-	**419**
Trade payables	60,974	-	-	-	**60,974**
Other payables	21	62	-	-	**83**
Derivatives	19,704	59,112	1,206	-	**80,022**
31 December 2021	**202,109**	**164,076**	**28,400**	**263,790**	**658,375**

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

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

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

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

5.1 Impact of climate change

The Company pays special attention in order to reveal a potential impact of climate change and its related economic, transitional changes on the activities of the parent company. This impact may arise from physical (extreme) weather phenomena and from the aspiration of states to switch to the Green Deal, which could cause additional requirements for energy sector: to comply with new regulations, implement new technological solutions, manage reputational risks, respond to fast growing market demand for green solutions, etc. Read more on the impact of climate change and the parent company's approach on managing it in section "5.1 Sustainability overview" of the annual report.

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

Valuation of property, plant and equipment, and impairment assessment of goodwill

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

Impact of climate change on provision for risk and on ECL

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

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

5.2 Determining whether the Company acts as a Principal or an Agent in relation to PSO fees and LNGT security component

5.2.1 Collection and transfer of PSO and LNGT security component fees

Management has applied a significant judgment and concluded that the Company acts as an Agent in relation to collection of PSO fees and LNGT security component from customers due to the following argumentation:

- the Company is not responsible for PSO and LNGT projects/initiatives, accordingly it is not responsible that collected PSO fees and LNGT security component are used for their intended purpose;
- the Company is not exposed to any inventory risk,
- the Company has no legal power to establish pricing of these components.

5.2.2 Collection and transfer of fees for electricity transmission and distribution components

The Company's management has identified that in respect of gas distribution and transmission services the Company acts as an agent. The management relied on the following arguments:

- for all transmission and distribution services the Company is not ultimately responsible, since the owners of the transmission and distribution grid take full responsibility, as provided for in the laws and regulations, and agreements with customers;
- the Company also does not bear inventory risk since price of distribution and transmission services is determined based on meter readings, i.e. fee of transmission and distribution components is charged to the Company only to the amount of electricity consumed by the end customer;
- the prices of transmission and distribution components are determined by the grid operator and approved by the NERC.

5.2.3 Collection and transfer of fees for gas transmission and distribution components

The Company's management has identified that in respect of gas distribution and transmission services the Company acts as an agent. The management relied on the following arguments:

- for all distribution services the Company is not ultimately responsible, since the owners of the transmission and distribution grid take full responsibility, as provided for in the laws and regulations, and agreements with customers;
- the Company also does not bear inventory risk since price of distribution services is determined based on meter readings, i.e. distribution fee is charged to the Company only to the amount of electricity consumed by the end customer;
- the prices of distribution components are determined by the grid operator and approved by the NERC.

5.3 Expected credit losses of trade receivables

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

5.3.1 Collective assessment of ECL applying provision matrix

The Company uses provision matrices to calculate ECL for trade receivables. The provision rates are based on days past due or allocation to the Company's internal credit rating system for groupings of various customer segments that have similar loss patterns (i.e. by customer type).

The provision matrixes are initially based on the Company's historical observed default rates. For instance, if forecast economic conditions (i.e., changes in gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Company's trade receivables is disclosed in Note 19.

5.3.2 Individual assessment of ECL

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

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

5.4 Estimation of over-declaration of electricity and natural gas consumption by private customers and accounting for deferred revenue

In the circumstances when the tariff in subsequent period is higher than in current period according to the historical evidence of the Company it has been identified that private customers tend to over-declare the consumption of electricity and natural gas in the last months of the year (in case of independent electricity supply – before the expiry of existing agreements).

Since the Company's electricity supply revenue depends on declarations of electricity consumed by the customers, over-declaration increases the Company's revenue and therefore the Company needs to estimate the amount of the over-declared consumption of electricity to evaluate the amount of deferred revenue. Estimation of over-declared electricity is based on historical consumption by the customers as well as the calculations by the distribution system's operator regarding potentially over-declared quantity based on the assessment of technological losses in the electricity grid.

Estimation of over-declared natural gas is based on the quantities declared by customers and on the information presented in the system by gas distribution operator on natural gas quantities consumed during the period. All assumptions are reviewed at each reporting date.

5.5 Regulated activities: accrued income and provisions

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

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

5.5.1 Public electricity supply

On 25 September 2020, NERC adopted a resolution No O3E-879 "On approval of the methodology for determining electricity transmission, distribution and public supply services and the public price cap". The resolution includes the methodology of determination of the additional component for distribution services to household consumers to compensate the difference between the actual and forecasted reasonable costs of a public supplier. The additional component is paid by household customers through the electricity distribution service price which is included as one of the components of public electricity tariff applied to the consumed electricity by household customers. This component is collected by distribution system operator (Group company) from all electricity suppliers that sell electricity to household customers. The calculation of the difference includes the difference resulting from the discrepancy between the forecast electricity purchase price and the actual electricity purchase price, as well as the amount of costs resulting from the difference between the public supplier's public electricity price cap and the actual electricity distribution service price caps. If the difference is negative a loss is compensated through the increased price of additional component applied in the next year and accordingly, if the difference is positive a gain is reduced through the decreased price additional component.

This resolution also stipulates that if the Company discontinues public supply services, the Company must refund raised discrepancies between the forecasted and actual costs of providing these services if the costs actually incurred by the Company were less than the income received. The amount must be refunded to the Company if the costs actually incurred by the Company were higher than the income received. The difference shall be reimbursed by 31 December 2025.

With regard what is said above, the Group recognises contract assets and/or contract liabilities of the difference to eliminate mismatches between the current year earnings and the regulated level regardless the difference under the provision of services in the future.

As at 31 December 2022, the current part of a payable of EUR 20,335 thousand (31 December 2021: receivable of EUR 125,544 thousand) to be set-off with the future regulatory differences of public supply activity within one year. The payable amount was accounted in the current liabilities under the caption 'Provisions' (Note 28).

5.6 Assessment of impairment of investments in subsidiaries

As at 31 December 2022, the Company's management carried out an impairment test to determine existence of indications of impairment for investments into subsidiaries with reference to the external factors (changes in economic and regulatory environment, market composition, interest rate, etc.) and internal factors (return on investments, results of operations, etc.) that might have impact on impairment of investments into subsidiaries and receivables.

As a result of the impairment test, an additional impairment of EUR 4,100 thousand was recognised in 2022 (Note 16.1).

6 Revenue from contracts with customers

6.1 Disaggregated revenue information

EUR thousand 2022	Non-household customers	Household customers	Total
Revenue from gas sales	1,366,378	348,403	**1,714,781**
Revenue from the sale of electricity	772,212	163,820	**936,032**
Revenue from public electricity supply	-	239,414	**239,414**
Revenue from project activities	10,783	8,477	**19,260**
Revenue of LNGT security component	18,995	-	**18,995**
Other	42	-	**42**
Total	**2,168,410**	**760,114**	**2,928,524**

EUR thousand 2021	Non-household customers	Household customers	Total
Revenue from gas sales	286,519	54,133	**340,652**
Revenue from the sale of electricity	216,667	42,640	**259,307**
Revenue from public electricity supply	-	217,508	**217,508**
Revenue from project activities	4,110	4,753	**8,863**
Revenue of LNGT security component	27,907	8,049	**35,956**
Total	**535,203**	**327,083**	**862,286**

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

EUR thousand	31 December 2022	31 December 2021
Performance obligation settled over time	2,459,670	855,080
Performance obligation settled at a point of time	468,854	7,206
Total	**2,928,524**	**862,286**

6.2 Contract balances

EUR thousand	Notes	31 December 2022	31 December 2021
Trade receivables	19	**448,507**	**190,050**
Contract assets		**36,631**	**127,208**
Accrued revenue related to regulatory activity of the public electricity supply		-	125,544
Accrued revenue from gas sales	20	28,704	1,641
Accrued revenue from electricity related sales	20	1,420	23
Other accrued income	20	6,507	-
Contract liabilities		**47,801**	**18,431**
Advances received	27.2	11,204	9,732
Deferred income	27.1	36,597	8,699

6.2.1 Contract assets

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under the contracts. Recognised expected credit losses (if any) are disclosed in Notes 19 and 20.

6.2.2 Contract liabilities

EUR thousand	Notes	31 December 2022	31 December 2021
Current	27	47,801	18,431

6.3 Rights to returned goods assets and refund liabilities

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

6.4 Performance obligations

The remaining performance obligations expected to be recognised after the end of the financial year relate to over-declaration of gas (Note 27.1). All other performance obligations amounting to EUR 36,597 thousand (31 December 2021: EUR 8,699 thousand) will be recognised within one year after the end of the reporting period.

7 Other income

EUR thousand	2022	2021
OTC and Nasdaq contracts (Note 31.2)	39,013	13,357
Interest on late payments	581	-
Gain on disposal of non-current assets	121	-
Income from LNG congestion services	-	930
Other income	302	259
Total	**40,017**	**14,546**

8 Purchases of electricity, natural gas and other services

EUR thousand	2022	2021
Purchases of natural gas and related services for trade in gas	1,580,708	325,741
Purchases of electricity and related services for trade	1,249,475	505,987
Purchases of sub-contractual services	16,318	6,619
Total	**2,846,501**	**838,347**

9 Other expenses

EUR thousand	2022	2021 (restated) [1]
Customer service	9,108	6,203
Telecommunications and IT services	3,393	3,408
Consultation services	2,135	1,872
Write-offs of non-current and current amounts receivable (bad debts)	1,394	558
Public relationship and marketing services	1,292	967
Personnel development	460	363
Tax (other than income tax) expenses	455	71
Other	2,924	2,262
Total	**21,161**	**15,704**

[1] In 2022, the Company classified the service costs under "Consultation services", "Personnel development", "Public relationship and marketing services", "Utilities", "Tax (other than income tax) expenses", "Transport", "Other"; therefore, the comparative figures for 2021 were restated accordingly by reclassifying the amount of EUR 2,553 thousand from "Business support and management services".

10 Finance income

EUR thousand	2022	2021
Interest income at the effective interest rate	2,053	605
Other income from financing activities	547	13
Total	**2,600**	**618**

10.1 The Company's interest income

In 2022, the Company received EUR 1,471 thousand of interest income in cash (2021: EUR 331 thousand), which is presented in the cash flow statement under "Interest received".

11 Finance expenses

EUR thousand	2022	2021
Interest expenses	19,607	3,132
Negative effect of changes in exchange rates	1	1
Other finance costs	146	150
Total	**19,754**	**3,283**

11.1 The Company's interest expense

The Company incurs interest expenses on non-current and current loans payable (Note 24). In 2022, the Company paid EUR 12,228 thousand of interest in cash (2021: EUR 2,520 thousand), which is presented in the cash flow statement under "Interest paid".

12 Income taxes

12.1 Recognised in profit or loss

EUR thousand	2022	2021
Income tax expenses (benefit) for the year	31,927	2,948
Deferred income tax expenses (benefit)	(18,235)	(858)
Total	**13,692**	**2,090**

12.2 Reconciliation of effective tax rate

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

EUR thousand	2022	2022	2021	2021
Profit (loss) before tax		65,276		8,051
Income tax expenses (benefit) at tax rate of 15%	15.00%	9,791	15.00%	1,208
Non-deductible expenses	18.48%	12,061	44.09%	3,550
Non-taxable income	(12.96%)	(8,460)	(21.03%)	(1,693)
Adjustments in respect of prior years	0.46%	300	(12.11%)	(975)
Taxable income	10.23%	6,678	49.08%	3,951
Income tax recognised in other comprehensive income	(10.23%)	(6,678)	(49.08%)	(3,951)
Income tax expenses (benefit	**20.98%**	**13,692**	**25.95%**	**2,090**

The amount of income tax recognised in other comprehensive income is related to the gain on the change in fair value of the Company's effective hedging derivatives (Note 23.2). For income tax purposes, this change in the fair value of the hedging derivatives is treated as deductible expenses (negative) or taxable income (positive).

12.3 Deferred tax

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

EUR thousand	31 December 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2021	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2022
Deferred tax assets							
Accrued expenses	825	1,359	-	2,184	1,378	-	3,562
Impairment of trade and other receivables	897	90	-	987	166	-	1,153
Differences in depreciation rates	2,477	(260)	-	2,217	(258)	-	1,959
Non-current employee benefits	176	(52)	(1)	123	(108)	(3)	12
Inventories write down to NRV	-	99	-	99	15,438	-	15,537
Other	116	24	-	140	(6)	-	134
Deferred tax asset, net	**4,491**	**1,260**	**(1)**	**5,750**	**16,610**	**(3)**	**22,357**
Deferred income tax liability							
Accrued income	700	1,255	-	1,955	(1,955)	-	-
Derivatives	2,900	(853)	-	2,047	330	-	**2,377**
Deferred income tax liability, net	**3,600**	**402**	**-**	**4,002**	**(1,625)**	**-**	**2,377**
Net deferred tax	**891**	**858**	**(1)**	**1,748**	**18,235**	**(3)**	**19,980**

13 Dividends

Dividends declared by the Company during the year:

EUR thousand	2022	2021
AB „Ignitis Grupė"	-	39,715

The Company did not pay dividends in 2022.

Dividends of EUR 39,715 thousand for the year 2020 were approved during the General Shareholders' Meeting held on 25 March 2021.

14 Intangible assets

EUR thousand	Patents and licences	Computer software	Intangible assets identified during business combination	Software projects in progress	Total
1 January 2021					
Acquisition cost	14	2,363	43,958	-	**46,335**
Accumulated amortisation	(10)	(961)	(26,442)	-	**(27,413)**
Carrying amount	**4**	**1,402**	**17,516**	**-**	**18,922**
Carrying amount as at 1 January 2021	**4**	**1,402**	**17,516**	**-**	**18,922**
Additions	-	2	-	1,261	**1,263**
Reclassified (to) from property, plant and equipment	-	-	-	(1)	**(1)**
Reclassifications between categories	-	1,241	-	(1,241)	**-**
Amortisation charge	(2)	(561)	(1,198)	-	**(1,761)**
Carrying amount as at 31 December 2021	**2**	**2,084**	**16,318**	**19**	**18,423**
31 December 2021					
Cost or revalued amount	10	3,564	43,958	19	**47,551**
Accumulated amortisation	(8)	(1,480)	(27,640)	-	**(29,128)**
Carrying amount	**2**	**2,084**	**16,318**	**19**	**18,423**
Carrying amount as at 1 January 2022	**2**	**2,084**	**16,318**	**19**	**18,423**
Additions	-	785	-	1,914	**2,699**
Reclassified (to) from property, plant and equipment	-	-	-	-	**-**
Reclassifications between categories	-	711	-	(711)	**-**
Amortisation charge	2	(1,101)	(1,198)	-	(2,301)
Carrying amount as at 31 December 2022	**-**	**2,479**	**15,120**	**1,222**	**18,821**
31 December 2022					
Cost or revalued amount	10	5,057	43,957	1,222	**50,246**
Accumulated amortisation	(10)	(2,578)	(28,837)	-	**(31,425)**
Carrying amount	**-**	**2,479**	**15,120**	**1,222**	**18,821**

Assets identified during business combination: hedging activity

The carrying amount of derivative trading activities that were acquired in previous periods as at 31 December 2022 was EUR 5,395 thousand (31 December 2021: EUR 5,810 thousand). Amortisation is calculated over a period of 20 years. The Company has not identified any evidence of impairment of these intangible assets, and no impairment tests have been performed as at 31 December 2022.

Assets identified during business combination: balancing services

The carrying amount of balancing services that were acquired in previous periods was EUR 7,458 thousand as at 31 December 2022 (31 December 2021: EUR 8,031 thousand). Amortisation is calculated over a period of 20 years. The Company has not identified any evidence of impairment of these intangible assets, and no impairment tests have been performed as at 31 December 2022.

Assets identified during business combination: public electricity supply service, client contracts and relationships

The carrying amount of client contracts and relations relate to public electricity supply that were acquired in previous periods as at 31 December 2022 was EUR 2,267 thousand (31 December 2021: EUR 2,477 thousand). Amortisation is calculated over a period of 15 years. The Company has not identified any evidence of impairment of these intangible assets, and no impairment tests have been performed as at 31 December 2022.

14.1 Fully amortised intangible assets

As at 31 December 2022 and 2021, the cost of acquisition of fully amortised intangible assets used by the Company were as follows:

EUR thousand	31 December 2022	31 December 2021
Patents and licences	1	1
Computer software	153	5
Cost of fully amortised assets, total	**154**	**6**

14.2 Acquisition commitments

The Company has no significant acquisition commitments of intangible assets which will have to be fulfilled during the later years.

14.3 Pledged assets

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

15 Property, plant and equipment

15.1 Company's property, plant and equipment

EUR thousand	Solar plants	Other property, plant and equipment	Construction in progress	Total
1 January 2021				
Acquisition cost	1,254	1,732	118	**3,104**
Accumulated depreciation	(120)	(202)	-	**(322)**
Carrying amount	**1,134**	**1,530**	**118**	**2,782**
Carrying amount as at 1 January 2021	**1,134**	**1,530**	**118**	**2,782**
Additions	-	3	423	**426**
Reclassifications between categories	1,156	45	(1,201)	**-**
Reclassified from (to) intangible assets	-	-	1	**1**
Reclassified from (to) inventories	-	-	729	**729**
Depreciation charge	(153)	(352)	-	**(505)**
Carrying amount as at 31 December 2021	**2,137**	**1,226**	**70**	**3,433**
31 December 2021				
Acquisition cost	2,414	1,780	70	**4,264**
Accumulated depreciation	(277)	(554)	-	**(831)**
Carrying amount	**2,137**	**1,226**	**70**	**3,433**
1 January 2022	**2,137**	**1,226**	**70**	**3,433**
Additions	-	9	1,764	**1,773**
Sale	(224)	-	-	**(224)**
Reclassifications between categories	-	63	(63)	**-**
Depreciation charge	(239)	(355)	-	**(594)**
Carrying amount as at 31 December 2022	**1,674**	**943**	**1,771**	**4,388**
31 December 2022				
Acquisition cost	2,111	1,850	1,771	**5,732**
Accumulated depreciation	(437)	(907)	-	**(1,344)**
Carrying amount	**1,674**	**943**	**1,771**	**4,388**

15.2 Fully depreciated property, plant and equipment

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

EUR thousand	31 December 2022	31 December 2021
Other property, plant and equipment	17	-
Total	**17**	**-**

15.3 Acquisition commitments

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

15.4 Pledged property, plant and equipment

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

16 Investments in subsidiaries

The Company's investments in subsidiaries as at 31 December 2022:

Company name, EUR thousand	Ownership interest (%)	Acquisition cost	Impairment	Carrying amount
Ignitis Eesti OÜ	100	35	-	35
Ignitis Latvija SIA	100	11,500	(7,800)	3,700
Ignitis Polska Sp.z.o.o.	100	6,192	(4,100)	2,092
Ignitis Suomi OY	100	200	-	200

The Company's investments in subsidiaries as at 31 December 2021:

Company name, EUR thousand	Ownership interest (%)	Acquisition cost	Impairment	Carrying amount
Ignitis Eesti OÜ	100	35	-	35
Ignitis Latvija SIA	100	11,500	(7,800)	3,700
Ignitis Polska Sp.z.o.o.	100	2,339	-	2,339
Ignitis Suomi OY	100	200	-	200

16.1 Impairment of investments as at 31 December 2022

As at 31 December 2022, potential impairment indications were determined at the subsidiary Ignitis Polska Sp.z.o.o.; therefore, the Company performed impairment testing. As a result of the test, the Company recognised an impairment of its investment in the subsidiary Ignitis Polska Sp.z.o.o in the amount of EUR 4,100 thousand. The impairment test was performed using the discounted cash flow method and using the following key assumptions:

1. the cash flow forecast covered the period from 2023 until 2032;
2. Further expansion of the Polish electricity supply market is planned for 2023;
3. The average EBITDA margin is estimated at 0.4% and working capital at EUR 8.1 million;
4. discount rate of 15% after tax (18.5% pre-tax) was used to calculate discounted cash flows (weighted average costs of capital after tax).

Since the management estimate of recoverable value of investment into subsidiary includes significant assumptions, the below sensitivity of valuation to changes in key valuation inputs has been provided:

1. Increase of average EBITDA margin by 0.25% would further increase the recoverable value by EUR 4.2 million; and, respectively, drop of average EBITDA margin by 0.25% would further lower the recoverable value by EUR 4.6 million.
2. Increase of average NWC by 10% would further lower the recoverable value by EUR 0.8 million; and, respectively, drop of average NWC by 10% would decrease the recoverable value by EUR 0.8 million.
3. Increase of WACC to 3% would further lower the recoverable value by EUR 2.0 million; and, respectively, drop of WACC to 3% would further increase the recoverable value by EUR 3.3 million.

In addition to the above-mentioned impairment indications, no other indications of impairment of investments in subsidiaries existed as at 31 December 2022; therefore, the Company did not perform impairment tests for other subsidiaries and did not recognise additional impairment for investments during 2022.

16.2 Movement of the Company's investments

In 2022, the issued capital of the Polish subsidiary Ignitis Polska Sp.z.o.o. was increased by EUR 3,853 thousand (PLN 18 million) by capitalising part of the loan (Note 17.1).

Subsequent to the date of the financial statements, there have been events relating to increases in the issued capital of subsidiaries, for further details see Note 35.

Movement of the Company's investments during the reporting year:

EUR thousand	2022	2021
Carrying amount as at 1 January	**6,274**	**6,074**
Increase in issued capital of subsidiaries	3,853	200
(Impairment)/reversal of impairment of investments in subsidiaries	(4,100)	-
Carrying amount as at 31 December	**6,027**	**6,274**

17 Non-current receivables

EUR thousand	31 December 2022	31 December 2021
Loans granted	39,400	40,450
Finance lease	3,536	3,553
Accrued revenue related to regulatory activity of the public electricity supply (Note 5.5.1)	-	86,520
Total	**42,936**	**130,523**
Less: loss allowance	-	-
Carrying amount	**42,936**	**130,523**

17.1 Loans granted

EUR thousand	31 December 2022	31 December 2021
Within 1 year	17,200	62
From 1 to 2 years	39,400	40,450
Carrying amount	**56,600**	**40,512**

During 2022, a new short-term loan agreement was signed with Ignitis Latvija SIA, the balance as at 31 December 2022 is EUR 17,000 thousand.

The loan is subject to variable interest rates.

As at 31 December 2022, the Company had a loan of EUR 50 thousand issued to Ignitis Eesti OÜ (31 December 2021: EUR 50 thousand). The loan is intended to finance working capital and matures on 30 April 2023. The loan is subject to variable interest rates.

As at 31 December 2022, the Company had a loan of EUR 20,000 thousand issued to Ignitis Polska Sp.z.o.o. (31 December 2021: EUR 4,800 thousand). The loan is intended to finance working capital and matures on 30 June 2024. The loan is subject to variable interest rates.

As at 31 December 2022, the Company had a loan of EUR 19,400 thousand issued to Ignitis Suomi OY. The credit was granted to finance the working capital and is repayable until 31 March 2023, but the Company intends to extend the repayment term; therefore, it was recognised as long-term loan as at 31 December 2022. Based on solid financial performance of Ignitis Suomi OY, the management did not identify any indications of impairment. The loan is subject to variable interest rates.

Movement of loans granted during 2022 and 2021 and reconciliation with cash flow statement:

EUR thousand	2022	2021
Balance as at 1 January	**40,450**	**5,600**
Loans granted	163,290	66,950
Capitalised loans (Note 15)	(3,853)	-
Loan repayments received	(143,437)	(32,100)
Carrying amount as at 31 December	**56,450**	**40,450**

17.2 Finance lease received

EUR thousand	31 December 2022	31 December 2021
Non-current receivables	3,536	3,553
Other amounts receivable (Note 20)	642	565
Carrying amount	**4,178**	**4,118**

The Company's amounts receivable under the energy saving services agreements are included in the line items "Amounts receivable after one year" and "Other amounts receivable".

EUR thousand	31 December 2022	31 December 2021
Minimum payments		
Within the first year	772	660
From two to five years	2,994	2,890
More than five years	865	968
Total	**4,631**	**4,518**
Unearned finance income		
Within the first year	(130)	(95)
From two to five years	(293)	(267)
More than five years	(30)	(38)
Total	**(453)**	**(400)**
Carrying amount	**4,178**	**4,118**

As at 31 December 2022 and 2021, the Company assessed whether credit risk of finance lease clients has increased significantly and did not establish a significant increase in credit risk.

18 Inventories

EUR thousand	31 December 2022	31 December 2021
Natural gas	302,444	148,449
Consumables, raw materials and spare parts	11,928	1,271
Carrying amount	**314,372**	**149,720**

Under the Lithuanian legislation the Company is required to store a quantity of natural gas in the underground storage facility as a reserve for the smallest (the most sensitive) consumers of the Company. As at 31 December 2022, the latter quantity comprised 496 GWh or EUR 53,209 thousand (31 December 2021: 472 GWh or EUR 26,375 thousand).

The Company's inventories expensed were as follows:

EUR thousand	2022	2021
Natural gas	1,455,521	291,514
Total	**1,455,521**	**291,514**

During 2022, the Company wrote down inventories for EUR 102,912 thousand (during 2021, the Company wrote down inventories for EUR 470 thousand). The write-down is recorded under "Purchases of electricity, natural gas and other services" in the statement of profit or loss.

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

EUR thousand	2022	2021
Carrying amount as at 1 January	**664**	**262**
Additional write-down to net realisable value	102,912	470
Reversal of write-down to net realisable value	-	(68)
Carrying amount as at 31 December	**103,576**	**664**

19 Prepayments and deferred expenses

EUR thousand	31 December 2022	31 December 2021
Deferred expenses	5,848	1,986
Prepayments for other goods and services	704	505
Prepayments for natural gas	-	57,003
Other advances	-	297
Carrying amount	**6,552**	**59,791**

20 Trade receivables

EUR thousand	31 December 2022	31 December 2021
Amounts receivable from contracts with customers		
Receivables for gas from non-household customers	204,238	99,328
Receivables for electricity from non-household customers	167,536	58,986
Receivables for electricity from household customers	66,124	33,306
Receivables for gas from household customers	7,243	4,309
Other trade receivables	11,033	394
Total	**456,174**	**196,323**
Less: loss allowance	(7,667)	(6,273)
Carrying amount	**448,507**	**190,050**

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

No interest is charged on trade receivables and the regular settlement period is 15 to 30 days. Trade receivables for which the settlement period is more than 30 days comprise insignificant part of total trade receivables. The management didn't identify any significant financing component. For terms and conditions on settlement between related parties see Note 33.

Loss allowance of amounts receivable (lifetime expected credit losses) assessed using the loss ratio matrix

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

EUR thousand	Loss ratio	Trade receivables	Loss allowance
Not past due	0.27	60,153	163
Up to 30 days	1.47	3,959	58
30-60 days	3.45	1,333	46
60-90 days	8.17	514	42
90-120 days	14.14	290	41
More than 120 days	73.87	4,611	3,406
31 December 2022	**5.30**	**70,860**	**3,756**

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

EUR thousand	Loss ratio	Trade receivables	Loss allowance
Not past due	0.25	29,621	61
Up to 30 days	1.35	2,074	28
30-60 days	3.78	741	28
60-90 days	9.26	272	27
90-120 days	16.27	166	27
More than 120 days	75.66	4,742	3,588
31 December 2021	**11.74**	**37,616**	**3,759**

The loss ratio matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss ratios are updated during the preparation of the annual financial statements with respect to the impact of forward-looking information where forward-looking information is indicative of any exacerbation of economic conditions during upcoming years.

Loss allowance of amounts receivable (lifetime expected credit losses) calculated using internal rating system

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

Internal ratings	Trade receivables	Loss allowance
A	165,758	995
B	37,002	466
C	11,818	304
D	2,809	383
E	1,879	1,763
31 December 2022	**219,266**	**3,911**

The table below presents information on the Company's trade receivables from contracts with customers as at 31 December 2021 that are assessed on a collective basis using the internal rating system:

Internal ratings	Trade receivables	Loss allowance
A	112,695	149
B	32,874	358
C	9,216	415
D	2,224	386
E	1,272	1,206
31 December 2021	**158,281**	**2,514**

The assessment on the basis of the internal ratings assigned takes into account external and internal information about the debtor, which may be material to determine the debtor's ability to settle with the Company. External sources of information include financial status, court involvement, and debt to other entities, employee trends, arrests, and other information that is used as the basis for establishing a bankruptcy rating (bankruptcy probability model) or risk class. This external information is obtained through service agreements with third parties (Credit Agencies). The internal sources of information include the debtor's profile of actual settlements with the Company based on which the settlement rating is determined. Based on the ratio of bankruptcy ratings or risk classes to settlement ratings, the borrower is assigned internal rating on a scale from A to E, where A is the lowest risk and E is the highest risk grade.

In doing so, expected credit losses are based on the internal ratings assigned to the borrowers.

Loss allowance of amounts receivable (lifetime expected credit losses) calculated on an individual basis

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

	31 December 2022		31 December 2021	
EUR thousand	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Not past due	166,048	-	426	-
Up to 30 days	-	-	-	-
30-60 days	-	-	-	-
60-90 days	-	-	-	-
90-120 days	-	-	-	-
More than 120 days	-	-	-	-
Carrying amount	**166,048**	**-**	**426**	**-**

Loss allowance of amounts receivable is stated in profit or loss of the statement of profit or loss.

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

Movements in the loss allowance of trade receivables during the year 2022 and 2021 were as follows:

EUR thousand	2022	2021
Carrying amount as at 1 January	**6,273**	**5,716**
Loss allowance during the year	1 893	1 090
Reversal of loss allowance	(499)	(533)
Carrying amount as at 31 December	**7,667**	**6,273**

21 Other receivables

EUR thousand	31 December 2022	31 December 2021
Deposits for electricity related derivatives in electricity market	56,452	60,060
Accrued revenue from natural gas sales	28,704	1,641
Deposits for gas related derivatives to commodity traders	24,950	39,070
Other accrued income	6,507	-
Accrued revenue from electricity sales	1,420	23
Current portion of finance lease (Note 17.2)	642	565
Accrued revenue related to regulatory activity of the public electricity supply (Note 5.5.1, 28)	-	39,024
Deferred income related to over declaration	-	10,222
Other receivables	1,152	4,423
Total	**119,827**	**155,028**
Less: loss allowance	-	-
Carrying amount	**119,827**	**155,028**

As at 31 December 2022, contract assets comprise EUR 36,631 thousand (31 December 2021: EUR 40,688 thousand); contract assets cover the following items: "Accrued revenue from natural gas sales", "Other accrued revenue", "Accrued revenue from electricity sales" and "Accrued revenue related to regulatory activity of the public electricity supply" (Note 6.2).

As at 31 December 2022, financial assets comprise EUR 83,196 thousand (31 December 2021: EUR 114,340 thousand). Financial assets does not include contract assets and value added tax.

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

21.1 Deposits for electricity and gas related derivatives

The Company has made deposits for derivative instruments as assurance of contractual obligations with the Commodities exchange and Commodity traders for trading of derivatives linked to electricity and gas market prices. Deposits are in a form of cash collateral and the value moves on a daily basis, i.e. depends on market prices. The Company estimates that the whole amount of cash collateral will be recovered as the amounts payable are related to the realization of the future hedge and the sales contracts will be realized together with the hedge, thus invoices for derivative instruments will be covered with sales income and after this payment cash collateral will be recovered. In the Company's assessment, the expected credit losses on derivative-related deposits are insignificant and therefore not accounted for.

22 Cash and cash equivalents

EUR thousand	31 December 2022	31 December 2021
Cash balances in bank accounts	271,495	69,934
Cash in transit	6,978	3,010
Restricted cash	9	9
Carrying amount	**278,482**	**72,953**

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

Based on contracts with solar fleet developers, the Company collects on their behalf client payments for the acquisition, lease and maintenance of remote solar plants. Collected amounts are transferred to bank accounts specified by the developers. As at 31 December 2022, the amount of payments collected on behalf of such developers amounted to EUR 1,556 thousand (31 December 2021: EUR 5,291 thousand).

Restricted cash is held with banks in accordance with certain agreements requirements, for example to guarantee the performance of the contract. These funds are not available to finance the Company's day-to-day operations. To secure liabilities to „Swedbank", AB, the Company has pledged funds under contract. The balance of pledged funds amounted to EUR 9 thousand as at 31 December 2022 and 2021.

23 Equity

23.1 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. Foreign subsidiaries are subject for compliance with capital requirement according to regulation adopted in those foreign countries. As at 31 December 2022, the Company complied with these requirements.

When managing the capital risk in a long run, the Company seeks to maintain an optimal capital structure of subsidiaries to ensure a consistent implementation of capital cost and risk minimization objectives. The Group companies form their 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 Group companies, as well as based on external current or expected factors significant to operations relating to markets, regulation and local economic situation.

23.2 Issued capital

As at 31 December 2022 and 2021, the Company's issued capital comprised EUR 40,140 thousand and was divided in to 138,413,794 registered ordinary shares with par value is EUR 0.29 of each.

EUR thousand	31 December 2022	31 December 2021
Issued capital		
Ordinary shares	40,140	40,140
Ordinary shares issued and fully paid	**40,140**	**40,140**

24 Reserves

24.1 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. The Company's legal reserve as at 31 December 2022 and as at 31 December 2021 was not fully formed.

24.2 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

EUR thousand	2022 Before tax	2022 Tax income (expenses)	2022 After tax	2021 Before tax	2021 Tax income (expenses)	2021 After tax
Cash flow hedges – effective portion of changes in fair value	307,342	(46,101)	261,241	65,376	(9,806)	55,570
Cash flow hedges – reclassified to profit or loss	(236,483)	35,472	(201,011)	(39,035)	5,855	(33,180)
Total	**70,859**	**(10,629)**	**60,230**	**26,341**	**(3,951)**	**22,390**

EUR thousand	2022 Before tax	2022 Tax income (expenses)	2022 After tax	2021 Before tax	2021 Tax income (expenses)	2021 After tax
Effective hedging instruments – OTC	(11,317)	1,698	(9,619)	(38,441)	5,766	(32,675)
Effective hedging instruments – Nasdaq	82,176	(12,327)	69,849	64,782	(9,717)	55,065
Total	**70,859**	**(10,629)**	**60,230**	**26,341**	**(3,951)**	**22,390**

25 Loans

EUR thousand	31 December 2022	31 December 2021
Non-current		
Loan of the parent company	370,800	288,800
Current		
Bank loans	-	104,101
Overdraft	172,878	-
Current loans – Group's cash-pool platform	115,916	121,155
Accrued interest	8,273	895
Total	**667,867**	**514,951**

Non-current loans by maturity:

EUR thousand	31 December 2022	31 December 2021
From 1 to 2 years	-	-
From 2 to 5 years	327,000	27,000
After 5 years	43,800	261,800
Total	**370,800**	**288,800**

All loans of the Company are denominated in euros.

25.1 Movement of loans

Movement of loans during the year 2022 mainly consisted of the following:

On 3 March 2022, the Company signed an overdraft agreement for up to EUR 150 million with „Swedbank", AB. Balance as at 31 December 2022 amounts to EUR 145,210 thousand. Maturity date is 2 March 2023.

On 17 March 2022, the Company signed an overdraft agreement for up to EUR 150 million with „Swedbank", AB. Balance as at 31 December 2022 amounts to EUR 27,668 thousand. Maturity date is 17 March 2023.

25.2 Covenants and unwithdrawn balances

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

As at 31 December 2022, the balance of the Company's current loans – Group's cash-pool platform – amounted to EUR 164,084 thousand (31 December 2021: EUR 128,845 thousand). As at 31 December 2022, the balance of the Company's bank overdraft amounted to EUR 127,122 thousand (31 December 2021: no unwithdrawn loans).

26 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.

Debts to financial institutions, loans under cash-pool agreement to Group companies and related interest payables and lease liabilities are included in the net debt calculation.

Net debt balances:

EUR thousand	31 December 2022	31 December 2021
Cash and cash equivalents	(278,482)	(72,953)
Non-current loans payable after one year	370,800	288,800
Overdraft	172,878	-
Current loans – Group's cash-pool platform	115.916	121,155
Accrued interest	8,273	895
Lease liabilities	288	409
Bank loans	-	104,101
Net debt	**389,673**	**442,407**

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

	Assets	Lease liabilities		Loans		
EUR thousand	Cash	Non-current	Current	Non-current	Current	Total
Net debt as at 1 January 2021	**(23,291)**	**693**	**555**	**38,901**	**9,909**	**26,767**
Cash changes						
(Increase) decrease in cash and cash equivalents	(49,662)	-	-	-	-	**(49,662)**
Loans received	-	-	-	250,000	215,651	**465,651**
Repayments of loans	-	-	-	-	(135)	**(135)**
Lease payments	-	-	(509)	-	-	**(509)**
Interest paid	-	-	(13)	-	(2,507)	**(2,520)**
Non-cash changes						
Accrual of interest payable	-	-	(305)	-	-	**(305)**
Lease contracts concluded	-	-	(12)	-	3,132	**3,120**
Reclassifications between items	-	(513)	513	(101)	101	**-**
Net debt at 31 December 2021	**(72,953)**	**180**	**229**	**288,800**	**226,151**	**442,407**
Net debt as at 1 January 2022						
Cash changes						
(Increase) decrease in cash and cash equivalents	(205,529)	-	-	-	-	**(205,529)**
Proceeds from loans	-	-	-	82,000	-	**82,000**
Repayments of loans	-	-	-	-	(109,341)	**(109,341)**
Lease payments	-	-	(292)	-	-	**(292)**
Interest paid	-	-	(9)	-	(12,219)	**(12,228)**
Bank overdraft received (repaid)	-	-	-	-	172,878	**172,878**
Non-cash changes						
Lease contracts concluded	-	-	171	-	-	**171**
Accrual of interest payable	-	-	9	-	19,598	**19,607**
Reclassifications between items	-	(133)	133	-	-	**-**
Net debt as at 31 December 2022	**(278,482)**	**47**	**241**	**370,800**	**297,067**	**389,673**

27 Deferred income and advances received

27.1 Deferred income

EUR thousand	2022	2021
	Current portion	Current portion
Balance as at 1 January	**8,699**	**3,592**
Increase during the year	36,597	7,688
Recognised as revenue	(8,699)	(2,581)
Balance as at 31 December	**36,597**	**8,699**

27.2 Advances received

EUR thousand	31 December 2022	31 December 2021
Current advances from contracts with customers (contract liabilities)	11,204	9,732
Current advances from other contracts	822	447
Total	**12,026**	**10,179**

28 Provisions

EUR thousand	31 December 2022	31 December 2021
Non-current	145	177
Current	20,453	38
Total	**20,598**	**215**

Movement of the Company's provisions was as follows:

EUR thousand	Provisions for employee benefits	Regulatory differences of public electricity supply services	Other provisions	Total
Balance as at 1 January 2021	**81**	**-**	**129**	**210**
Increase during the year	64	-	82	146
Utilised during the year	(47)	-	(90)	(137)
Result of change in assumptions	(4)	-	-	(4)
Balance as at 31 December 2021	**94**	**-**	**121**	**215**
Balance as at 1 January 2022	**94**	**-**	**121**	**215**
Increase during the year	-	20,335	76	**20,411**
Utilised during the year	(6)	-	(5)	**(11)**
Result of change in assumptions	(17)	-	-	**(17)**
Balance as at 31 December 2022	**71**	**20,335**	**192**	**20,598**
Non-current portion	51	-	94	145
Current portion	20	20,335	98	20,453
Balance as at 31 December 2022	**71**	**20,335**	**192**	**20,598**

The provision for regulatory differences of public electricity supply activity consists of EUR 20,335 thousand provision related to regulatory differences of public electricity supply activity, set-off with the future regulatory differences of public electricity supply activity will be made within one year.

29 Trade payables

EUR thousand	31 December 2022	31 December 2021
Amounts payable for gas	104,593	8,667
Amounts payable for electricity	34,152	44,520
Other payables	9,584	7,787
Carrying amount	**148,329**	**60,974**

30 Other current amounts payable and liabilities

EUR thousand	31 December 2022	31 December 2021
Taxes (other than income tax)	88,759	23,481
Deposits received for derivatives	55,990	-
Derivatives (Note 31)	48,654	78,816
Accrued expenses	34,413	29,043
Payroll related liabilities	1,833	1,574
Amounts payable for property, plant and equipment	947	16
Future expenses related to over declaration	-	10,155
Other amounts payable and liabilities	1,555	67
Carrying amount	**232,151**	**143,152**

As at 31 December 2022, financial liabilities comprise EUR 107,146 thousand (31 December 2021: EUR 78,899 thousand), financial liabilities include the following: "Deposits received for derivatives", "Derivatives", "Amounts payable for property, plant and equipment", "Other amounts payable and liabilities".

31 Derivatives

Derivatives mainly comprise:

- contracts related to electricity and natural gas commodities (hedge accounting);
- contracts made directly with other parties – over-the-counter (OTC);
- contracts made through Nasdaq Commodities market – Nasdaq;
- other contracts (non-hedge accounting);
- other contracts – derivatives.

Fair value of Nasdaq contracts are set-off with cash on day-to-day basis. Accordingly, no financial assets or liabilities are recognised in statement of financial position. Gain or loss of such transactions is recognised same as all derivatives.

31.1 Derivatives included in the statement of financial position

EUR thousand	Note	Movement during 2022
Derivatives		
Other non-current assets		4,229
Other current assets		21,461
Other non-current amounts payable and liabilities		(1,206)
Other current amounts payable and liabilities	30	(78,816)
Carrying amount as at 31 December 2021		**(54,332)**
Change in the value		
Fair value change of OTC recognised in Other income		12,831
Fair value change of OTC recognised in OCI		27,124
Total change during 2022		**39,955**
Derivatives		
Carrying amount as at 31 December 2022		**(14,377)**
Other non-current assets		17,299
Other current assets		43,826
Other non-current amounts payable and liabilities		(26,848)
Other current amounts payable and liabilities	30	(48,654)

31.2 Derivatives in the statements of profit or loss and other comprehensive income

EUR thousand	Note	2022	2021
Fair value change of OTC	31.1	12,831	(16,346)
Fair value change of Nasdaq		(10,632)	10,664
Recognised ineffective hedging instruments – OTC		26,386	692
Recognised ineffective hedging instruments – Nasdaq		10,428	18,347
Total recognised in Other income and Other expenses	7,9	**39,013**	**13,357**
Effective hedging transactions reclassified from Hedging reserve to the Statement of profit or loss	23.2	197,448	39,035
Total		**236,461**	**52,392**

32 Contingent liabilities and assets

32.1 Litigations

32.1.1 Litigation concerning the designated supplier state aid scheme and LNG price component

Following the General Court on the European Union (the General Court) on 8 September 2021 judgement in case T-193/19, AB „Achema" initiated the reopening of the previously suspended proceedings in the administrative courts of the Republic of Lithuania in respect of the complaints it has lodged regarding the decisions by the NERC of the setting of the LNG price supplement. The Company is involved as a third party.

The General Court on 8 September 2021 in case T-193/19 decided to partially annul on procedural grounds the European Commission decision in case SA.44678 (2018/N) (hereinafter "Decision"). The General Court considered that the European Commission should have had doubts on the amendments regarding the designated supplier state aid scheme which has been valid for a period from 2016 to 2018 and annulled Decision on that part, however maintained the validity of the remainder of the Decision i.e. the designated supplier state aid scheme valid from 2019.

Following the General Court's judgement, the Commission has re-examined the compatibility of the 2016 amendments and has decided to open an in-depth investigation under EU State aid rules. The Commission will now investigate further to determine whether the amount of compensation received by Litgas for the period 2016-2018, in particular regarding the boil-off and balancing costs, is in line with the SGEI Framework.

The European Commission's formal investigation procedure, limited to the points of doubt raised by the General Court, should lead to the adoption of a final and complete decision of the European Commission.

After the formal investigation procedure (which started in December 2022) there will be more certainty in assessing the actual financial impact for the Company.

The Company considers that there is too much uncertainty in assessing the actual financial impact for the Company at this stage.

32.2 Regulatory assets and liabilities

32.2.1 Natural gas distribution to household customers

Natural gas supply to household customers activity is regulated by NERC. The NERC regulates natural gas tariff paid by customers. Regulatory differences defined as the difference between the fixed natural gas sale price and the actual natural gas purchase price were not recognised in the financial statements until 31 December 2022 as Company had no guarantee for this difference to be repaid in the future according to the legislation base.

The overcollected unrecognised amount as at 31 December 2022 is EUR (16,072) thousand, amount is related to year 2022 (undercollected amount of EUR 70,903 thousand as at 31 December 2021). The management expects that overcollected unrecognised amount of EUR (16,072) thousand to household customers will be included in future tariffs for upcoming next 12-month period.

32.2.2 Designated supply of natural gas

Designated supply activity is also regulated by NERC. Regulatory differences arise when the actual costs differ from those estimated, but the Company does not recognise regulated assets or liabilities in the financial statements as the difference will be refunded by providing the services in the future. The overcollected amount of EUR (52,989) thousand as at 31 December 2022 will be included in the LNGT security component in the future (overcollected amount of EUR (52,989) thousand as at 31 December 2021).

32.3 Guarantees

The Company entered into a surety agreement of EUR 1,380 thousand with Skandinaviska Enskilda Banken AB Polish Branch for the overdraft agreement of 26 August 2021 of the subsidiary Ignitis Polska Sp.z.o.o. The surety agreement is valid until 9 January 2024.

On 9 May 2022, the Company issued a guarantee in favour of a Polish company VOLVO Polska Sp.z.o.o. for EUR 209 thousand (PLN 980 thousand). The guarantee was provided to secure Agreement dated 4 March 2022 of the subsidiary Ignitis Polska Sp.z.o.o. The guarantee is valid for a period of 12 months after signing.

On 9 May 2022, the Company issued guarantee in favour of a Polish company VOLVO MASZYNY BUDOWLANE Polska Sp.z.o.o. for EUR 4 thousand (PLN 20 thousand). The guarantee was provided to secure Agreement dated 4 March 2022 of the subsidiary Ignitis Polska Sp.z.o.o. The guarantee is valid for a period of 12 months after signing.

33 Related-party transactions

Related parties, in EUR thousand	Amounts receivable	Loans granted	Amounts payable	Loans received	Sales	Purchases	Finance income (costs)
	31 December 2022	31 December 2022	31 December 2022	31 December 2022	2022	2022	2022
Parent company AB „Ignitis grupė"	-	-	8,398	483,325	-	781	(17,081)
Subsidiaries of the Company	34,903	56,450	28,000	-	156,721	(385)	1,438
Associates of the Company	-	-	1,836	-	12	9,802	-
Other Group companies	9,100	-	59,094	3,391	305,503	249,738	37
State-controlled UAB „EPSO-G" group companies	6,043	-	5,402	-	152,282	96,257	-
Total	**50,046**	**56,450**	**102,730**	**486,716**	**614,518**	**356,193**	**15,606**

Related parties, in EUR thousand	Amounts receivable	Loans granted	Amounts payable	Loans received	Sales	Purchases	Finance income (costs)
	31 December 2021	31 December 2021	31 December 2021	31 December 2021	2021	2021	2021
Parent company AB „Ignitis grupė"	-	-	968	362,661	-	766	(2,277)
Subsidiaries of the Company	85	40,450	4,863	-	6,442	11,813	295
Associates of the Company	-	-	669	-	-	7,227	-
Other Group companies	4,502	-	31,911	47,294	49,254	228,265	(334)
State-controlled UAB „EPSO-G" group companies	10,922	-	16,661	-	76,221	63,887	-
Other related parties	100	-	-	-	2	-	-
Total	**15,609**	**40,450**	**55,072**	**409,955**	**131,919**	**311,958**	**(2,316)**

The Company purchased electricity, transmission and distribution of electricity and gas, accounting, procurement, customer service, transport leasing and other services from related parties.

During 2022 and 2021, the Company used the Group's cash-pool platform. In 2022, the funds granted were repaid and additional funds were withdrawn (Note 24). Loans granted to related parties in 2022 and 2021 are disclosed in Note 17.1. Movements of loans from related parties are disclosed in a Note 24. Derivatives with related parties are disclosed in Note 31.

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

33.1 Terms of transactions with related parties

The payment terms set range from 30 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. There were no guarantees given or received in respect of the related party payables and receivables.

33.2 Compensation to key management

EUR thousand	2022	2021
Wages and salaries and other current benefits to key management	623	576
Whereof:		
Short-term benefits	623	563
Share-based payment expenses	-	13
Number of key management personnel	8	8

In 2022 and 2021, members of Board, Supervisory Board and Chief Executive Officer are considered to be the Company's key management personnel. For more information on the key management personnel, see the "Governance report" of Annual report.

34 Fair values of financial instruments

34.1 Financial instruments measured at fair value

As at 31 December 2022 and 2021, the Company has accounted for assets and liabilities arising from financial derivatives. The Company accounts for financial derivative assets and liabilities at fair value and their accounting policies are set out in Note 3.10.3. Market values that are based on quoted prices (Level 1) comprise quoted commodities derivatives that are traded in active markets. The market value of derivatives traded in an active market are often settled on a daily basis, thereby minimising the market value presented on the statement of financial position.

Market values based on observable inputs (Level 2) comprise derivatives where valuation models with observable inputs are used to measure fair value. All assets and liabilities measured at market value are measured on a recurring basis. The Group attributes to Level 2 of the fair value hierarchy derivatives linked with the Lithuanian/Latvian and Estonian/Finish electricity price areas. Derivatives acquired directly from other market participants (OTC contracts) and physical transmission rights acquired are estimated based on the prices of the NASDAQ Commodities exchange.

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

34.2 Financial instruments for which fair value is disclosed

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

The fair value of the loans granted by the Company to Group and other 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 4.80% as at 31 December 2022 for loans above EUR 1 million and 4.84% for loans less than EUR 1 million (31 December 2021: 2.76%). The measurement of financial liabilities related to the debts is attributed to Level 2 of the fair value hierarchy.

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

EUR thousand	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Financial instruments at FVPL or FVOCI						
Assets						
Derivatives	31.1	**61,125**	-	61,125	-	**61,125**
Liabilities						
Derivatives	31.1	**75,502**	-	75,502	-	**75,502**
Financial instruments for which fair value is disclosed						
Assets						
Loans granted	17.1	**56,600**	-	55,863	-	**55,863**
Liabilities						
Loan of the parent company	24	**377,006**	-	344,148	-	**344,148**
Overdraft	24	**172,878**	-	172,878	-	**172,878**
Current loans – Group's cash-pool platform	25	**116,305**	-	116,305	-	**116,305**

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

EUR thousand	Note	Carrying amount	Level 1 Quoted prices in active mar-kets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Financial instruments at FVPL or FVOCI						
Assets						
Derivatives	31.1	**25,690**	-	25,690	-	**25,690**
Liabilities						
Derivatives	31.1	**73,617**	-	73,617	-	**73,617**
Financial instruments for which fair value is disclosed						
Assets						
Loans granted	17.1	**40,512**	-	40,356	-	**40,356**
Liabilities						
Loan of the parent company	24	**289,671**	-	287,534	-	**287,534**
Bank loans	24	**104,101**	-	104,101	-	**104,101**
Current loans – Group's cash-pool platform	25	**121,179**	-	121,179	-	**121,179**

35 Events after the reporting period

35.1 Other events

Decision to increase equity of the subsidiary in Estonia

On 11 January 2023, the issued capital of the Estonian subsidiary was increased by fully capitalising a loan of EUR 50 thousand.

Financing agreements

On 3 January 2023, a periodic loan facility agreement was concluded with Ignitis Polska sp. z o. o. The loan amount is EUR 30,000 thousand.

On 18 January 2023, a periodic loan facility agreement was concluded with Ignitis Polska sp. z o. o. The loan amount is EUR 30,000 thousand.

Other events

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

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KPMG Baltics, UAB
Klaipėda branch
Liepų str. 4
LT-92114 Klaipėda
Lithuania

+370 46 48 00 12
klaipeda@kpmg.lt
home.kpmg/lt

Independent Auditor's Report

To the Shareholders of UAB Ignitis

Opinion

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

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

In our opinion, the accompanying separate financial statements give a true and fair view of the non-consolidated financial position of the Company as at 31 December 2022, and of its non-consolidated financial performance and its non-consolidated 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 Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The other information comprises the information included in the 2022 Annual report (pp. 3 - 56), but does not include the separate financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate 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.

Company code: 111616158
VAT code: LT114949716

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 Annual report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements and whether Annual report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the separate financial statements, in our opinion, in all material respects:

- The information given in the Annual report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements; and
- The Annual 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 Separate Financial Statements

Management is responsible for the preparation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

Klaipėda, the Republic of Lithuania
31 March 2023

The electronic auditor‘s signature applies only to the Independent Auditor‘s Report on pages 157 to 159 of this document.

6.4 Information on the auditor

Overview

There were no changes in the Company's independent auditor during 2022. Since the appointment by the Company's Annual General Meeting of Shareholders on 7 September 2021, the Group's independent auditor was „KPMG Baltics", UAB (KPMG). Based on the concluded agreement, KPMG audited the Company's financial statements for the years of 2021 and 2022. Before KPMG, the independent auditor of the Company was UAB „Ernst & Young Baltic" (EY) which audited the Company's financial statements for the period over 2019–H1 2021.

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

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

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

2021–2022	2019–H1 2021
„KPMG Baltics", UAB Lvivo g. 101 LT-08104 Vilnius, Lithuania	„Ernst & Young Baltic", UAB Aukštaičių g. 7 LT-11341 Vilnius, Lithuania

Services and fees

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

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

Independent auditor's services and fees

EUR thousand	**2022**	**2021**
Audit of the annual financial statements under the agreements	55	54
Other[1]	-	5
Total	**55**	**59**

[1] *Other services mainly included translation services (2022) and other KPMG advisory services related to the submission of VAT returns in Estonia (2021)*

7. Further information

7.1 Other statutory information

The Annual Report provides information to the shareholders, creditors and other stakeholders of UAB Ignitis (Ignitis) about the operations, if any, of Ignitis and its controlled companies for the period of January–December 2022.

The Annual Report has been prepared by Ignitis administration in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings, Law on Companies of the Republic of Lithuania and taking into consideration the description of the guidelines for transparency of the activities of state-owned enterprises. Shares of Ignitis are not included and they are not traded on the regulated stock exchange. Articles of Association of Ignitis do not set any other requirements for the content of Ignitis Annual Report than the ones provided for in the legislation specified above.

Ignitis management is responsible for the information contained in the Annual Report. The report and the documents, on the basis of which it was prepared, are available at the head office of the Company (Laisvės pr. 10, Vilnius) on working days from Mondays to Thursdays from 7.30 am to 4.30 pm, and on Fridays from 7.30 am to 3.15 pm (with a prior arrangement).

Company details

1. Company name: Ignitis
2. Legal form: Limited Liability Company
3. Issued capital: EUR 40,140,000.26
4. Date and place of registration: 2 September 2014, the Register of Legal Entities
5. Company code: 303383884
6. Company address: Laisvės pr. 10, LT-04215 Vilnius
7. Company's register: Register of Legal Entities
8. Phone: +370 5 278 2222
9. Email: info@ignitis.lt
10. Website: www.ignitis.lt

Legal notes

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

Significant transactions

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

There are no harmful transactions concluded on behalf of the Company during the reporting period (not complying with the parent company's objectives, normal market conditions, detrimental to the interests of shareholders and other interest groups etc.) which were or are likely to have an adverse effect on the Company's activities and (or) performance in the future, nor transactions entered into in a conflict of interest between the Company's management, controlling shareholders or other related parties' obligations to the Company and its private interests and (or) other duties.

There are no agreements of the Company or its governing body members or employees, providing for compensation in the event of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Company.

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

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. All financial data provided in the Annual Report have been calculated in accordance with IFRS and correspond to the audited financial statements of the Company.

The employees of the Company providing accounting services to the Company ensure that the financial statements are prepared properly and that all data are collected in a timely and accurate manner. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the financial statements are monitored and managed.

Alternative Performance Measures

Alternative Performance Measures (APM) – adjusted figures used in this report refer for measurement of internal performance management. As such, they are not defined or specified under IFRS, nor do they comply with IFRS requirements. Definitions of alternative performance measures can be found on the website of AB Ignitis grupė (link).

Notice on the language

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

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

Point in the description of the Guidelines on Transparency in State-Owned Companies (version as at 30 April 2021)	Disclosure	Explanation
Chapter II. Disclosure of information by a State-owned enterprise		
5. The following data and information must be announced in the internet website of a state-owned enterprise:		Information available on www.ignitis.lt and www.ignitisgrupe.lt
5.1. name;	Yes	
5.2. the code and register in which the company's data is collected and stored;	Yes	
5.3. registered office (address);	Yes	
5.4. the legal status if the state-owned entity is being restructured, reorganised (indicating the type of reorganisation), liquidated, bankrupt or insolvent;	Yes	
5.6. operational objectives, vision and mission;	Yes	
5.7. structure;	Yes	
5.8. data about the head of the company;	Yes	
5.9. data about the chairman and members of the management board, if the management board established under the articles of association;	Yes	
5.10. data about the chairman and members of the Supervisory Board, if the Supervisory Board is established under the articles of association;	Yes	
5.11. names of committees, data about their chairmen and members, if committees are established under the articles of association;	Not applicable	
5.13. special obligations shall be carried out in accordance with the guidelines approved by the Minister of Economy and Innovation of the Republic of Lithuania: the purpose of the special obligations shall be specified, the state budget allocations for their execution in the current calendar year and the legal acts by which the state-owned companies is entrusted with the execution of the special obligation shall be indicated, the terms and conditions of the execution of the special obligation shall be set and/or the pricing shall be regulated;	Not applicable	
5.14. information on social responsibility initiatives and measures, major investment projects under-way or planned.	Yes	
6. In order to ensure publicity regarding the professionalism of the members of the management and supervisory bodies and committees of State-owned companies, the following data shall be published for the persons referred to in sub-paragraphs 5.8 to 5.11 of the Description: name, surname, date of commencement of the current position, other manage-rial positions held in other legal entities, education, qualifications, professional experience. If the person referred to in points 5.9 to 5.11 is elected or appointed as an independent member, this shall be indicated in addition to his/her data. If the person referred to in points 5.9 to 5.11 of the Description is elected or appointed as an independent member, this shall be indicated in addition to his details.	Yes	Information available on www.ignitis.lt and www.ignitisgrupe.lt
7. The following documents shall be announced in the website of a State-owned enterprise:	Yes	Information available on www.ignitis.lt and www.ignitisgrupe.lt
7.1. Articles of Association;	Yes	
7.3. the business strategy or a summary thereof where the business strategy contains confidential information or information considered to be a commercial/industrial secret;	Yes	
7.4. a document setting out the remuneration policy covering the remuneration of the chief executive of a State-owned enterprise and the remuneration of the members of the collegiate bodies and committees of a State-owned enterprise, as detailed in the Corporate Governance Code;	Yes	The interim reports and announcements published on the website of AB Ignitis grupė group of companies www.ignitisgrupe.lt also include the Company's information
7.5. annual and interim reports of a State-owned enterprise, and annual and interim activity reports of a State-owned enterprise for a period of at least 5 years;	Yes	
7.6. sets of annual and interim financial statements for a period of at least 5 years and auditor's reports on the annual financial statements.	Yes	
9. If a State-owned company is a participant in legal entities other than those referred to in point 8 of the Description, the data and website addresses of those legal entities referred to in points 5.1 to 5.3 of the Description shall be published on its website.	Yes	Information available on www.ignitis.lt and www.ignitisgrupe.lt

Point in the description of the Guidelines on Transparency in State-Owned Companies (version as at 30 April 2021)	Disclosure	Explanation
9[1]. If the entity is a subsidiary or an entity of a subsequent row of the State-owned company, the website shall contain the parent company's data referred to in points 5.1 to 5.3 of the Description and a link to the website of the parent company.	Yes	
10. Any change or publication of incorrect data, information and documents referred to in points 5 and 6, 7.1 to 7.4, 8, 9 and 91 of the Schedule shall be promptly amended and published on the website.	Yes	Information and documents that have changed are updated immediately
11. The set of annual financial statements of the State-owned company, the annual report of the State-owned company, the annual activity report of the State-owned company, as well as the auditor's report on the annual financial statements of the State-owned company, must be published on the website of the State-owned company within 10 working days from the date of the approval of the annual financial statements of the State-owned company.	Yes	Documents are published on the website within a set time limit
12. The sets of interim financial statements of the State-owned company, the interim reports of the State-owned company and the interim activity reports of the State-owned company must be published on the website of the State-owned company at the latest 2 months after the end of the reporting period.	Yes	The interim reports and announcements published on the website of AB Ignitis grupė group of companies www.ignitisgrupe.lt also include the Company's information
13 The documents referred to in point 7 of the Description shall be published in PDF format and shall be technically printable.	Yes	
Chapter III. Preparation of financial statements, reports and activity reports	Yes	
14. State-owned companies shall maintain their accounting in such a way as to ensure the preparation of financial statements in accordance with international accounting standards.	Yes	The Company's accounting is in accordance with IFRS
17. The annual report of a State-owned company or the annual activity report of a State-owned company shall, in addition to the content requirements set out in the Law on Financial Reporting of Enterprises of the Republic of Lithuania or the Law on State and Municipal Enterprises of the Republic of Lithuania, contain:	Yes	The Company presents information in the annual report
17.1. a brief description of the business model of the State-owned company;	Yes	
17.2. information on significant events that occurred during and after the financial year (prior to the preparation of the annual report or the annual activity report) that had a material impact on the activities of the State-owned enterprise;	Yes	
17.3. the results of the achievement of the objectives set out in the State-owned company's operational strategy;	Yes	
17.4. profitability, liquidity, asset turnover, debt ratios;	Yes	
17.5. fulfilment of specific obligations;	Not applicable	
17.6. Implementation of the investment policy, ongoing and planned investment projects and Investments during the year under review;	Yes	
17.7. implementation of the risk management policy in a State-owned company;	Yes	
17.8. implementation of dividend policy in State-owned companies;	Yes	
17.9. implementation of remuneration policy;	Yes	
17.10. the total annual payroll fund, the average monthly salary by position and/or department;	Yes	
17.11. information on compliance with the provisions of Chapters II and III of the Description: how they are being implemented, which provisions are not being complied with and an explanation of why.	Yes	
18. State-owned companies and state enterprises that are not required to prepare a corporate social responsibility report are recommended to include in their annual report or annual activity report, as appropriate, information on environmental, social and human resources, human rights, anti-corruption and anti-bribery issues.	Not applicable	The Company presents information in the annual report
19. If the information referred to in point 17 of the Description is considered to be a commercial (industrial) secret or confidential information of the State-owned company, the State-owned company may not disclose such information, but state in the annual report of the State-owned company or the annual activity report of the State-owned company, as the case may be, that the information is not to be disclosed and under what reason.	Not applicable	The Company presents information in the annual report
20. The annual report of the State-owned company or the annual activity report of the State enterprise may also contain other information not specified in the Description.	Yes	The annual report also contains other information

Abbreviations

#	Number
%	In percent
'000	Thousand
12-month	The period of the previous twelve months
AB	Joint stock company
RE	Renewable energy
RES	Renewable energy sources
ESG	Environmental, Social and Corporate Governance
Company	UAB Ignitis
B2B	Business to business
B2C	Business to consumer
CO2	Carbon dioxide
d	days
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
eNPS	Employee Net Promoter Score
EU	European Union
Group	The group of companies Ignitis,UAB
GW	Gigawatts
Ignitis Eesti	Ignitis Eesti OÜ
Ignitis Group	The group of companies AB Ignitis grupė
Ignitis Latvija	Ignitis Latvija SIA
Ignitis Polska	Ignitis Polska sp. z o.o
ISO	International Organisation for Standardisation
Litgas	UAB Litgas
y	Year
month	Month/month
m	Million
MW	Megawatt
MWh	Megawatt hour
n/a	Not applicable
NPS	Net promoter score
OPEX	Operating expenses
Parent company	AB Ignitis grupė
pp	Percentage point
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
ROI	Return on Investment
SBTi	Science Based Targets initiative
LNG	Liquefied Natural Gas
LNGT	Liquefied Natural Gas Terminal
GHG	Greenhouse gas
TRIR	Total Recordable Incident Rate
TWh	Terawatt-hour
UAB	Private Limited Liability Company
UNGC	United Nations Global Compact
NERC	National Energy Regulatory Council
Public supply	Electricity supply activity performed in accordance with the procedure and terms established by legal acts by an entity holding a public supply licence
PBM	Payment of the activities of Board member

Certification statement

31 March 2023

We, Artūras Bortkevičius, General Manager at UAB „Ignitis“, Darius Šimkus, Director of Finance and Business Support Department and Natalija Timofejeva, Accounting Expert at UAB „Ignitis grupės paslaugų centras” acting under Decision No 23_GSC_SP_0010 of 17 February 2023, hereby confirm that, to the best of our knowledge, UAB „Ignitis“ consolidated and parent company's financial statements for the year ended 31 December 2022 prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of UAB „Ignitis“ consolidated and parent company's, liabilities, financial position, profit or loss and cash flows for the period, the Annual Report for the year 2022 includes a fair review of the development and performance of the business as well as the condition of UAB „Ignitis“ and it's group companies together with the description of the principle risks and uncertainties it faces.

Artūras Bortkevičius	**Darius Šimkus**	**Natalija Timofejeva**
General Manager	Director of Finance and Business Support Department	Accounting expert of UAB „Ignitis grupės paslaugų centras”, acting under Decision No 23_GSC_SP_0010 of 17 February 2023

UAB Ignitis
Laisvės pr. 10, LT-04215,
Vilnius, Lithuania

+370 5 232 7700
www.ignitis.lt

Company code 303383884
VAT payer's code LT100008860617