**AB KAUNO ENERGIJA**

THE SET OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMPANY'S SEPARATE FINANCIAL STATEMENTS FOR 2021 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION PRESENTED TOGETHER WITH THE CONSOLIDATED ANNUAL REPORT AND THE INDEPENDENT AUDITOR'S REPORT

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ROSK CONSULTING

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Kauno energija AB:

**Report on the Audit of the Separate and the Consolidated Financial Statements**

**Opinion**

We have audited the separate financial statements of Kauno energija AB (hereinafter –„the Company") and the consolidated financial statements of Kauno energija AB and its subsidiaries (hereinafter –„the Group"), which comprise the separate statement of financial position of the Company and the consolidated statement of financial position of the Group as at 31 December 2021, the separate income and other comprehensive income statement and the consolidated income and other comprehensive income, the separate statement of changes in equity and the consolidated statement of changes in equity, the separate statement of cash flows and the consolidated statement of cash flows for the year then ended, and the notes to the separate and consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2021, and their respective unconsolidated and consolidated financial performance and their respective unconsolidated and 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 and Consolidated Financial Statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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 matters**

The separate financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2020 were audited by another auditor, who expressed an unqualified opinion on those financial statements on 29 March 2021.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Property, plant and equipment (in separate and consolidated financial statements, see Note 4 in the financial statements) | |
| The amortised cost of property, plant and equipment accounted for by the Company and the Group in the statement of financial position amounted to EUR 151,855 thousand and EUR 155,243 thousand respectively.<br><br>Determining the value of property, plant and equipment requires significant management judgement based on assets useful lives. The key assumptions used are described in Note 2.8 "Property, plant and equipment".<br><br>Assessment of useful life of property, plant and equipment requires subjective assumptions from the Company and the Group, changes to which can determine significant change in depreciation expenses and result for the period, thereof. | We conducted these audit procedures:<br><br>We have considered the appropriateness of the Company's and the Group's accounting policy, related to the assessment of useful life of property, plant and equipment and whether this policy complies with applicable financial reporting standards.<br><br>We have reviewed the appropriateness of controls implemented by the Company and the Group in determining and adjusting useful life of property, plant and equipment.<br><br>We have considered completeness and appropriateness of related property, plant and equipment disclosures in the Company's separate and the Group's consolidated financial statements. |

ROSK Consulting, UAB
Laisvės ave. 10A,
04215 Vilnius, Lithuania

Tel. +370 (5) 207 1773,
e-mail info@roskconsulting.lt
www.roskconsulting.lt

Company code 302692397, VAT payer code LT100006552313, registered in the Register of Legal Entities of the Republic of Lithuania, bank account No LT952140030002659714, Luminor Bank AS

| | |
|---|---|
| For this reason, we believe this area to be a key audit matter. | |
| Valuation of investment into subsidiaries (only in separate financial statements, see Note 5 in the financial statements) | |
| Investments into subsidiaries are stated at EUR 3,498 thousand in the financial statements.<br><br>The Company accounts for these investments under amortised cost model. As disclosed in the Note 1 to the financial statements, one of the subsidiaries has generated a loss in 2021 and that indicates that the value of the investment might be impaired.<br><br>For this reason the Company has prepared an impairment test of it's investment into subsidiary Petrašiūnų katilinė AB using a discounted cashflow method.<br><br>Determining the recoverable value of the investment requires significant the Company's judgements and assumptions related to the future cashflows, growth forecasts, discount rate and their adjustments in the valuation. Changes in the mentioned assumptions might significantly impact the valuation output. For this reason, we believe this area to be a key audit matter. | We conducted these audit procedures:<br><br>We have considered the appropriateness of the valuation method used by the Company and evaluated it in terms of other valuation methods used for similar assets under the relevant financial reporting standards.<br><br>We have reviewed they key assumptions used in the valuation model – we have considered the key inputs, such as revenue, expense and capital expenditure forecast rates, discount rate used and overall appropriateness of the subsidiary's financial data used with respect to our understanding of the subsidiary's activity, it's market and future prospects.<br><br>We have reviewed the mathematical accuracy of the applied discounted cash flow valuation model.<br><br>We have considered completeness and appropriateness of related disclosures related to investments in subsidiaries in the Company's separate financial statements. |
| Amortised cost of trade receivables (in separate and consolidated financial statements, see Note 8 in the financial statements) | |
| Trade receivables, stated at amortised cost by the Company and the Group amounted to EUR 11,662 thousand and EUR 11,529 thousand respectively as at 31 December 2021.<br><br>The Company and the Group recognises trade receivables at amortised cost based on IFRS 9 – Financial instruments requirements. Based on IFRS 9, the Company and the Group evaluates impairment losses for trade receivables based on expected credit losses (ECL) that are determined through modelling methods and are calculated based mostly on historic data on losses and changes in credit risk, based on available quantitative and qualitative data, for example probability of default and expected losses at such default.<br><br>Determining these parameters requires significant judgements from the management of the Company and the Group, therefore we believe this area to be a key audit matter. | We conducted these audit procedures:<br><br>We have considered the appropriateness of the Company's and the Group's accounting policy, related to the valuation of trade receivables and whether this policy complies with applicable financial reporting standards.<br><br>We have reviewed the main controls related to the process of recovery of bad debts and the process of impairment calculation.<br><br>We have reviewed the key data used in the ECL model, evaluated the main assumptions used by the management and their appropriateness in terms of available historical and forward looking information.<br><br>We have considered completeness and appropriateness of related valuation of trade receivables disclosures in the Company's separate and the Group's consolidated financial statements. |

**Other Information**

The other information comprises the information included in the Group's annual report, including Corporate governance report, Remuneration report, Corporate social responsibility report but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated 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, except as specified below.

In connection with our audit of the separate and consolidated 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 and consolidated 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 Group's annual management report, including Corporate governance report and Remuneration report, for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements and whether annual management report, including Corporate governance report and Renumeration report, has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the separate and consolidated financial statements, in our opinion, in all material respects:

- The information given in the Group's annual management report, including Corporate governance report and Remuneration report, for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and

- The Group's annual management report, including Corporate governance report and Remuneration report, have been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate social responsibility report has been provided. If we identify that the Corporate social responsibility report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements 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 and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and the Group'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 and the Group's or to cease operations, or has no realistic alternative but to do so.

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

**Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 and consolidated 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 and consolidated 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 and the Group'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 and the Group'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 and consolidated 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 and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Other Regulatory and Supervisory Requirements**

By the decision of the shareholder meeting on 16 September 2021 we were elected to audit the separate and consolidated financial statements of the Company and the Group. The total uninterrupted term of appointment is 1 year.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the audit report for the separate and consolidated financial statements presented to the Company and the Group and its Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

**Report on Compliance with the Requirements of European Single Electronic Format Technical Regulation Standard (ESEF RTS)**

The Company and the Group have prepared separate and consolidated financial statements for the year ended 31 December 2021 in accordance with the requirements of the European single electronic format technical regulation standard (hereinafter – ESEF RTS) established on 17 December 2018 in the Commission Delegated Regulation (EU) 2019/815.

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the separate and the consolidated financial statements included in the digital file named "abkaunoenergija-2021-12-31-en.zip" prepared by Kauno energija AB.

*Management responsibility for the digital files prepared in compliance with the ESEF Regulation requirements*

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

• the selection and application of appropriate iXBRL tags using judgement where necessary;
• ensuring consistency between digitised information and the separate and the consolidated financial statements presented in human-readable format; and
• the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

*Auditor's responsibility*

In accordance with the requirements of the legislations of the European Union, our responsibility is to express an opinion on whether the electronic tagging of the separate and the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

- obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;
- obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the tagging process when the assessment of the risks of material misstatement include an expectation that such internal controls are operating effectively or procedures other than testing controls cannot alone provide sufficient appropriate evidence;
- reconciling the tagged data with the audited separate and consolidated financial statements of the Company and the Group for the year ended 31 December 2021;
- evaluating the completeness of the Company's and the Group's tagging of the separate and the consolidated financial statements;
- evaluating the appropriateness of the Company's and Group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- and evaluating the use of anchoring in relation to the extension elements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the separate and the consolidated financial statements included in the annual financial report of Kauno energija AB for the year ended 31 December 2021 provided in the file named "abkaunoenergija-2021-12-31-en.zip" are tagged, in all material respects, in compliance with the ESEF RTS.

The audit engagement partner for this independent auditor's report is Romanas Skrebnevskis.

Auditor Romanas Skrebnevskis
Auditor's certificate No. 000471

ROSK Consulting UAB
Audit company's certificate No. 001514

Vilnius, Lithuania
6 April 2022

## Management's approval of the financial statements

In accordance with the provisions of Article 23 of the Law on Securities of the Republic of Lithuania and Disclosure Rules approved by Resolution of the Board of the Bank of Lithuania No. O3-223 of 13 December 2019, we hereby certify that the individual and consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In our opinion, the accounting principles applied are appropriate and the financial statements give a true and fair view in all material respects in accordance with the International Financial Reporting Standards adopted by the European Union. The 2021 Consolidated Annual Report provides a fair review of the development and performance of the business and the overall position of the Company and the consolidated entities, together with a description of the principal risks and uncertainties encountered.

We recommend that the Annual financial statements be approved by the General Meeting of Shareholders.

Kaunas, 6 April 2022

On behalf of the management:

| | |
|---|---|
| Director General of AB Kauno energija | Tomas Garasimavičius |
| Financial Director of AB Kauno energija | Edmundas Damanskis |
| Chief Accountant of AB Kauno energija | Rita Plančiūnienė |

(in thousands euro, unless specified otherwise)

**Statements of financial position**

| | Notes | The Group 2021-12-31 | The Group 2020-1231 | The Company 2021-12-31 | The Company 2020-12-31 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Fixed assets** | | | | | |
| **Intangible fixed assets** | **3** | **77** | **117** | **77** | **117** |
| Property, plant and equipment | **4** | | | | |
| Land and buildings | | 6 115 | 7 145 | 5 731 | 6 015 |
| Buildings | | 121 810 | 109 278 | 121 348 | 108 824 |
| Machinery and equipment | | 15 514 | 18 741 | 14 263 | 16 947 |
| Vehicles | | 445 | 388 | 445 | 375 |
| Plant and tools | | 1 997 | 2 238 | 1 996 | 2 236 |
| Constructions in progress and prepayments | | 8 089 | 12 191 | 8 072 | 12 191 |
| Investment property | | 1 273 | 401 | - | 160 |
| **Total property, plant and equipment** | | **155 243** | **150 382** | **151 855** | **146 748** |
| **Right of use assets** | **3** | **1 207** | **1 266** | **1 006** | **1 060** |
| **Non-current financial assets** | | | | | |
| Investments in subsidiaries | **5** | - | - | 3 498 | 2 064 |
| Amounts receivable after one year | | 111 | - | - | - |
| Other financial assets | **5,6** | 75 | 409 | 518 | 409 |
| **Financial fixed assets, total** | | **186** | **409** | **4 016** | **2 473** |
| **Non-current assets, total** | | **156 713** | **152 174** | **156 954** | **150 398** |
| **Current assets** | | | | | |
| Inventories and prepayments | | | | | |
| Inventories | **7** | 1 756 | 1 361 | 1 407 | 1 328 |
| Prepayments | | 4 407 | 573 | 4 055 | 485 |
| **Total inventories and prepayments** | | **6 163** | **1 934** | **5 462** | **1 813** |
| Amounts receivable within one year | | | | | |
| Trade receivables | **8** | 11 529 | 6 727 | 11 662 | 6 727 |
| Loans to the Group companies | **5** | - | - | - | 443 |
| Other amounts receivable | **8** | 1 833 | 243 | 1 794 | 194 |
| **Amounts receivable within one year, total** | | **13 362** | **6 970** | **13 456** | **7 364** |
| **Cash and cash equivalents** | **9** | **3 696** | **1 800** | **2 782** | **1 675** |
| **Assets held for sale** | | **-** | **25** | **-** | **-** |
| **Current assets, total** | | **23 221** | **10 729** | **21 700** | **10 852** |
| **Assets, total:** | | **179 934** | **162 903** | **178 654** | **161 250** |

**(continued on the next page)**

(in thousands euro, unless specified otherwise)

**Statements of financial position (continued)**

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | **Notes** | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Property** | | | | | |
| **Capital** | **10** | **74 476** | **74 476** | **74 476** | **74 476** |
| Legal reserve | **10** | 7 447 | 7 447 | 7 447 | 7 447 |
| Other reserves | **10** | 3 000 | 2 900 | 3 000 | 2 900 |
| Current year profit | | 72 | (152) | 457 | 57 |
| Profit (loss) of the previous years | | 4 750 | 5 002 | 4 910 | 4 953 |
| Total retained profit (loss) | | **4 822** | **4 850** | **5 367** | **5 010** |
| **Total equity** | | **89 745** | **89 673** | **90 290** | **89 833** |
| **Amounts payable and liabilities** | | | | | |
| **Amounts payable after one year** | | | | | |
| Financial debts | **11** | 32 658 | 23 534 | 32 658 | 22 967 |
| Lease (finance lease) | **12** | 1 316 | 1 336 | 1 113 | 1 127 |
| Deferred profit tax liabilities | **22** | 5 633 | 5 541 | 5 924 | 5 743 |
| Grants and subsidies | **13** | 32 715 | 29 966 | 32 229 | 29 319 |
| Employee benefit obligations | **14** | 465 | 375 | 455 | 375 |
| Long-term trade payables | | - | - | - | - |
| **Amounts payable after one year, total** | | **72 787** | **60 752** | **72 379** | **59 531** |
| **Accounts payable within one year** | | | | | |
| Financial debt and leasing | **11,12** | 3 014 | 3 012 | 2 445 | 2 434 |
| Trade creditors | **24** | 11 376 | 6 802 | 10 701 | 6 852 |
| Employee related liabilities | | 649 | 600 | 632 | 589 |
| Received prepayments | | 570 | 645 | 464 | 644 |
| Tax payable | | 609 | 387 | 588 | 367 |
| Derivative financial instruments | **15** | - | 6 | - | - |
| Employee benefit obligations | **14** | 122 | 124 | 122 | 124 |
| Other provisions | **16** | 577 | 647 | 577 | 647 |
| Accrued costs and deferred income | | 210 | 147 | 187 | 121 |
| Other amounts payable and liabilities | | 275 | 108 | 269 | 108 |
| **Amounts payable within one year, total** | | **17 402** | **12 478** | **15 985** | **11 886** |
| **Total accounts payable and liabilities** | | **90 189** | **73 230** | **88 364** | **71 417** |
| **Total equity and liabilities** | | **179 934** | **162 903** | **178 654** | **161 250** |

The following notes to financial statements are an integral part of these financial statements.

(in thousands euro, unless specified otherwise)

## Statement of profit (loss) and other comprehensive income

**The Group**

| | Notes | 2021 | 2020. |
|---|---|---|---|
| **Operating income** | | | |
| Sales revenue | **17** | 50 963 | 42 030 |
| Other operating income | **19** | 4 543 | 1 600 |
| **Total operating income** | | **55 506** | **43 630** |
| **Operating expenses** | | | |
| Fuel and purchased energy | | (32 998) | (20 924) |
| Salaries, social insurance | | (7 376) | (6 430) |
| Depreciation and amortisation | | (7 333) | (7 444) |
| Repair and maintenance | | (680) | (951) |
| Change in impairment of receivables | | 587 | 22 |
| Taxes, other than income tax | | (2 130) | (1 814) |
| Electricity | | (1 265) | (1 230) |
| Raw materials and goods used | | (1 065) | (505) |
| Water | | (1 086) | (1 117) |
| Change in realisable value of inventories and impairment of fixed assets | **7** | 51 | (207) |
| Other costs | **18** | (1 984) | (2 079) |
| Other operating expenses | **19** | (434) | (318) |
| **Operating expenses, total** | | **(55 713)** | **(42 997)** |
| **Operating profit (loss)** | | **(207)** | **633** |
| Other interest and similar income | **20** | 673 | 183 |
| Loss from disposal of securities | **21** | (208) | 333 |
| Interest and other similar expenses | **21** | (117) | (365) |
| **Income from financing and investment activities, net value** | | **348** | **151** |
| **Profit before taxation** | | **141** | **784** |
| Income tax | **22** | (20) | - |
| Deferred income tax income (loss) | **22** | (120) | (156) |
| **Profit for the reporting period** | | **1** | **628** |
| Other provisions to be reclassified subsequently to profit or loss | **16** | 71 | (780) |
| **Gross income** | | **72** | **(152)** |
| **Profit attributable to:** | | | |
| Owners of the Company | | 1 | 628 |
| Non-controlling interests | | - | - |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | 72 | (152) |
| Non-controlling interests | | - | - |
| **Earnings per share (EUR)** | **23** | **0,00** | **0,01** |

The following notes to financial statements are an integral part of these financial statements.

(in thousands euro, unless specified otherwise)

**Statements of profit (loss) and other comprehensive income (continued)**

**The Company**

| | Comments | 2021 | 2020. |
|---|---|---|---|
| **Operating income** | | | |
| Sales revenue | **17** | 50 981 | 42 036 |
| Other operating income | **19** | 3 808 | 1 486 |
| **Total operating income** | | **54 789** | **43 522** |
| **Operating expenses** | | | |
| Fuel and purchased energy | | (33 223) | (21 622) |
| Salaries, social insurance | | (7 265) | (6 314) |
| Depreciation and amortisation | | (6 756) | (6 879) |
| Repair and maintenance | | (658) | (916) |
| Change in impairment of receivables | | 587 | 29 |
| Taxes, other than income tax | | (2 074) | (1 786) |
| Electricity | | (1 160) | (1 121) |
| Raw materials and goods used | | (545) | (496) |
| Water | | (1 081) | (1 114) |
| Change in realisable value of inventories and impairment of fixed assets | **7** | 51 | (207) |
| Other costs | **18** | (2 020) | (2 039) |
| Other operating expenses | **19** | (441) | (232) |
| **Operating expenses, total** | | **(54 585)** | **(42 697)** |
| **Operating profit (loss)** | | **204** | **825** |
| Other interest and similar income | **20** | 671 | 181 |
| Loss from disposal of securities | **21** | (208) | 333 |
| Interest and other similar expenses | **21** | (100) | (337) |
| **Income from financing and investment activities, net value** | | **363** | **177** |
| **Profit before taxation** | | **567** | **1 002** |
| Income tax | **22** | - | - |
| Deferred income tax income (loss) | **22** | (181) | (165) |
| **Profit for the reporting period** | | **386** | **837** |
| Other provisions to be reclassified subsequently to profit or loss | **16** | 71 | (780) |
| **Gross income** | | **457** | **57** |
| **Earnings per share (EUR)** | **23** | **0,01** | **0,02** |

The following notes to financial statements are an integral part of these financial statements.

(in thousands euro, unless specified otherwise)

## Statement of Changes in Equity

| The Group | Notes | Capital | Legal reserve | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance on 31 December 2019** | | **74 476** | **7 447** | **2 900** | **5 002** | **89 825** |
| Profit for the reporting period | | - | - | - | 628 | 628 |
| Other comprehensive income | | - | - | - | (780) | (780) |
| **Balance on 31 December 2020** | | **74.476** | **7.447** | **2.900** | **4 850** | **89 673** |
| Formed reserves | **10** | - | - | 3 000 | (3 000) | - |
| Reversed reserves | **10** | - | - | (2 900) | 2 900 | - |
| Profit for the reporting period | | - | - | - | 1 | 1 |
| Other comprehensive income | | - | - | - | 71 | 71 |
| **Balance on 31 December 2021** | | **74 476** | **7 447** | **3 000** | **4 822** | **89 745** |

| The Company | Notes | Capital | Legal reserve | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance on 31 December 2019** | | **74 476** | **7 447** | **2 900** | **4 953** | **89 776** |
| Profit for the reporting period | | - | - | - | 837 | 837 |
| Other comprehensive income | | - | - | - | (780) | (780) |
| **Balance as at 31 December 2020** | | **74 476** | **7 447** | **2 900** | **5 010** | **89 833** |
| Formed reserves | **10** | - | - | 3 000 | (3 000) | - |
| Reversed reserves | **10** | - | - | (2 900) | 2 900 | - |
| Profit for the reporting period | | - | - | - | 386 | 386 |
| Other comprehensive income | | - | - | - | 71 | 71 |
| **Balance on 31 December 2021** | | **74 476** | **7 447** | **3 000** | **5 367** | **90 290** |

The following notes to financial statements are an integral part of these financial statements.

(in thousands euro, unless specified otherwise)

## Cash Flow Statements

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Cash flows from (to) operating activities** | | | | |
| Comprehensive income | **72** | **(152)** | **457** | **57** |
| **Adjustments to non-cash items:** | | | | |
| Depreciation and amortisation | 9 416 | 9 365 | 8 734 | 8 622 |
| Write-offs and changes in impairment of receivables | (587) | (18) | (587) | (29) |
| Interest expenses | 117 | 389 | 100 | 362 |
| Change in fair value of derivative financial instruments | (6) | (6) | - | - |
| Loss (gain) on sale and write-down of fixed assets and securities | (74) | (495) | (74) | (495) |
| Grants and subsidies (amortisation) | (1 750) | (1 578) | (1 589) | (1 416) |
| Change in realisable value of inventories and impairment of fixed assets | (51) | 207 | (51) | 207 |
| Change in employee benefits obligation | - | 117 | - | 115 |
| Profit tax expense | 140 | 173 | 181 | 182 |
| Change in accruals | 150 | (98) | 144 | (93) |
| Change in provision liabilities | 22 | 647 | (70) | 647 |
| Elimination of other results from financing and investing activities | (673) | (177) | (1 726) | (181) |
| **Adjustment to total non-cash items** | **6 704** | **8 526** | **5 062** | **7 921** |
| **Changes of working capital:** | | | | |
| Decrease (increase) in inventories | (319) | 12 | (28) | (14) |
| Decrease (increase) in prepayments | (3 834) | 582 | (3 570) | 612 |
| Decrease (increase) in trade receivables | (4 502) | 1 806 | (4 635) | 1 806 |
| Decrease (increase) in other amounts receivable | (1 590) | 532 | (1 600) | 563 |
| Increase (decrease) in long-term trade debts | (111) | (4) | - | (4) |
| Increase (decrease) in trade debtors and advances received | 5 246 | (96) | 5 142 | (255) |
| Decrease (increase) in employee related liabilities | 49 | (368) | 43 | (326) |
| Increase (decrease) in taxes payable | 222 | (80) | 221 | (35) |
| Decrease (increase) in received prepayments | (75) | 3 | (180) | 2 |
| Increase (decrease) in other current liabilities | 27 | 2 | 161 | 2 |
| **Changes in total working capital** | **(4 887)** | **2 389** | **(4 446)** | **2 351** |
| **Net cash flows from operating activities** | **1 889** | **10 763** | **1 073** | **10 329** |

(continued on the next page)

The following notes to financial statements are an integral part of these financial statements.

(in thousands euro, unless specified otherwise)

**Cash flow statements (continued)**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021** | **2020.** | **2021** | **2020.** |
| **Cash flows from (to) investing activities** | | | | |
| Acquisition of intangible fixed assets and property, plant and equipment | (14 667) | (21 198) | (14 236) | (21 198) |
| Sale of property, plant and equipment | 563 | 606 | 563 | 606 |
| Interest received on overdue receivables | 621 | 177 | 621 | 181 |
| Acquisition of investments | - | (407) | (1 000) | (407) |
| **Net (used) cash flows from investing activities** | **(13 483)** | **(20 822)** | **(14 052)** | **(20 818)** |
| **Cash flows from (to) financing activities** | | | | |
| Loans received | 12 000 | 15 000 | 12 000 | 15 000 |
| Loans repaid | (2 833) | (10 858) | (2 255) | (10 291) |
| Interest paid | (116) | (394) | (101) | (377) |
| Lease payments | (60) | (137) | (57) | (137) |
| Subsidy received | 4 499 | 6 029 | 4 499 | 6 029 |
| **Net cash flows from (used in) financing activities** | **13 490** | **9 640** | **14 086** | **10 224** |
| **Net increase (decrease) in cash flows** | **1 896** | **(419)** | **1 107** | **(265)** |
| **Cash and cash equivalents at the beginning of the period** | **1 800** | **2 219** | **1 675** | **1 940** |
| **Cash and cash equivalents at the end of the period** | **3 696** | **1 800** | **2 782** | **1 675** |

(end)

The following notes to financial statements are an integral part of these financial statements.

(in thousands euro, unless specified otherwise)

## Explanatory notes to financial statements

### 1. General information

AB Kauno energija (hereinafter referred to as the Company) is a public limited liability company registered in the Republic of Lithuania. It's headquarters address: Raudondvario pl. 84, Kaunas, Lithuania. Data about the Company is collected and stored in the Registry of Legal Entities.

The Company is engaged in the supply of heat and hot water, production and sale of electricity and maintenance of collector-tunnels. The Company also provides heating system maintenance services. The Company was registered on 1 July 1997, following the reorganisation of AB Lietuvos energija. The Company's shares are traded on the Baltic Additional Trading List of the Nasdaq Vilnius Stock Exchange.

As at 31 December 2021 and 31 December 2020 the Company's shareholders were:

| | 2021-12-31 | | 2020-12-31 | |
|---|---|---|---|---|
| | Number of held shares, units | Ownership (%) | Number of held shares, units | Ownership (%) |
| Kaunas city municipality | 39 736 058 | 92.84 | 39 736 058 | 92.84 |
| Kaunas district municipality | 1 606 168 | 3.75 | 1 606 168 | 3.75 |
| Jurbarkas district municipality | 746 405 | 1.74 | 746 405 | 1.74 |
| Other small shareholders | 713 512 | 1.67 | 713 512 | 1.67 |
| | 42 802 143 | 100.00 | 42 802 143 | 100.00 |

The Company's authorised capital is equal to EUR 74 475 728.82 and is divided into 42 802 143 ordinary shares with a nominal value of EUR 1.74 each. As at 31 December 2020 and 31 December 2021 the Company had no treasury shares. As at 31 December 2020 and 31 December 2021, all shares were fully paid up.

On 31 December 2021 the Company and its subsidiaries UAB GO Energy LT and AB Petrašiūnų katilinė form a group (the Group):

| Company | Company home address | Part of the Company-owned shares | Cost of investment | Profit (loss) for the reporting period | Equity | Company's main activities |
|---|---|---|---|---|---|---|
| UAB GO Energy LT | Savanorių pr. 347, Kaunas | 100 per cent. | 2 763 | 111 | 2 621 | Innovative energy projects, consultations, Lease |
| AB Petrašiūnų katilinė | R. Kalantos g. 49, Kaunas | 100 per cent. | 1 894 | (348) | 188 | Heat production |

The Company's shareholding in Group companies remained unchanged during 2021.

The average listed number of employees of the Group in the reporting period was 380 (396 in 2020). The average list number of employees of the Company in the reporting period was 355 (381 in 2020).

## 1. General information (continued)

*Legal regulation*

Pursuant to the Law of the Republic of Lithuania on the Heat Sector, the Company's activities are licensed and regulated by the State Energy Regulatory Council (hereinafter referred to as the Council). On 26 February 2004 the Council granted the Company a heat supply licence. The licence is valid for an unlimited period but may be revoked by an appropriate decision of the Council depending on compliance with certain conditions. The Council also sets price caps for heat supply. On 13 September 2018 the Council, by its Resolution No. O3E-283, established new components of the basic heat price for the Company, which were in force during the audited period. In accordance with the price-setting methodology, the Council recalculates the price components after the first year of the basic price and the rate is adjusted prospectively. The recalculated components became applicable on 1 November 2020.

By resolution No O3E-351 of 2 September 2019, the Council set new heat base price components for AB Petrašiūnų katilinė, which will be valid until 30 September 2024.

*Economic activities*

By decision of the Extraordinary General Meeting of Shareholders of the Company on 2 October 2015 “On the acquisition of Palemonas heat facilities” and the decision of the Board of Directors of the Company of 20 July 2017 “On the Acquisition of the Heat facilities of Palemonas Settlement” on 8 January 2020 AB Kauno energija and UAB Fortum Heat Lietuva concluded an agreement on the purchase and sale of the heat facilities of Palemonas in Kaunas, whereby AB Kauno energija acquired from UAB Fortum Heat Lietuva a boiler house with heat supply networks and related equipment and commenced the heat supply activities in Palemonas on 1 February 2020.

The Company's production capacities consist of the Petrašiūnai power plant, 4 boiler houses in Kaunas integrated network, 7 regional boiler houses in Kaunas district, 1 in Jurbarkas, 14 isolated network and 26 local (household) boiler houses in Kaunas city, as well as 8 boiler houses for water heating in Sargėnai district. The Group's production capacity consists of the Company's production capacity and 1 boiler house of the subsidiary in Kaunas. In September 2021 at the boiler house of the integrated network at A. Juozapavičiaus pr. 23A, a gas boiler of 1.6 MW was dismantled. The Group's total thermal capacity on 31 December 2021 was approximately 683 MW (of which 48 MW are condensing economizers), and the total power generation capacity of the entire Group is approximately 683 MW (of which 48 MW are condensing economizers). The total installed thermal capacity of the Company is approximately 664 MW (of which 48 MW are condensing economizers), electrical capacity is 8.75 MW, of it in Petrašiūnai power plant – 314.6 MW thermal capacity (of which 17.8 MW is condensing economizer) and 8 MW of electrical capacity, 39.4 MW of thermal capacity in Jurbarkas (including 4.4 MW – a condensing economizer). The total power generation capacity of the Company as a whole is approximately 673 MW (of which 48 MW are condensing economizers).

The Company makes investments after taking into account the economic situation, the competitive environment and the availability of financing. Investment plans are approved by the shareholders and coordinated by the Board.

The Company's management approved these financial statements on 6 April 2022. The Company's shareholders have a statutory right to approve these financial statements or disapprove them and require the management to draft new financial statements.

## 2. Summary of significant accounting policies

### 2.1. Confirmation of Conformity

The separate and consolidated financial statements presented (hereinafter referred to as financial statements) are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and interpretations thereof. Standards have been issued by the International Accounting Standards Board (IASB) and interpretations have been issued by the International Financial Reporting Interpretations Committee (IFRIC).

## 2. Summary of significant accounting policies (continued)

### 2.2. Basis of preparation of the financial statements

These financial statements are prepared on an historical cost basis, except for financial assets and liabilities for which changes in fair value are recognised as profit or loss. Historical cost is essentially based on the fair value of the consideration paid for an asset.
The financial year of the Company and other Group companies coincides with the calendar year.
All amounts in these financial statements are recorded and presented in euro (rounded to the nearest thousand euro, unless otherwise stated) – the functional and presentation currency of the Group and the Company.

### 2.3. Adaptation of new and/or amended standards

(a) New and/or amended standards and interpretations effective from 1 January 2021:

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union (further – EU) are effective for the current period and were adopted by the Company and the Group:

- Amendments to IFRS 4 "Insurance Contracts" – deferral of IFRS 9" (effective for annual periods beginning on or after 1 January 2021);
- Amendment to IFRS 16 Leases Covid-19 Related Rent Concessions (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021).

The application of these standards, amendments and interpretations had no material impact on the financial statements of the Company and the Group.

(b) Standards, amendments and interpretations to existing standards issued by the IASB, adopted by EU, but not yet effective:

As at the date of these consolidated financial statements, the Company and the Group have not early adopted the following new and revised IFRS standards, amendments and interpretations that have been issued but are not yet effective:

- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 16 Leases: Covid-19 Related Rent Concessions beyond 30 June 2021 (effective for annual periods beginning on or after 1 April 2021);
- IFRS 17 Insurance Contracts; including amendments to 17 IFRS (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement No 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023).

The management of the Company and the Group does not expect that the adoption of these standards, amendments and interpretations will have a material impact on the separate and consolidated financial statements of the Company and the Group in future periods.

**2. Summary of significant accounting policies (continued)**
**2.3. Adaptation of new and/or amended standards (continued)**

(c) Standards, amendments to existing standards and interpretations that have not yet entered into force and have not yet been endorsed by EU:

IFRSs currently endorsed by EU are not significantly different from the standards endorsed by the IASB, except the standards, amendments and interpretations that were not endorsed by EU (the effective dates are applicable to IFR to full extent). These standards, amendments and interpretations are listed below:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (applicable for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 17 Insurance Contracts: Initial application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023);

The management of the Company and the Group does not expect that the adoption of these standards, amendments and interpretations will have a material impact on the separate and consolidated financial statements of the Company and the Group at the time of its first adoption.

### 2.4. Consolidation principles

Consolidation principles

The consolidated financial statements of the Group include AB Kauno energija and its subsidiaries. The financial statements of the subsidiaries are for the same reporting period as those of the Parent Company. The consolidated financial statements are prepared on the basis of uniform accounting principles for similar transactions and other events in similar circumstances.

Businesses acquired or disposed of during the year are included in the consolidated financial statements from the date of the transfer of control or until the date on which control is lost. Intercompany transactions, balances and unrealised gains and losses are eliminated on consolidation. The gross income of subsidiaries is attributable to the owners of the enterprise and to the non-controlling interest, even if the result of the non-controlling interest is negative.

A subsidiary is an undertaking controlled, directly or indirectly, by its parent undertaking. Typically, a company is controlled when the Group directly or indirectly owns more than 50 percent of the company's share capital carrying the voting rights and/or when it is able to control the financial and operating activities so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements at the beginning and end of the control dates.

Changes in the Group's equity interest in subsidiaries

Changes in the Group's equity interest in subsidiaries that do not result in a loss of control of the Group by the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interest and non-controlling interest are adjusted to reflect changes in their respective interests in subsidiaries. Any difference between the adjustment for the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributable to the owners of the entity.

When the Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the sum of the fair value of the consideration received and the aggregate of the fair value of any retained interest; and (ii) the previous carrying amounts of the subsidiary's assets (including goodwill) and liabilities and non-controlling interests.

**2. Summary of significant accounting policies (continued)**

**2.4 Consolidation principles (continued)**

When a subsidiary's assets are accounted for by remeasuring the fair value amount and the related gain or loss has been included in comprehensive income and accumulated in equity, the amounts previously included in other comprehensive income and accumulated in equity are accounted for in the same way as the disposal of the related asset (i.e. reclassified to profit or loss or transferred directly to retained earnings, as specified in the relevant IFRS). The fair value of the remaining investment in the former subsidiary at the date of the loss of control is treated as the fair value at initial recognition for subsequent accounting purposes in accordance with IFRS 9 Financial Instruments, or, if appropriate, as the acquisition cost of the investment in an associate or jointly controlled entity at initial recognition.

**2.5. Investments in subsidiaries**

In the statement of financial position of the company, investments in subsidiaries are accounted for using the acquisition cost method. Dividends received from subsidiaries are recognised in profit or loss and other comprehensive income.

IAS 36 “Impairment of Assets” applies impairment criteria to determine whether it is necessary to recognise impairment losses in respect of the Company's investment in a subsidiary. When necessary, the full carrying amount of an investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (the higher of its value in use and its fair value less costs to sell) with its carrying amount. Any impairment losses recognised shall form part of the carrying amount of the investment. Any reversal of an impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

**2.6. Intangible assets**

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives. The useful life and depreciation method are reviewed at each reporting date, prospectively recording any changes in the estimate assessment. The amortisation calculation shall be discontinued from the first day of the month following the disposal of the asset or when the total cost of the acquisition of an intangible asset is transferred to cost or to the value of another asset. Intangible assets with an indefinite useful life acquired separately are carried at cost less impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised when it is sold or when no future economic benefit is expected from the use or sale of the asset. Gains or losses arising from the derecognition of an intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Licenses

Amounts paid for licenses are capitalized and amortized over the term of validity (3 to 4 years)..

Software

The new software acquisition costs are capitalized and recognized as an intangible fixed asset if these costs are not an integral part of the hardware. Software is amortized over a period no longer than 3 years.

Costs incurred in order to restore or maintain the future economic benefits that the Company expects from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

(in thousands euro, unless specified otherwise)

## 2. Summary of significant accounting policies (continued)
### 2.7. Accounting for emission allowances

Emission allowances received shall be accounted for using the net commitment method. Under this approach, the Group and the Company account for emission allowances at nominal value.

Commitments to acquire additional emission allowances are recognised when they arise (e.g. commitments are not accounted for on the basis of expected future emissions) and are accounted for only when the actual emissions of the Group and the Company exceed the amount of available emission allowances.

Under the net commitment approach, the Group and the Company assess the lack of emission allowances by comparing the quantity of emission allowances available with the actual annual emissions.

Sales of emission allowances are recorded at the amount of the sales transaction. Any differences between the fair value of the sale and the carrying amount of the allowances held shall be recognised as profit or loss, regardless of whether there is an actual or expected shortfall in the allowances at the time of the transaction. Where the sale of emission allowances results in an actual shortfall of emission allowances, the financial position reports shall recognise additional liabilities, including profits or losses that affect the relevant costs.

### 2.8. Property, plant and equipment

Property, plant and equipment is carried at acquisition cost, which does not include routine maintenance costs, less accumulated depreciation and estimated impairment losses, if any. The cost of acquisition includes the cost of replacing property, plant and equipment when they are incurred, provided that these costs qualify for the recognition of the asset.

Property classified as construction in progress, under construction for production, supply or administrative purposes, or for other purposes not yet determined, is carried at acquisition cost less impairment losses. The cost includes professional fees and capitalised borrowing costs of long run assets in accordance with the accounting policies of the Group and the Company. Depreciation of these assets shall begin using the same method of depreciation as for other immovable property when the property is ready for its intended use.

Depreciation is recognised in such a way that, over the useful life of the asset, its cost (excluding land and construction in progress) less its residual value is written off on a straight-line basis. The estimated useful lives, residual values, and depreciation methods are reviewed at each year-end, with any changes in the accounting estimate accounted for prospectively.

The useful service lives are reviewed every year to ensure that the period of depreciation is consistent with the expected useful life of the long-term tangible asset.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

| | Years |
|---|---|
| Buildings | 15 – 50 |
| Investment property | 50 |
| Buildings | 15 – 70 |
| Machinery and equipment | 5 – 20 |
| Vehicles | 4 – 10 |
| Plant and tools | 3 – 16 |

Land is not depreciated.

## 2. Summary of significant accounting policies (continued)

### 2.8. Property, plant and equipment (continued)

An asset is recognised as non-current when it has a useful life of more than one year and the acquisition cost exceeds EUR 144.81.
Property, plant and equipment acquired under finance leases are depreciated over their useful lives using the same useful lives as own assets.
Property, plant and equipment are derecognised when they are sold or when no future economic benefits are expected from the use or sale of the asset. Any gain or loss arising on the sale or write-down of an item of property, plant and equipment is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss in the profit (loss) statement and other comprehensive income.

Subsequent repair costs are added to the cost of an asset if it is probable that future economic benefits will flow to the Group and the Company from the expenditure and the cost of the expenditure can be measured reliably. The carrying amount of the modified portion is derecognised. All other repair costs are recognised as an expense that affects profit or loss for the period when they are incurred.

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Depreciation is not charged on construction in progress until the asset is placed in service or is ready for use.

*Fixed assets held for sale*
Property, plant and equipment, or groups of assets held for sale consist of assets and liabilities that are expected to be recovered primarily through sale and not through continuing use, are classified as held for sale. Immediately before classifying an asset as held for sale, the asset (or parts of a pool of held for sale assets) is measured in accordance with the applicable International Financial Reporting Standards as adopted by the European Union.

Impairment losses on assets held for sale measured at the time of initial classification and subsequent gains and losses related to the revaluation of assets shall be included in profit or loss. Revenue from the reversal of depreciation is not recognised at a higher amount than accumulated impairment losses.
When property, plant and equipment is recorded as held for sale, depreciation is no longer charged.

### 2.9. Impairment of property, plant and equipment and intangible assets other than goodwill

At each date of preparation of the statement of financial position, the Group and the Company shall review the residual value of property, plant and equipment and intangible assets to determine whether there is any indication that these assets are impaired. If any such indication exists, the Group and the Company assesses the recoverable amount of the asset in order to be able to assess the impairment loss (if any). Where it is impossible to assess the recoverable value of assets, the Group and the Company estimates the recoverable amount in the cash-generating group to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, the assets of the Group and the Company are also allocated to separate income-generating groups of assets, or alternatively, they are allocated to the lowest income-generating group of assets for which a reasonable and consistent basis of allocation can be identified.

## 2. Summary of significant accounting policies (continued)

### 2.9. Impairment of property, plant and equipment and intangible assets other than goodwill (continued)

The recoverable amount is the higher of fair value less costs to sell and value in use. When estimating value in use, expected future cash flows are discounted to their present value using a pre-tax discount rate that is based on current market conditions, the existing time value of money and the risks associated with the asset that were not taken into account when estimating future cash flows.

If the estimated recoverable amount of the asset (or cash-generating asset group) is less than its carrying amount of this asset, the carrying amount of the asset is reduced to the recoverable value of this asset (or cash-generating asset group). Impairment losses are recognised immediately through profit or loss. The Group and the Company have one group of income-generating assets for the heat business.

If after the recognition of impairment loss the value of the asset increases, the carrying amount of the asset (cash-generating asset group) is increased to the newly estimated recoverable amount, but so that the increase does not exceed the carrying value of the asset (cash-generating asset group) if impairment losses previous years had not been recognized. Reversals of impairment losses are recognised immediately in profit or loss.

### 2.10. Financial assets

The Group and the Company classify their financial assets in the following groups:

- Financial assets that are measured at fair value in subsequent periods, with the change in fair value recognised in other comprehensive income or profit or loss; and
- Financial assets measured at amortised cost.

The classification depends on the entity's financial asset management model and the contractual cash flow conditions.

Recognition and initial measurement
Trade receivables are initially recognised when they arise. On initial recognition, all other financial assets and financial liabilities are recognised when the Group and the Company become a party to the contractual provisions of the instrument. Financial assets (other than trade receivables without a significant financing component) or financial liabilities are initially measured at fair value plus, if the instrument is not measured at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue. Trade receivables without a significant financing component are initially recognised at transaction price.

Classification and subsequent assessment
At initial recognition, financial assets are classified and measured as follows:

- Amortised cost;
- At fair value through profit or loss.

Financial assets are not reclassified in subsequent periods unless the Group and the Company change their financial asset management model. In this case, all related financial assets shall be reclassified on the first day of the first reporting period following the change in business model.

## 2. Summary of significant accounting policies (continued)

### 2.10. Financial assets (continued)

A financial asset is measured at amortised cost if it meets both of the following criteria and is not classified as an asset measured at fair value through profit or loss:

- The entity intends to hold the asset for contractual cash receipts;
- And contractual cash flows on specific dates include only payments of principal and interest on the amount due.

Write-off

The carrying amount of a financial asset is written down, in whole or in part, if there is no realistic prospect of its recovery. This usually occurs when the Group and the Company determine that the debtor does not have sufficient assets or sources of income to generate sufficient cash flows to repay the amounts written off. However, financial assets that are written off may be recovered to meet debt collection requirements imposed by the Group and the Company.

Assessment of significantly increased credit risk

The Group and the Company assess the probability of default at the initial recognition of financial assets and at each balance sheet date, taking into account whether there has been a significant increase in credit risk since initial recognition. In order to assess whether there has been a significant increase in credit risk, the Group and the Company compare the risk of default on assets at the date of preparation of the statements with the risk of default on initial recognition. In analysing whether credit risk has increased significantly, the following factors shall be assessed:

- Significant changes in the internal credit rating;
- Significant changes in the external credit rating (if any);
- Actual or foreseeable material adverse changes in the business environment, financial or economic situation which may materially affect the ability of the customer to meet its obligations;
- Actual or anticipated significant changes in the client's performance.

Based on the Group's and the Company's debt recovery statistics, management considers that the credit risk has increased from the time of initial recognition only if the contractual payments are delayed by more than 30 days.

Write-off policy

Financial assets are written off when there is no reasonable expectation of recovery, for example, because of the debtor's refusal to comply with a repayment plan and the absence of collateral or other security. After the foreclosure, the Group continues to pursue debt collection to recover the debt. Any amounts recovered are recognised in profit or loss.

TKN valuation – trade receivables and other contract assets

The Group and the Company apply a simplified approach to the calculation of lifetime expected credit losses over the lifetime of a loan, using the provisioning matrix for all trade receivables and other receivables. In order to calculate expected credit losses using the provisioning matrix, trade receivables and other receivables are classified into separate groups according to the general characteristics of credit risk. The amounts of each group are analysed on the basis of the number of days past due and a loss indicator shall be assigned to each group of amounts past due. Loss ratios are calculated using management's expert judgement using statistical recovery information for the last 2 years. Such information shall be adjusted, if necessary, in the light of forward-looking information. The table below provides information on the expected credit losses calculated for the Group and the Company for each group of overdue amounts.

(in thousands euro, unless specified otherwise)

## 2. Summary of significant accounting policies (continued)

### 2.10. Financial assets (continued)

As trade receivables and other receivables generally do not include collateral or other credit protection, the expected loss ratio corresponds to the probability of default.

*Trade receivables:*

| | | Overdue in days | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **The Group** | **Not overdue** | **from 1 to 30** | **from 31 to 90** | **from 91 to 180** | **from 181 to 270** | **from 271 to 360** | **from 361 up to 720** | **more than 721** |
| Expected credit loss rate % | 0 | 0 | 20 | 50 | 60 | 80 | 90 | 100 |
| **Company** | | | | | | | | |
| Expected credit loss rate % | 0 | 0 | 20 | 50 | 60 | 80 | 90 | 100 |

Expected lifetime credit losses on trade receivables and other receivables shall be calculated using the simplified approach in accordance with the requirements of IFRS 9.

### 2.11. Derivative financial instruments

The Group and the Company use derivative financial instruments such as interest rate swaps to hedge interest rate risk. Such derivatives are recognised at fair value on the trade date and remeasured at fair value in subsequent periods. Derivative financial instruments are accounted for as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.
Any gain or loss arising from a change in the fair value of derivatives during the year is accounted for directly in profit or loss.
The fair value of interest rate swaps is determined by reference to the market value of similar instruments.

### 2.12. Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value refers to the estimated selling price of inventories less any estimated selling costs. The cost of inventories is calculated using the FIFO method. The cost of inventories is reduced by discounts and write-downs received from suppliers during the reporting period and applied to inventories held in stock.

**2. Summary of significant accounting policies (continued)**

**2.13. Provisions**

A provision is recorded when, as a result of a past event, the Company has a present obligation (legal or constructive) and it is probable that the Group and the Company will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate at the end of the reporting period of the consideration that will be required to settle the present obligation, taking into account the risks and uncertainties arising from the obligation. When a provision is valued using the estimated cash flows to cover a liability, its carrying value is the present value of these cash flows.

Where it is expected that part or all of the economic benefits needed to cover the provision will be recovered from a third party, the amount receivable is covered by the asset if it is certain that the compensation will be received and that the amount receivable can be measured reliably.

**2.14. Cash and cash equivalents**

Money consists of money in bank accounts and in cash, and money on the road. Cash equivalents are short-term, highly liquid investments that are readily converted to known amounts of cash. The term of such investments does not exceed three months, and the risk of value changes is very insignificant.

**2.15. Employee benefits**

Recognition of post-employment benefits is recognised as an expense when the employees have performed the service that entitles them to the benefits.

The post-employment benefit liabilities recognised in the statement of financial position reflect the present value of the defined benefit obligations in the collective agreement, adjusted by unrecognised actuarial gains or losses and unrecognised past service costs, and reduced by the fair value of the plan assets. Any assets arising from this calculation may not exceed the cost of unrecognised actuarial losses and past service plus the present value of repayments and reductions in future plan contributions. Actuarial gains or losses are recorded in the statement of other comprehensive income.

**2.16. Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset the preparation of which for the intended use or sale takes a long time are included in the cost of the asset until the asset is prepared for the intended use or sale.

Investment income earned on a temporary investment of a specific amount borrowed that has not yet been used for a qualifying asset shall be deducted from the borrowing costs allowed for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**2.17. Financial liabilities and equity instruments**

The Group and the Company recognise financial liabilities at the acquisition cost of the liabilities.

The Group and the Company classify financial liabilities into the following categories:

- Measured at amortised cost,
- Measured at fair value through profit or loss,
- Hedging financial instruments.

<u>Derecognition of financial liabilities</u>

The Group and the Company derecognise financial liabilities when, and only when, the obligations of the Group and the Company are discharged, cancelled or expire.

The Group and the Company classify trade debts, financial debts, leasing liabilities, interest liabilities and other payables as financial liabilities measured at amortised cost.

## 2. Summary of significant accounting policies (continued)

### 2.18. Leases

The Group and the Company are the lessee

At the commencement date, the lessee shall measure the lease liability at the present value of the lease payments outstanding at that date, including the following:

- Fixed charges (including those assimilated to fixed charges) less any rental incentives receivable;
- Variable rents that depend on an index or rate initially measured using an index or rate at the start date;
- The amounts that the tenant should pay under the liquidation value guarantees;
- Penalties for terminating the lease if it is assumed that the tenant will exercise its option to terminate the lease during the lease term.

Lease payments are discounted using the interest rate specified in the lease agreement, if that rate can be easily determined. If that rate cannot be easily determined, the lessee shall use internally calculated borrowing rate.

The interest rate specified in the lease is the interest rate that results in the present value of the lease payments and the unguaranteed residual value being equal to the sum of the fair value of the leased asset and any initial direct costs incurred by the lessor.

The lease liability is measured at amortised cost using an imputed interest rate consistent with the discount rate used to discount the lease payments. Interest expense relating to a lease liability is allocated over the lease term and recognised in profit or loss.

The cost of an asset held under right of use at initial recognition comprises:

- The amount of the initial measurement of the lease liability;
- Any lease payments made on or before the commencement date less any lease incentives received;
- Any primary direct costs incurred by the lessee; and
- An estimate of the cost of restoring the asset.

Thereafter, the lessee shall measure the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. If, before the end of the lease period, the ownership of the leased asset is transferred to the tenant, or if the price of the asset managed under the right of use indicates that the tenant will exercise the right to purchase, the tenant shall calculate the depreciation of the asset managed under the right of use from the beginning to the end of the useful life of the leased asset. Alternatively, the lessee shall calculate the depreciation of the right-of-use asset from the commencement date to the earlier of: the end of the useful life of an asset held under a right-of-use arrangement, or the end of a lease term.

Payments relating to short-term leases or leases of low-value assets are recognised as an expense through profit or loss on a straight-line basis. Short-term leases are considered to be leases with a term of 12 months or less. Low-value assets include tools and small items of office furniture.

## 2. Summary of significant accounting policies (continued)

### 2.19. Grants and subsidies

Government grants are not recognised until there is sufficient assurance that the Group and the Company will comply with the requirements associated with them and that the grants will be received.
Government grants are recognised in profit or loss on a systematic basis over the period in which the Group and the Company recognise the related reimbursement of the costs for which they are intended. Government grants, the principal condition whereof is that the Group and the Company should purchase, construct or otherwise acquire non-current assets, are recognised as deferred income in the statement of financial position and are recognised in a systematic and rational manner in profit or loss over the useful life of the related assets.
Grants that are received in the form of long-term assets, plant and equipment or intended to purchase, constructed or otherwise acquire the same, are considered to be asset-related grants. The Company classifies assets acquired free of charge in this group of grants.
Assets received for no consideration are carried at fair value on initial recognition.
Receivables for reimbursement of expenses or income foregone during the reporting period or prior period, as well as all other grants not attributable to grants related to assets, shall be treated as grants that reduce costs. Grants related to revenue are recognised as part of the utilised portion to the extent that costs are incurred during the period (by reducing the proportion of costs incurred) or to the extent of the estimated foregone revenue for which the grant is intended to compensate.
The unused balance of the grant is shown in the Grants (deferred income) line of the statement of financial position.

### 2.20. Income tax

Income tax expense reflects current year tax and deferred tax.

<u>Current year's tax</u>
Tax of the current year is payable based on taxable profit for the year. Taxable profit differs from the profit reported in the statement of comprehensive income because of the income or expense that is taxable or deductible in the following year and the income or expense that is never taxable or deductible. Income tax is calculated using tax rates that have been enacted by the balance sheet date. In 2021, the Group and the Company are subject to a corporate income tax of 15 percent (15 percent in 2020).

<u>Deferred tax</u>
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary differences relate to goodwill, or to the initial recognition of assets or liabilities (other than in a business merger) that are not affected by either taxable or financial profit at the time they arise (transactions).
Deferred tax liabilities are recognised to offset temporary tax differences. Deferred income tax assets are recognised for deductible temporary differences only to the extent that it is probable that sufficient taxable profit will be available to realise the benefit of the temporary differences and is expected to be realised in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered by the Group and the Company.

## 2. Summary of significant accounting policies (continued)

### 2.20. Profit tax (continued)

Deferred tax assets and liabilities are measured using the tax rates that will apply to the Group and the Company in the year in which those temporary differences are expected to be recovered or settled, based on tax rates (and tax laws) that have been or will be approved before the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Company expect, at the reporting period, to recover or to settle the carrying amount of its assets and liabilities.

<u>Current and deferred tax for the period</u>
Current and deferred tax is accounted for in profit or loss unless they relate to items recognised in other comprehensive income or directly in equity (in other comprehensive income or directly in equity). In such a case, the tax is also recognised outside profit or loss, or when it arises on initial recognition of the business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

### 2.21. Basic and diluted earnings per share

The basic and diluted earnings per share shall be calculated by dividing the profit for the reporting period attributable to shareholders by the weighted average of the ordinary shares issued. There is no difference between basic and diluted earnings per share.

### 2.22. Recognising of income

The Group and the Company recognise revenue to reflect the transfer of the committed goods or services to the purchasers in an amount that is consistent with the consideration that the entity expects to receive in exchange for the said goods or services, less value added tax, discounts and rebates. An entity shall recognise revenue on the basis of this core guiding principle in the following steps:

Step 1: identification of the contract (s) with the buyer – the contract is an agreement between two or more parties that defines their enforceable rights and obligations.

Step 2: identification of performance obligations under the contract – obligations under the contract to transfer the goods or services to the buyer. If these goods or services can be distinguished, such liabilities are treated as operating liabilities, which are accounted for separately.

Step 3: the transaction price is determined – the transaction price is equal to the contracted amount of consideration that the entity expects to receive in exchange for the goods or services transferred to the buyer. The transaction price may consist of a fixed amount of consideration paid by the buyer, but may sometimes also include variable consideration or consideration other than cash. The transaction price is also adjusted for the time value of money if the contract includes a significant funding component, as well as for any consideration payable to the buyer.

Step 4: The transaction price is attributable to the contracted performance obligation – as a rule, an entity attributes the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each good or service contracted to be transferred. If data on individual selling prices are not observable in the market, the entity makes an estimate.

**2. Summary of significant accounting policies (continued)**

**2.22. Recognition of income (continued)**

Step 5: revenue is recognised when the entity discharges the performance obligation by transferring the committed goods or services to the buyer (i.e. when the buyer obtains control of those goods or services). The amount of revenue recognised is equal to the amount attributed to the settled performance obligation. An operating liability may be settled at a certain point in time or over a certain period of time.

Revenue is recognised when the amount of revenue can be measured reliably and when it is probable that the Group and the Company will receive the economic benefits associated with the transaction and specific criteria have been met for each type of revenue as described below. The Group and the Company rely on historical results, taking into account the type of client, the type of transaction and the characteristics of each arrangement.

Revenue is recognised using the methods described below:

*Revenue from sales of heat and hot water*
Revenue from the sale of heat is recognised on the basis of bills issued to residential customers and other customers for heat and hot water heating. Consumers are billed once a month according to the readings of the heat meter. At the end of the period, revenue not invoiced but services rendered is accrued on an accrual basis.

*Income from the sales of goods*
Proceeds from the sale of goods are recognized when all of the following conditions are met:

- The Group and the Company transferred ownership control to the buyer;
- The Group and the Company do not maintain either continuing management of goods sold at the level normally associated with ownership or effective control;
- The amount of such revenue can be measured reliably;
- It is probable that the Group and the Company will obtain the economic benefits associated with the transaction, and the costs incurred in connection with the transaction; whether
- The costs to be incurred can be reliably estimated.

*Financing elements*
The Group and the Company do not have, and do not expect to have, any contracts where the period between the provision of goods or services and payment by the customer exceeds one year. For this reason, the Group and the Company do not account separately for the financing element.

*Other income*
Interest is recognized as income when it is received.
Dividend income from investments is recognised when the shareholders' right to receive payment is established (if it is likely that the economic benefits associated with the item will flow to the Group and the Company and the amount of the income can be measured reliably).
Interest income is recognized when it is probable that the Group and the Company will receive economic benefits and the amount of revenue can be measured reliably. Interest income is accrued over the period, according to the outstanding part and the applicable effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset up to the net carrying amount on initial recognition.

## 2. Summary of significant accounting policies (continued)

### 2.23. Expense recognition

Expenses are recognised on the basis of the accrual and comparability principles in the reporting period in which the related income is earned, regardless of the time of spending the cash. In those cases when costs incurred cannot be directly attributed to the specific income and they will not generate income during the future periods, they are recognised as incurred.
Amount of costs is usually accounted in the amount paid and payable, excluding VAT. When long period of settlement is provided, and interest is not distinguished, the amount of costs is assessed by discounting the settlement amount at the market interest rate.

### 2.24. Foreign currency transactions

For the purpose of preparing the financial statements of individual Group entities, transactions in currencies other than the Company's functional currencies (foreign currencies) are accounted for at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are converted at the daily exchange rate of that day. Non-monetary items are carried at fair value and denominated in a foreign currency are converted at the exchange rate at the date of fair value measurement. Non-monetary units carried at the cost of acquiring a foreign currency are not converted.

The presentation currency is the euro (EUR). Operations denominated in foreign currency shall be converted into euro at the official rate of the European Central Bank on that date. Monetary assets and liabilities are converted into euro at the exchange rate at the date of the statement of financial position.
Exchange differences arising from operations in foreign currencies shall be included in profit or loss at the time when they arise. Gains and losses arising from exchange rate changes in the conversion of monetary assets or liabilities into euro shall be included in profit or loss when they arise.

### 2.25. Application of estimates in preparation of financial statements

In preparing the financial statements, management is required to make certain judgements, estimates and assumptions that affect the amounts of income, expenses, assets and liabilities that are disclosed and the disclosure of uncertainties at the date of preparation of the report. However, the uncertainty of these assumptions and estimates may affect the results, which may require significant future adjustments to the carrying amounts of assets or liabilities.

Estimates and assumptions
The main assumptions and other significant sources of measurement uncertainty that affect the future at the date of preparation of the statements of financial position and which give rise to material risks and which may require a material adjustment to the carrying amounts of assets or liabilities in the next financial year are discussed below:

*Property, plant and equipment – useful life*
The main assumptions used to determine the useful lives of property, plant and equipment are:
- The expected life of the asset,
- Anticipated technical, technological or other obsolescence due to service innovation or changes in services,
- Legal or similar restrictions on the use of assets, such as the date of validity of finance lease agreements.

## 2. Summary of significant accounting policies (continued)

### 2.25. Application of assessments in preparation of financial statements (continued)

*Investments in subsidiaries – impairment losses*
To assess the recoverability of investments in subsidiaries, the Company's management calculates the recoverable amount of the investment by discounting the future cash flows of the subsidiaries to their present value using a weighted average discount rate on capital costs reflecting current market assumptions about the time value of money (Note 5).

*Realisable value of inventories*
Since 2011, the Company's management forms a 100% impairment charge on inventories (from 2017, except for the process fuels) acquired earlier than one year ago (Note 7).

*Impairment of receivables*
The Group and the Company recognise a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost as follows: trade receivables, other receivables and accrued income. Loss ratios are calculated using management's expert judgement using statistical recovery information for the last 2 years.
In determining whether the credit risk of a financial asset has increased significantly since initial recognition and in assessing the amount of the ECL, the Group and the Company consider reasonable and supportable information that is relevant and accessible without excessive cost or effort. This information includes both quantitative and qualitative data and analysis based on the Group's historical experience and reasoned credit assessment, including prospective information.
Provisions for losses on financial assets measured at amortised cost are deducted from the total carrying amount of such assets. The provision for impairment losses is presented in the profit or loss and included in operating expenses as an impairment charge.

*Deferred profit tax assets*
Deferred income tax assets are recognised for all unused tax losses, with a statement of what is expected to be the tax profit before the losses are offset. Significant management judgements are required to determine the amounts of deferred income tax assets that may be recognised based on estimates of the expected future amounts and periods of taxable profits and based on future tax planning strategies (Note 22).

Fair value of financial instruments
Fair value is the amount for which an asset or service could be exchanged, or a liability settled between knowledgeable, willing parties. Fair value of financial assets and financial liabilities is valued based on quoted market prices, discounted cash flow models or option pricing models, depending on the circumstances.

## 2. Summary of significant accounting policies (continued)

### 2.25. Application of assessments in preparation of financial statements (continued)

In determining the fair value of assets or liabilities, the Company uses available market data, as much as possible. The fair values are presented in three levels of the fair value hierarchies on the basis of the variables used in the valuation methods:

- Level 1: prices quoted at active markets of similar assets or liabilities (unadjusted);
- Level 2: other variables except the quoted prices of assets and liabilities included in Level 1 that are observed directly (i.e., as prices), or indirectly (i.e., derived from prices);
- Level 3: variables of assets and liabilities not based on the observable market data (non-observable variables).

Where for the purpose of measuring the fair value of assets or liabilities the variables may be attributed to the different levels of the fair value hierarchy, the hierarchy level of the fair value to which the entire fair value established is attributed shall be established on the basis of the lowest level variable material for the measurement of the entire fair value.

The Company recognizes the transfers between the fair value hierarchy levels at the end of the reporting period in which the change occurred.

### 2.26. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources generating economic benefits is small.
A contingent asset is not recognised in the financial statements but is disclosed when an inflow of economic benefits is probable.

### 2.27. Events after the date of the balance sheet

Post-reporting events that provide additional information about the situation of the Group and the Company at the date of preparation of the statements of financial position (adjusting events) are reflected in the financial statements. Events after the date of the balance sheet that are not corrective events, are described in the notes when they are significant.

### 2.28. Mutual settlements and comparative numbers

When preparing the financial statements, assets and liabilities, income and expenses are not offset unless the specific International Accounting Standards specifically require such offsetting.

### 2.29. Segment reporting

Segment information shall be reported in the same manner as other internal reporting to the chief operating decision maker. The chief operational decision maker responsible for allocating resources and assessing the performance of the segments is the Board, which takes strategic decisions.

The Group and the Company operates in a single segment, therefore additional segment related disclosures are not provided in these financial statements.

(in thousands euro, unless specified otherwise)

## 3. Intangible fixed assets and right of use assets

Movements in intangible fixed assets during the reporting period and prior periods:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **Right-of-use assets** | **Acquired rights and software** | **Right-of-use assets** | **Acquired rights and software** |
| **Acquisition value:** | | | | |
| **Balance on 31 December 2019** | **1 319** | **1 451** | **1 105** | **1 450** |
| Acquisitions | 32 | 1 | 32 | 1 |
| Relocation from construction in progress | - | 95 | - | 95 |
| **Balance as at 31 December 2020** | **1 351** | **1 547** | **1 137** | **1 546** |
| Acquisitions | - | 2 | - | 2 |
| Relocation from construction in progress | - | 14 | - | 14 |
| **Balance on 31 December 2021** | **1 351** | **1 563** | **1 137** | **1 562** |
| **Amortization:** | | | | |
| **Balance on 31 December 2019** | **36** | **1 379** | **32** | **1 379** |
| Amortisation per year | 49 | 51 | 45 | 50 |
| **Balance as at 31 December 2020** | **85** | **1 430** | **77** | **1 429** |
| Amortisation per year | 59 | 56 | 54 | 56 |
| **Balance on 31 December 2021** | **144** | **1 486** | **131** | **1 485** |
| **Book value:** | | | | |
| **Balance on 31 December 2019** | **1 283** | **72** | **1 073** | **71** |
| **Balance as at 31 December 2020** | **1 266** | **117** | **1 060** | **117** |
| **Balance on 31 December 2021** | **1 207** | **77** | **1 006** | **77** |

The amortisation charge for intangible assets is included under operating expenses in the profit (loss) and other comprehensive income.

Part of the Company's and the Group’s fixed intangible assets with an acquisition value as at 31 December 2021 was 1 343 thousand euro (on 31 December 2020: EUR 1 370 thousand), was fully amortised, but still used in the business operations.

(in thousands euro, unless specified otherwise)

## 4. Property, plant and equipment

Details of the Group's and Company's property, plant and equipment:

| The Group | Land and buildings | Buildings | Machinery and equipment | Vehicles | Plant and tools | Constructions in progress and prepayments | Investment property | Total |
|---|---|---|---|---|---|---|---|---|
| **Acquisition value:** | | | | | | | | |
| **Balance on 31 December 2019** | **18 132** | **179 710** | **60 275** | **1 962** | **12 997** | **7 360** | **679** | **281 115** |
| Acquisitions | 79 | - | 197 | 138 | 325 | 20 618 | - | 21 357 |
| Sold and written off assets | (134) | (319) | (191) | (151) | (40) | - | - | (835) |
| Transfer to intangible assets | - | - | - | - | - | (95) | - | (95) |
| Reclassifications | 1 | 13 225 | 2 168 | - | 298 | (15 692) | - | - |
| Impairment losses (-) | 22 | - | - | 8 | - | - | - | 30 |
| **Balance as at 31 December 2020** | **18 100** | **192 616** | **62 449** | **1 957** | **13 580** | **12 191** | **679** | **301 572** |
| Acquisitions | - | 1 | 212 | 234 | 102 | 13 783 | 333 | 14 665 |
| Sold and written off assets | (346) | (326) | (85) | (268) | (474) | - | (297) | (1 796) |
| Transfer to intangible assets | - | - | - | - | - | (14) | - | (14) |
| Reclassifications | (601) | 17 362 | 5 | (12) | 388 | (17 871) | 729 | - |
| Impairment losses (-) | 69 | 4 | - | 1 | - | - | - | 74 |
| **Balance on 31 December 2021** | **17 222** | **209 657** | **62 581** | **1 912** | **13 596** | **8 089** | **1 444** | **314 501** |
| **Accumulated depreciation:** | | | | | | | | |
| **Balance on 31 December 2019** | **10 563** | **79 366** | **40 283** | **1 563** | **10 647** | **-** | **260** | **142 682** |
| Depreciation during the year | 477 | 4 292 | 3 601 | 158 | 734 | - | 18 | 9 280 |
| Sold and written off assets | (85) | (320) | (176) | (152) | (39) | - | - | (772) |
| **Balance as at 31 December 2020** | **10 955** | **83 338** | **43 708** | **1 569** | **11 342** | **-** | **278** | **151 190** |
| Depreciation during the year | 391 | 4 688 | 3 417 | 134 | 641 | - | 30 | 9 301 |
| Sold and written off assets | (239) | (179) | (58) | (236) | (384) | - | (137) | (1 233) |
| **Balance on 31 December 2021** | **11 107** | **87 847** | **47 067** | **1 467** | **11 599** | **-** | **171** | **159 258** |
| **Book value:** | | | | | | | | |
| **Balance on 31 December 2019** | **7 569** | **100 344** | **19 992** | **399** | **2 350** | **7 360** | **419** | **138 433** |
| **Balance as at 31 December 2020** | **7 145** | **109 278** | **18 741** | **388** | **2 238** | **12 191** | **401** | **150 382** |
| **Balance on 31 December 2021** | **6 115** | **121 810** | **15 514** | **445** | **1 997** | **8 089** | **1 273** | **155 243** |

(in thousands euro, unless specified otherwise)

## 4. Property, plant and equipment (continued)

| The Company | Land and buildings | Buildings | Machinery and equipment | Vehicles | Plant and tools | Constructions in progress and prepayments | Investment property | Total |
|---|---|---|---|---|---|---|---|---|
| **Acquisition value:** | | | | | | | | |
| **Balance on 31 December 2019** | **15 839** | **178 878** | **55 092** | **1 624** | **12 930** | **7 360** | **297** | **272 020** |
| Acquisitions | 79 | - | 197 | 138 | 325 | 20 618 | - | 21 357 |
| Sold and written off assets | (134) | (319) | (191) | (151) | (40) | - | - | (835) |
| Transfer to intangible assets | - | - | - | - | - | (95) | - | (95) |
| Reclassifications | 1 | 13 225 | 2 168 | - | 298 | (15 692) | - | - |
| Impairment losses (-) | 22 | - | - | 8 | - | - | - | 30 |
| **Balance as at 31 December 2020** | **15 807** | **191 784** | **57 266** | **1 619** | **13 513** | **12 191** | **297** | **292 477** |
| Acquisitions | - | 1 | 131 | 234 | 102 | 13 766 | - | 14 234 |
| Sold and written off assets | (346) | (326) | (85) | (268) | (474) | - | (297) | (1 796) |
| Transfer to intangible assets | - | - | - | - | - | (14) | - | (14) |
| Reclassifications | 86 | 17 291 | 106 | - | 388 | (17 871) | - | - |
| Impairment losses (-) | 69 | 4 | - | 1 | - | - | - | 74 |
| **Balance on 31 December 2021** | **15 616** | **208 754** | **57 418** | **1 586** | **13 529** | **8 072** | **-** | **304 975** |
| **Accumulated depreciation:** | | | | | | | | |
| **Balance on 31 December 2019** | **9 539** | **79 052** | **37 417** | **1 237** | **10 583** | **-** | **131** | **137 959** |
| Depreciation during the year | 338 | 4 228 | 3 078 | 158 | 734 | - | 6 | 8 542 |
| Sold and written off assets | (85) | (320) | (176) | (151) | (40) | - | - | (772) |
| **Balance as at 31 December 2020** | **9 792** | **82 960** | **40 319** | **1 244** | **11 277** | **-** | **137** | **145 729** |
| Depreciation during the year | 332 | 4 625 | 2 894 | 133 | 640 | - | - | 8 624 |
| Sold and written off assets | (239) | (179) | (58) | (236) | (384) | - | (137) | (1 233) |
| **Balance on 31 December 2021** | **9 885** | **87 406** | **43 155** | **1 141** | **11 533** | **-** | **-** | **153 120** |
| **Book value:** | | | | | | | | |
| **Balance on 31 December 2019** | **6 300** | **99 826** | **17 675** | **387** | **2 347** | **7 360** | **166** | **134 061** |
| **Balance as at 31 December 2020** | **6 015** | **108 824** | **16 947** | **375** | **2 236** | **12 191** | **160** | **146 748** |
| **Balance on 31 December 2021** | **5 731** | **121 348** | **14 263** | **445** | **1 996** | **8 072** | **-** | **151 855** |

The amounts of the Group's and the Company's depreciation expenses were included in operating expenses in the profit (loss) and other comprehensive income (under depreciation and amortisation and other expenses).

Part of the Group's property, plant and equipment with an acquisition value of EUR 66 161 thousand as at 31 December 2021 (on 31 December 2020: EUR 60,667 thousand), EUR 66 036 thousand for the Company, was fully depreciated (on 31 December 2020: EUR 60,551 thousand), but still used in business operations.

The Group and the Company have recorded assets not yet ready for use of EUR 339 thousand in the plant and tools group as at 31 December 2021 (on 31 December 2020: EUR 90 thousand).

(in thousands euro, unless specified otherwise)

**4. Property, plant and equipment (continued)**

On 31 December 2020 and 31 December 2021 the Group's and the Company's construction in progress consists mainly of the reconstruction and overhaul of boiler plants and heat supply networks.

As at 31 December 2021, property, plant and equipment with a residual value equal to the Group's EUR 11 945 thousand (on 31 December 2020: EUR 11,896 thousand), and the Company's EUR 9 300 thousand (on 31 December 2020: EUR 9 381 thousand), was pledged to banks as a collateral for the loans (Note 11).

**5. Investments in subsidiaries and loans to group companies**

On 31 December 2021, an expert assessment of the management of investments in UAB GO energy LT was carried out. The Company assessed the growth of the subsidiary's financial indicators, the portfolio of future orders, a 3-year strategic plan and changes in these variables to conclude that no indications of impairment were identified.

On 31 December 2021, the impairment test for investment in AB Petrašiūnų katilinė that was initially made on 31 December 2018 was revised in accordance with the requirements of IAS 36. Investment into AB Petrašiūnų katilinė is tested periodically on the basis of cash flows, discounted over a period of 5 years, using the growth rate of income and costs with a minimum sensitivity analysis carried out to assess the impact of changing assumptions on the value calculated.

The value of the shares was determined on the basis of projected cash flows for a period of 5 years together with the perpetual (terminal) value.

| | 2021-12-31 | | | 2020-12-31 | | |
|---|---|---|---|---|---|---|
| **Investments in subsidiaries** | **Acquisition price** | **Impairment** | **Book value** | **Acquisition price** | **Impairment** | **Book value** |
| UAB GO Energy LT | 2 764 | (258) | 2 506 | 1 330 | (258) | 1 072 |
| AB Petrašiūnų katilinė | 1 894 | (902) | 992 | 1 894 | (902) | 992 |
| **Total:** | **4 658** | **(1 160)** | **3 498** | **3 224** | **(1 160)** | **2 064** |

The impairment of the investment in AB Petrašiūnų katilinė of EUR 902 thousand and the investment in UAB GO Energy LT of EUR 258 thousand recorded at 31 December 2020 remained unchanged following impairment testing as at 31 December 2021.

The cash flow projections used in the calculations are based on the results of AB Petrašiūnų katilinė in 2021, long-term business plans, signed contracts and management's expectations regarding changes in the regulatory environment in the short and medium term. The terminal value (cash flows over a period of more than five years) was calculated by applying a constant growth factor of 1%. The Company also used the following key assumptions when forecasting the cash flows:

• With the Kaunas CHP plant coming into operation from 2020 and increased competition among heat producers in the warm season, the planned increase in the heat generation capacity is approximately 10%. The decrease in the Company's heat sales revenue, which has already been assessed following the impairment test carried out in 2018, does not result in any impairment of the investment;
• Biofuel prices are projected to increase by 1% annually from 2022 onwards;
• The projected costs are expected to increase year on year by the level of the projected annual inflation;
• In view of the decrease in production, the fixed tangible assets will not be fully depreciated over a fixed period of 15 years, and therefore the most significant investments in fixed tangible assets are only foreseen in 2025, with ongoing repairs each year.

(in thousands euro, unless specified otherwise)

## 5. Investments in subsidiaries and loans to Group companies (continued)

Loans to the companies of the group of companies

As at 31 December 2021 the Company has granted a working capital credit of EUR 443 thousand to its subsidiary AB Petrašiūnų katilinė. The interest rate is 6 months Euribor plus 1.2 %. The loan maturity date is 31 December 2023. The outstanding portion of the loan is included in the item Other financial assets in the Statement of Financial Position.

## 6. Other financial assets

Other financial assets include unquoted ordinary shares. As at 31 December 2020, the balance consisted of 47,376 shares of UAB Šilumos ūkio servisas and 75,460 shares of UAB Kauno miesto paslaugų centras. As at 31 December 2020, the increase in the value of other financial assets was set at EUR 208 thousand for the Company's investments in the shares of UAB Šilumos ūkio servisas, which is included in the item Loss from disposal of securities of the Group's and Company's profit (loss) and other comprehensive income, and amounted to EUR 334 thousand at the end of 2020. On 30 December 2021 the Company sold all of its 47 376 shares held in UAB Šilumos ūkio servisas for EUR 173 thousand, resulting in a loss of EUR 161 thousand.

On 4 December 2020, the Company signed an agreement on the establishment of UAB Kauno miesto paslaugų centras. The share of the Company's subscribed shares accounted for 22 per cent, the number of ordinary registered shares subscribed was 75 460 units. The value of the share is EUR 1. UAB Kauno miesto paslaugų centras was registered on 15 January 2021.

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| Other financial assets: | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Investments into other entities | 75 | 409 | 75 | 409 |
| Value of loans to subsidiaries | - | - | 443 | - |
| | **75** | **409** | **518** | **409** |

## 7. Inventories

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Technological fuel | 1 254 | 1 125 | 1 177 | 1 093 |
| Spare parts | 927 | 623 | 655 | 623 |
| Materials | 300 | 431 | 300 | 430 |
| | **2 481** | **2 179** | **2 132** | **2 146** |
| Less: write-down to net realisable value at the end of the period | (725) | (818) | (725) | (818) |
| **Carrying amount of inventories** | **1 756** | **1 361** | **1 407** | **1 328** |

The write-down of the Group's and the Company's inventories to net realisable value as at 31 December 2021 amounted to EUR 725 thousand. (on 31 December 2020: EUR 818 thousand). The change in the write-down of inventories to net realisable value in 2020 and 2021 is included in the Group's and the Company's statements of profit (loss) and other comprehensive income under the item of costs of changes in the realisable value of inventories and fixed assets.

(in thousands euro, unless specified otherwise)

## 8. Amounts receivable within one year

Change in impairment of doubtful receivables in 2020 and 2021 in the Group's and the Company's statements of profit (loss) and other comprehensive income is included in the item of change in impairment of receivables. Impairment of doubtful receivables is measured at expected credit losses.

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Trade receivables | 16 473 | 12 736 | 16 596 | 12 736 |
| Less: expected credit losses | (4 944) | (6 009) | (4 934) | (6 009) |
| | **11 529** | **6 727** | **11 662** | **6 727** |

Change in the Group's and Company's expected credit losses on trade receivables:

| | The Group | The Company |
|---|---|---|
| **Balance on 31 December 2019** | **6 887** | **6 887** |
| Recognised (reversed) probable credit losses | (17) | (17) |
| Written off | (861) | (861) |
| **Balance as at 31 December 2020** | **6 009** | **6 009** |
| Recognised (reversed) probable credit losses | (558) | (568) |
| Written off | (507) | (507) |
| **Balance on 31 December 2021** | **4 944** | **4 934** |

During 2021, the Group and the Company wrote off bad debts in amount of EUR 507 thousand and EUR 507 thousand, respectively (in 2020: EUR 861 thousand and EUR 861 thousand).

The Group's and the Company's receivables from customers are interest-free and normally have a maturity of 30 days or as agreed individually.

On 31 December 2020 and 31 December 2021 the Group's and the Company's other receivables consisted of taxes receivable from the State, debt owed by municipalities for compensation to low-income families, receivables for inventories sold (scrap metal, heating system equipment) and services rendered (collector maintenance services, etc).

Other receivables of the Group and the Company consisted of:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Taxes | 1 085 | 16 | 1 051 | 7 |
| Amount of VAT to be refunded | 82 | - | 77 | - |
| Other | 981 | 523 | 981 | 522 |
| Less: expected credit losses | (315) | (296) | (315) | (335) |
| | **1 833** | **243** | **1 794** | **194** |

(in thousands euro, unless specified otherwise)

## 8. Amounts receivable within one year (continued)

Movement in impairment in value of other receivables of the Group and the Company:

| | The Group | The Company |
|---|---|---|
| **Balance on 31 December 2019** | **300** | **350** |
| Recognition of expected credit losses | (1) | (12) |
| Written off | (3) | (3) |
| **Balance as at 31 December 2020** | **296** | **335** |
| Recognition of expected credit losses | 19 | (20) |
| **Balance on 31 December 2021** | **315** | **315** |

The Group's and the Company's other receivables are interest-free and are generally due within 30 to 45 days.

No impairment is recognised on not overdue receivables as management considers the risk that debtors will not be able to meet their obligations to be low.

## 9. Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Cash on the road | 166 | 109 | 166 | 110 |
| Cash in the bank | 3 530 | 1 691 | 2 616 | 1 565 |
| | **3 696** | **1 800** | **2 782** | **1 675** |

Funds in the Group's bank accounts with a balance of EUR 708 thousand at 31 December 2021 (EUR 366 thousand on 31 December 2020) and the Company's EUR 549 thousand (on 31 December 2020: EUR 287 thousand), are pledged to banks as a collateral for loans (Note 11).

## 10. Changes in equity

*Statutory*
The statutory reserve is required under the legislation of the Republic of Lithuania. At least 5% of net profits, calculated in accordance with International Financial Reporting Standards, must be transferred to the reserve annually until it reaches 10% of the authorised capital. The statutory reserve may not be distributed as dividends but can be used to cover future losses.

*Other reserves*
By the decision of shareholders of 30 April 2021, the Company cancelled other reserves (EUR 2 900 thousand) and transferred EUR 3 000 thousand from retained earnings to other reserves, i.e. a reserve of EUR 2 950 thousand for the execution of investments and a reserve of EUR 50 thousand for charity.

*Annual allowances*
No annual payments were made in 2021 and 2020.

*Dividends*
In 2019 and 2020, the result was left in retained earnings.

## 11. Financial debts

All loans of the Group and the Company are accounted for and repaid in euro. At the end of the year, the weighted average interest rate on outstanding loans (as a percentage) was:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021-12-31 | 2020-12-31 | 2021-12-31 | 2020-12-31 |
| Long-term | 0.73 | 0.36 | 0.72 | 0.33 |

On 7 August 2020, the Company signed a EUR 55 million loan agreement with the European Investment Bank. The signing of the agreement was approved by the Extraordinary General Meeting of Shareholders of AB Kauno energija on 4 August 2020.
The loan will be used to finance the Company's investment programme and to refinance loans over the next 5 years. Over the next 5 years, the Company plans to invest in the deployment of innovative heating and cooling plants using renewable energy sources, the digitalisation of processes, as well as the modernisation of pipelines and the construction of new pipelines.
On 24 August 2020, a loan tranche of EUR 15 million was taken out. The Company used part of the loan to refinance the existing loans. On 16 August 2021, a loan tranche of EUR 12 million was taken out. The Company used part of the loan to refinance the existing loans.

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021-12-31 | 2020-12-31 | 2021-12-31 | 2020-12-31 |
| **Long-term financial debts (loans):** | **32 658** | **23 534** | **32 658** | **22 967** |
| Payable between 2 and 5 years | 10 380 | 8 499 | 10 380 | 7 932 |
| Payable after 5 years | 22 278 | 15 035 | 22 278 | 15 035 |
| Current portion of long-term loans | 2 876 | 2 876 | 2 309 | 2 309 |
| | **35 534** | **26 410** | **34 967** | **25 276** |

Group's detailed information on loans as at 31 December 2021:

| | Credit institution | Date of contract | Amount, thousands EUR | Maturity | Balance as at 2021.12.31 in thousands EUR | Due in 2022 in thousands EUR |
|---|---|---|---|---|---|---|
| 1 | Ministry of Finance* | 2010-04-09 | 2 410 | 2034-03-15 | 1 217 | 94 |
| 2 | Ministry of Finance* | 2010-10-26 | 807 | 2034-03-15 | 500 | 38 |
| 3 | Luminor** | 2021-08-22 | 3 403 | 2022-04-29 | 567 | 567 |
| 4 | EIB*** | 2021-08-16 | 12 000 | 2036-08-18 | 12 000 | - |
| 5 | Ministry of Finance* | 2014-01-15 | 793 | 2034-12-01 | 541 | 41 |
| 6 | Ministry of Finance* | 2014-03-31 | 7 881 | 2034-12-01 | 5 376 | 413 |
| 7 | EIB*** | 2020-08-07 | 15 000 | 2035-08-24 | 13 750 | 1 000 |
| 8 | AB SEB bank | 2016-12-22 | 4 127 | 2024-11-30 | 1 583 | 723 |
| | | | | | **35 534** | **2 876** |

* Ministry of Finance of the Republic of Lithuania; ** Luminor Bank AS Lithuanian branch; *** European Investment Bank.

Luminor Bank AS, by granting a loan to the Group on 22 August 2012, has required the Group's subsidiary AB Petrašiūnų katilinė to comply with the following financial ratios: an equity ratio (including support provided by the Lithuanian Business Support Agency) of at least 40%, a DSCR of at least 1.3, and a total financial debt to EBITDA ratio of at least 3.0. AB Petrašiūnų katilinė does not comply with all the indicators set by the Bank, but no financial sanctions were imposed.
The Company has provided a guarantee to the bank in respect of this loan as described in note 24.

## 11. Financial debts (continued)

Details of the Company's loans as at 31 December 2021:

| | Credit institution | Date of contract | Amount, thousands EUR | Maturity | Balance as at 2021.12.31 in thousands EUR | Due in 2022 in thousands EUR |
|---|---|---|---|---|---|---|
| 1 | Ministry of Finance* | 2010-04-09 | 2 410 | 2034-03-15 | 1 217 | 94 |
| 2 | Ministry of Finance* | 2010-10-26 | 807 | 2034-03-15 | 500 | 38 |
| 3 | EIB*** | 2021-08-16 | 12 000 | 2036-08-18 | 12 000 | - |
| 4 | Ministry of Finance* | 2014-01-15 | 793 | 2034-12-01 | 541 | 41 |
| 5 | Ministry of Finance* | 2014-03-31 | 7 881 | 2034-12-01 | 5 376 | 413 |
| 6 | EIB*** | 2020-08-07 | 15 000 | 2035-08-24 | 13 750 | 1 000 |
| 7 | AB SEB bank | 2016-12-22 | 4 127 | 2024-11-30 | 1 583 | 723 |
| | | | | | **34 967** | **2 309** |

* Ministry of Finance of the Republic of Lithuania; ** Luminor Bank AS Lithuanian branch; *** European Investment Bank.

AB SEB bank has determined that the Company must comply with the net financial debt to EBITDA ratio set for the quarter, which must not exceed 4.5. Under the loan agreements, the Company's equity ratio (total equity/total assets) must be at least 35%. The European Investment Bank's requirements also stipulate that the Company must comply with both of these indicators.
On 31 December 2020 and 31 December 2021, the Company has complied with the terms of the aforementioned agreements.

Loan agreements contain certain restrictions. The Company may not grant dividends, issue and/or obtain new loans, make grants, sell or lease mortgaged assets without a written consent of the banks. Such written consents were obtained from the banks.

The Group's and the Company's intangible assets (Note 4), funds in bank accounts (Note 9) and right-of-use assets related to land lease were pledged to banks as a collateral for loans.

## 12. Lease

Finance leases and lease liabilities of the Group and the Company:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Within one year | 96 | 60 | 96 | 60 |
| after one year | 87 | 80 | 87 | 80 |
| **Total financial lease obligations** | **183** | **140** | **183** | **140** |
| Lease liabilities are accounted for as: | | | | |
| – short-term | 43 | 44 | 40 | 35 |
| – long-term | 1 229 | 1 256 | 1 026 | 1 047 |
| **Total lease liabilities** | **1 272** | **1 300** | **1 066** | **1 082** |

Under the lease agreements, the leased assets of the Group and the Company consist of vehicles and land. Vehicle rental term is 3-4 years, and land leases are 26-84 years.
The Group and the Company, having considered all the circumstances, decided not to adjust the discount rate and not to recalculate the value of the previously determined right-of-use assets and liabilities.

(in thousands euro, unless specified otherwise)

## 12. Lease (continued)

In accordance with IFRS 16, the Group and the Company recognised depreciation and interest costs associated with the lease in question instead of operating lease costs. For the 12-month period ended 31 December 2021, the Group recognised depreciation costs of 49 thousand euro and lease interest of 36 thousand euro, the Company recognised depreciation costs of 45 thousand euro and lease interest of 31 thousand euro.

## 13. Grants and subsidies

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| **Opening balance at the beginning of the reporting period** | **29 966** | **25 519** | **29 319** | **24 710** |
| Received during the period | 4 499 | 6 025 | 4 499 | 6 025 |
| Amortization | (1 750) | (1 578) | (1 589) | (1 416) |
| **Closing balance at the end of the reporting period** | **32 715** | **29 966** | **32 229** | **29 319** |

During 2021, the Group has recognised depreciation (amortisation) of grants in amount of EUR 1,730 thousand relating to property, plant and equipment and EUR 20 thousand relating to costs (in 2020 – EUR 1,548 thousand and EUR 30 thousand), The Company – EUR 1,569 thousand and EUR 20 thousand respectively. (in 2020 – EUR 1,386 thousand and EUR 30 thousand).

## 14. Employee benefit liability

Every worker who leaves their job and reaches retirement age is entitled to receive between 0.5 and 4 months' salary, in accordance with the laws of the Republic of Lithuania and the Collective Agreement.
The Group's and the Company's employee benefit liability was as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021** | **2020.** | **2021** | **2020.** |
| **Employee benefit commitment at the beginning of the period** | **499** | **710** | **499** | **710** |
| Paid | (242) | (326) | (242) | (326) |
| Formed | 330 | 115 | 320 | 115 |
| **Employee benefit obligation at the end of the period:** | **587** | **499** | **577** | **499** |
| Long-term portion | 465 | 375 | 455 | 375 |
| Short-term portion | 122 | 124 | 122 | 124 |

When calculating long-term employee benefits, the Group and the Company assessed the mortality rate in Lithuania, discount rate, retirement age, age and turnover of employees, salary growth, inflation rate and other factors.
The key assumptions used to determine the planned benefit obligation of the Group and the Company are set out below:

| | **2021-12-31** | **2020-12-31** |
|---|---|---|
| Discount rate | 0.161 percent. | 0.258 percent. |
| Staff turnover rate | 14.813 percent. | 11.181 percent. |
| Planned annual salary increase | 4.150 percent. | 3.100 percent. |

The actuarial gains and losses related to these liabilities are presented under the operating expenses, in Salaries, social insurance line and in the Statements of Financial Position under Employee benefit obligations.

## 15. Derivative financial instruments

On 16 December 2016 the Group signed an interest rate swap agreement. Under the agreement, the Group is obliged to pay the bank a fixed interest rate (0.21%) and the bank will pay the Group a variable interest rate linked to the 6-month EURIBOR. As of 31 December 2020, the nominal value of the transaction is EUR 567 thousand. This derivative is carried at fair value, which the Bank has estimated at 31 December 2021 at EUR 2 thousand (on 31 December 2020: EUR 6 thousand). The change in the market value of the transaction in 2020 and 2021 is included under other interest and similar income in the Group's profit (loss) and other comprehensive income statement because, in management's judgement, the financial instrument is not designated as a hedge.

## 16. Other provisions

The cost of the heat production capacity reservation service is included in the basic heat price as one of the components in accordance with the methodology established by the Board. As a result of the installation of new generation facilities and the modernisation of existing generation facilities by the Company in recent years, the thermal capacity reservation service has not been purchased from 2020 onwards, and consequently no thermal capacity reserve costs are incurred. At the end of 2019, the Company applied to the Board to exclude the costs of the power reserve from the heat price, but the Board only approved the recalculation of the heat price from November 2020. The Company made a provision from the beginning of the year to reimburse the unrecovered, but over-priced, costs of the power reserve, and from the beginning of the autumn 2020 heating season started to reimburse the provision for this accumulated overpayment through a reduction in the price to consumers. The Company has made a power reserve tax provision of EUR 959 thousand in 10 months of 2020 to cover future price reduction obligations. In October to December 2020, EUR 312,000 was returned to consumers as a result of price cuts. During the months of January and August 2021, the remaining part of EUR 647 thousand was returned to consumers.

In 2021, the Company was granted a settlement fee from Kaunas klinikos, related to additional purchases of power reserve, which Kauno klinikos will have to compensate in future periods. This amicable settlement agreement was confirmed by the Kaunas District Court on 2 June 2021. The Company will have to compensate these additionally received power reserve income to it’s customers, therefore, it has formed a provision of EUR 577 thousand as at 31 December 2021.

(in thousands euro, unless specified otherwise)

## 17. Sales income

The Group and the Company are engaged in the supply of thermal energy, maintenance of building heating and hot water supply systems, electricity generation, and other activities. These activities are closely interlinked and, for management purposes, the Group and the Company are considered to be organised in a single segment – the supply of thermal energy.
The Group's and the Company's activities are seasonal, with the majority of revenue generated during the heating season, which starts in October and ends in April.

Sales revenues by the Group and the Company activities are presented below:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Heat supply | 47 125 | 37 147 | 47 133 | 37 153 |
| Hot water supply | 3 014 | 2 935 | 3 024 | 2 935 |
| Maintenance of hot water metering devices | 456 | 433 | 456 | 433 |
| Maintenance of collectors | 348 | 268 | 348 | 268 |
| Maintenance of heating and hot water systems in buildings | 12 | 11 | 12 | 11 |
| Cooling supply | 2 | - | 2 | - |
| Sale of tradable emission allowances | 6 | 1 236 | 6 | 1 236 |
| | **50 963** | **42 030** | **50 981** | **42 036** |

Sales revenues by consumer groups of the Group and the Company are presented below:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Residents | 38 640 | 31 815 | 38 640 | 31 815 |
| Other users | 5 138 | 5 138 | 5 138 | 5 144 |
| Budgetary organisations financed from the state budget | 3 579 | 2 785 | 3 579 | 2 785 |
| Budgetary organisations financed from municipal budgets | 2 447 | 1 791 | 2 447 | 1 791 |
| Institutions financed by territorial sickness funds | 957 | 340 | 957 | 340 |
| Industrial users | 202 | 161 | 220 | 161 |
| | **50 963** | **42 030** | **50 981** | **42 036** |

(in thousands euro, unless specified otherwise)

## 18. Other costs

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Equipment inspection and testing | 177 | 183 | 177 | 181 |
| Maintenance of collectors | 361 | 381 | 361 | 381 |
| Money collection costs | 143 | 157 | 143 | 157 |
| Ash recovery costs | 162 | 141 | 162 | 131 |
| Information Technologies costs | 64 | 84 | 64 | 84 |
| Consulting Services | 132 | 71 | 132 | 71 |
| Employee-related costs | 87 | 124 | 87 | 124 |
| Invoicing costs | 74 | 78 | 74 | 78 |
| Membership fee | 100 | 96 | 100 | 96 |
| Maintenance of fixed assets and related services | 65 | 76 | 65 | 76 |
| Transport costs | 90 | 80 | 90 | 80 |
| Debt collection costs | 52 | 69 | 52 | 69 |
| Insurance | 57 | 58 | 57 | 51 |
| Communication costs | 25 | 26 | 25 | 25 |
| Costs for advertising | 36 | 38 | 36 | 38 |
| Audit costs | 27 | 33 | 27 | 28 |
| Rental of equipment and machinery | 63 | 57 | 63 | 57 |
| Sponsorship | 1 | 1 | 1 | 1 |
| Other costs | 268 | 326 | 304 | 311 |
| | **1 984** | **2 079** | **2 020** | **2 039** |

## 19. Other operating income and expense

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Other operational incomes** | | | | |
| Inventories sold | 829 | 554 | 242 | 554 |
| Miscellaneous services rendered | 387 | 402 | 240 | 288 |
| Compensation received | - | 37 | - | 37 |
| Revenue from previous periods | 5 | - | 5 | - |
| Profit from the sale of fixed assets | 117 | 495 | 117 | 495 |
| Other | 3 205 | 112 | 3 204 | 112 |
| | **4 543** | **1 600** | **3 808** | **1 486** |

| | The Group | | The Company | |
|---|---|---|---|---|
| **Other operational expenses** | **2021** | **2020** | **2021** | **2020** |
| Cost of miscellaneous services rendered | (166) | (285) | (166) | (199) |
| Inventories sold | (35) | (2) | (35) | (2) |
| Cost of previous periods | (20) | (15) | (20) | (15) |
| Sale of fixed assets, write-off | (164) | - | (164) | - |
| Other | (49) | (16) | (56) | (16) |
| | **(434)** | **(318)** | **(441)** | **(232)** |

The Group and the Company lease real estate, supply technical water, perform maintenance of heating equipment and provide transport services.

Other operating income was accounted for on 4 March 2021. The case on award of compensation for heat reserve power won in the Court of Appeal of Lithuania (Case No: e2A-151-370/2021) for the amount of EUR 2 519 thousand. In addition, a settlement agreement was concluded, in which the compensation for the amount of EUR 570 thousand was agreed. For more information, see Note 25.

(in thousands euro, unless specified otherwise)

## 20. Other interest and similar income

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Default interest received on overdue receivables | 622 | 177 | 622 | 177 |
| Change in market value of derivatives | 5 | 6 | - | - |
| Gains on transactions in securities | 46 | - | 46 | - |
| Interest | - | - | 3 | 4 |
| | **673** | **183** | **671** | **181** |

## 21. Losses on disposal of securities, interest and other similar expenses

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Interest | (117) | (365) | (100) | (337) |
| Loss on disposal of securities | (208) | - | (208) | - |
| Impairment of non-current financial assets | - | 333 | - | 333 |
| | **(325)** | **(32)** | **(308)** | **(4)** |

## 22. Income tax

As at 31 December 2020 and 31 December 2021, deferred income tax assets and liabilities were accounted for using 15 percent rate. All changes in deferred income tax are accounted for in the Group's and Company's Statements of Profit (Loss) and Other Comprehensive Income.

**The reported income tax expense for the year can be reconciled with the income tax expense resulting from the application of the regulatory corporate income tax rate to profit before tax:**

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Profit before tax, before accrual of employee benefits | 778 | 784 | 645 | 1 002 |
| Gains (losses) on the accrual of employee benefits | (78) | (117) | (78) | (115) |
| Income tax (expense) calculated on profit before accrual of employee benefits at the statutory rate | (117) | (118) | (97) | (150) |
| Income tax (expense) calculated on the accrual of employee benefits at the statutory rate | 12 | (18) | 12 | (17) |
| Effect of permanent and temporary differences | 210 | 82 | 210 | 104 |
| Change in unrecognised deferred income tax assets | (245) | (102) | (306) | (102) |
| Adjustment of income tax for previous periods | - | - | - | - |
| Income tax (expense) accounted in statement of comprehensive income | **(140)** | **(156)** | **(181)** | **(165)** |
| **Effective corporate tax rate (%)** | **17.99** | **22.07** | **28.06** | **18.16** |

(in thousands euro, unless specified otherwise)

## 22. Profit tax (continued)

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Components of income tax expense** | | | | |
| Profit tax income (expense) of the reporting year | (20) | - | - | - |
| Deferred profit tax income (expense) | (120) | (156) | (181) | (165) |
| Income (expense) from income taxes recognised in the statement of other comprehensive income | **(140)** | **(156)** | **(181)** | **(165)** |

All changes in deferred income tax are accounted for in the Group's and Company's Statements of Profit (Loss). As at 31 December 2021, deferred income tax consisted of:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Deferred income tax assets** | | | | |
| Tax losses | 4 023 | 2 974 | 3 936 | 2 947 |
| Accruals | 86 | 85 | 84 | 84 |
| Change in value of assets | 1 051 | (31) | 849 | (31) |
| Deferred income tax assets | **5 160** | **3 028** | **4 869** | **3 000** |
| **Deferred income tax liabilities** | | | | |
| Depreciation differences | (10 793) | (8 550) | (10 793) | (8 550) |
| Investment allowance | - | (19) | - | (19) |
| Revaluation of assets transferred to a subsidiary | - | - | - | (174) |
| Deferred income tax liabilities | **(10 793)** | **(8 569)** | **(10 793)** | **(8 743)** |
| **Deferred income tax, net value** | **(5 633)** | **(5 541)** | **(5 924)** | **(5 743)** |

Deferred tax assets arising from tax losses are recognised because the Group's and the Company's management expects that they will be realised in the foreseeable future, taking into account forecasts of taxable profits. Additional deferred tax asset has been recognised in 2021 after reviewing income tax declarations from previous years and re-evaluating taxable losses and temporary depreciation differences.

## 23. Basic and diluted earnings per share

The Group's basic and diluted earnings per share calculations are presented below:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Profit for the reporting period | 1 | 628 | 386 | 837 |
| Number of shares (thousands), beginning of period | 42 802 | 42 802 | 42 802 | 42 802 |
| Number of shares (thousands), end of period | 42 802 | 42 802 | 42 802 | 42 802 |
| Weighted average number of ordinary shares in issue (thousands) | 42 802 | 42 802 | 42 802 | 42 802 |
| **Basic and diluted earnings per share (EUR)** | **0.00** | **0.01** | **0.01** | **0.02** |

(in thousands euro, unless specified otherwise)

## 24. Financial assets and liabilities and risk management

Credit risk
The Group and the Company are not exposed to significant concentrations of credit risk as they deal with a large number of customers.

| | The Group | | The Company | |
|---|---|---|---|---|
| **Number of unique customers (units)** | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Natural persons | 117 557 | 116 807 | 117 514 | 116 807 |
| Other legal entities | 2 800 | 2 681 | 2 782 | 2 682 |
| Legal entities financed from municipal and state budgets | 530 | 521 | 526 | 521 |
| | **120 887** | **120 009** | **120 822** | **120 010** |

Receivables due from customers of the Group and the Company by customer groups:

| | The Group | | The Company | |
|---|---|---|---|---|
| **Number of unique customers (units)** | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Natural persons | 12 941 | 11 293 | 12 916 | 11 293 |
| Other legal entities | 1 810 | 813 | 1 959 | 813 |
| Legal entities financed from municipal and state budgets | 1 722 | 630 | 1 721 | 630 |
| Recognition of expected credit losses | (4 944) | (6 009) | (4 934) | (6 009) |
| | **11 529** | **6 727** | **11 662** | **6 727** |

As at the date of the financial statements, for trade and other receivables that are neither past due nor impaired, management believes that there is no indication that the debtors will not meet their payment obligations as the receivable balances are under constant control. The Group and the Company consider that the maximum risk is equal to the amount of trade receivables and other receivables less recognized impairment losses at the date of preparation of the statements of financial position (Note 8).

Cash and cash equivalents in banks rated on a long-term basis *:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| AA- | 1 270 | 869 | 1 111 | 791 |
| A+ | 2 237 | 730 | 1 482 | 682 |
| A | - | 16 | - | 16 |
| Unrated bank | 23 | 76 | 23 | 76 |
| | **3 530** | **1 691** | **2 616** | **1 565** |

*- external borrowing ratings by Standard & Poor's agency.

The credit risk arising from the Group's and the Company's other financial assets consisting of cash and cash equivalents and available-for-sale financial investments bears the risk from The Group's and the Company's potential the default of the counterparties, with the maximum potential exposure being equal to the carrying amount of these instruments.

(in thousands euro, unless specified otherwise)

## 24. Financial assets and liabilities and risk management (continued)

*Interest rate risk*
Long-term loans of the Group and the Company, except those signed with the Ministry of Finance of the Republic of Lithuania, have a variable interest rate (1, 3, 6 and 12 months EURIBOR). The Group and the Company are exposed to interest rate risk. As at 31 December 2020 and 31 December 2021, the Group has an interest rate swap to manage its floating interest rate risk on the EUR 3 403 thousand credit agreement with Luminor Bank AB dated 22 August 2012, as described in Note 15.

*Liquidity risk*
Liquidity risk is such risk, that upon maturity, the Company or the Group will not be able to meet it's financial obligations. Liquidity risk is considered to be low, as the Group and the Company carries out it's activity in a regulated heating market. 30 day payments terms are set for heat producers. The Group's and the Company's financial assets and liabilities based on their non-discounted payment terms are described in the table

| **The Group** | On demand | Under 3 months | 3 months – 1 year | 1 – 5 years | After 5 years | **Total** |
|---|---|---|---|---|---|---|
| Trade receivables | - | 13 362 | - | 111 | - | 13 473 |
| Cash and cash equivalents | - | 3 696 | - | - | - | 3 696 |
| Trade payables | - | (11 376) | - | - | - | (11 376) |
| Received loans | - | (719) | (2 157) | (7 067) | (25 591) | (35 534) |
| Lease payments | - | (35) | (104) | (255) | (1 061) | (1 455) |
| **2021-12-31** | **-** | **4 928** | **(2 261)** | **(7 211)** | **(26 652)** | **(31 196)** |

| **The Company** | On demand | Under 3 months | 3 months – 1 year | 1 – 5 years | After 5 years | **Total** |
|---|---|---|---|---|---|---|
| Trade receivables | - | 13 456 | - | 443 | - | 13 899 |
| Cash and cash equivalents | - | 2 782 | - | - | - | 2 782 |
| Trade payables | - | (10 701) | - | - | - | (10 701) |
| Received loans | - | (577) | (1 732) | (7 204) | (25 454) | (34 967) |
| Lease payments | - | (34) | (102) | (247) | (866) | (1 249) |
| **2021-12-31** | **-** | **4 926** | **(1 834)** | **(7 008)** | **(26 320)** | **(30 236)** |

*Foreign currency risk*
All purchases, sales and financial debts of the Group and the Company are denominated in euro, therefore, there is no significant foreign currency risk.

*Capital management*
The main objective of capital management is to ensure that the Group and the Company meet the external capital requirements and that they maintain appropriate capital ratios in order to sustain their business and maximise the benefits for shareholders.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and in accordance with their operational risk characteristics. In order to maintain or change the capital structure, the Group and the Company may issue new shares; repay the capital to the shareholders. There were no changes to the capital management objectives, policy or process as of 31 December 2020 and 31 December 2021.

The Law on Companies of the Republic of Lithuania requires that the Group's and the Company's shareholders' equity shall not be less than 50% of its share capital. The Group and the Company meet the requirements of the Law on Companies of the Republic of Lithuania with respect to equity capital. There are no other externally imposed capital requirements for the Group and the Company.

(in thousands euro, unless specified otherwise)

## 24. Financial assets and liabilities and risk management (continued)

The Group and the Company measure capital using the ratio of liabilities to equity. Equity consists of ordinary shares, reserves and retained earnings attributable to equity holders of the parent company. The Group's and the Company's management have not set a specific target ratio for the ratio of liability to equity, however, the following current indicators are considered to be sufficiently good performance indicators:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2021-12-31** | **2020-12-31** | **2021-12-31** | **2020-12-31** |
| Non-current liabilities (including deferred taxes and grants and subsidies) | 72 787 | 60 752 | 72 379 | 59 531 |
| Current liabilities | 17 402 | 12 478 | 15 985 | 11 886 |
| **Liabilities, total:** | **90 189** | **73 230** | **88 364** | **71 417** |
| **Equity** | **89 745** | **89 673** | **90 290** | **89 833** |
| **Ratio of liabilities* to equity (%)** | **100.49** | **81.66** | **97.87** | **79.50** |

*Liabilities include all non-current (including deferred income tax liability and grants (deferred income)) and current liabilities.

Market risk

External risk factors affecting the Group's and the Company's core business**:** the economic crisis, rising fuel prices, unfavourable legislation and regulations from the government and other authorities, local government decisions, pricing policies for products sold, inflation and the general economic downturn reducing the income of heat consumers, cyclical nature of operations, environmental requirements.

## 25. Commitments and contingencies not included in the balance sheet

On 22 June 2019 the Company has submitted a claim to Lietuvos sveikatos mokslų universiteto ligoninės Kauno klinikos (hereinafter referred to as Kauno klinikos) for compensation of EUR 5,120,680 for the period from 2010 to May 2019 for the heat reserve capacity provided by the Company to Kaunas Clinics. Kauno klinikos did not agree with the claim, therefore the Company filed a lawsuit against Kauno klinikos for the unpaid compensation for the heat reserve capacity until June 2019 (the total debt, together with the accrued interest, amounted to EUR 5,204,131). The Kaunas Regional Court examined the case and on 8 June 2020 adopted a decision to partially satisfy the claim, i.e. to order Kauno klinikos to pay the Company EUR 2 515 622 in compensation for the reserve capacity, 6 per cent interest per annum on the amount ordered from the date the case was brought to court (29 July 2019) until the full execution of the court judgement, and EUR 3,534 of litigation costs.
The amount received from Kauno klinikos is recorded in the statement of profit (loss) under Other operating income. In order to reach a final settlement of the dispute regarding the newly incurred debt in the period from 1 June 2019 to 1 March 2021, the Parties concluded an amicable settlement agreement on 25 May 2021, under which Kauno klinikos agreed to pay EUR 570 041 in compensation for the provision of the reserve power assurance service by the Company during this period, to be paid in equal instalments over 2 years. This amicable settlement agreement was confirmed by the ruling of the Kaunas District Court on 2 June 2021.

On 25 September 2020, the Board adopted Resolution No O3E-880 “On unilateral determination of heat price components of AB Kauno energija”, unilaterally determining the Company's heat price components

## 25.Commitments and contingencies not included in the balance sheet (continued)

for the 2nd year of validity of the base price, in accordance with Clause 771 of the Heat Price Determination Methodology, Valstybinė energetikos reguliavimo tarnyba (VERT) has included additional interest in amount of EUR 509 530 that has to be returned to the Company's customers due to the fact that the return of the Company's additionally received revenues was delayed for a period longer than one year (i.e. 4 years).

Disagreeing with the calculation of interest, the Company filed a complaint with the Vilnius Regional Administrative Court, but the court dismissed the Company's complaint by the decision of 22 April 2021. In view of the above, the Company lodged an appeal with the Supreme Administrative Court of Lithuania, which is still pending.

DNSB Rotušės 10 has filed a claim against the Company for the removal of the heat supply network from the building at Rotušės a. 10, Kaunas, and for compensation for damages in the amount of EUR 86 139.74.
The case is currently undergoing mediation proceedings with a view to amicable settlement of the dispute. The Company has no objection to the removal of the heat supply network at the expense of the claimant and does not admit any damage.
The court has ordered the Department of Cultural Heritage to submit its findings on the potential damage, upon receipt of which the mediation process will be renewed.

*Leases and contracts for the purchase of works*
The Group's and the Company's future obligations under the purchase contracts in force at 31 December 2021 amount to EUR 22 626 thousand.

*Guarantees*
On 28 November 2016, the Company provided a guarantee of EUR 3 913 thousand to Luminor Bank AS for the obligations of the subsidiary AB Petrašiūnų katilinė to the bank under the credit agreement of EUR 3 403 thousand dated 22 August 2012. On 28 November 2016, the Company provided a guarantee of EUR 95 thousand to Luminor Bank AS for the obligations of its subsidiary UAB Petrašiūnų katilinė to the bank under the derivative transaction described in Note 11. The residual value of the loan to AB Petrašiūnų katilinė was EUR 567 thousand as at 31 December 2021.

## 26. Related party transactions

The parties are considered to be related if one party can control the other party or has significant influence over the other party in making financial or operational decisions.
On 4 December 2020, the Company and other companies controlled by Kaunas City Municipality signed an agreement on the establishment of UAB Kauno miesto paslaugų centras (Note 6).

In 2020 and 2021, the Group and the Company did not have any significant transactions with other companies controlled by Kaunas City Municipality, except for the purchase or provision of utility services. Transactions with Kaunas City Municipality and companies controlled by Kaunas City Municipality were carried out at market prices.
A list of countries related to Kaunas City Council can be found here:
http://www.kaunas.lt/administracija/struktura-ir-kontaktai/pavaldzios-imones-ir-istaigos/.

(in thousands euro, unless specified otherwise)

## 26. Related party transactions (continued)

In 2020 and 2021, the Group's and the Company's transactions with Jurbarkas City Municipality, Kaunas City Municipality and companies financed and controlled by Kaunas City Municipality, and their debts and liabilities as at the end of the periods were as follows:

| 31 December 2021 | Purchases | Sales | Amounts receivable | Amounts payable |
|---|---|---|---|---|
| Kaunas City Municipality, companies financed and fully managed by it | 897 | 3 120 | 826 | 206 |
| Jurbarkas district municipality | 10 | 132 | 2 | 2 |

| 31 December 2020 | Purchases | Sales | Amounts receivable | Amounts payable |
|---|---|---|---|---|
| Kaunas City Municipality, companies financed and fully managed by it | 1 269 | 2 512 | 619 | 268 |
| Jurbarkas district municipality | 15 | 167 | - | 2 |

Sales include the amounts of reimbursements for housing heating costs, cold water and sewage costs, and hot water costs for financially challenged residents.

The Group and the Company have made an impairment allowance of EUR 253 thousand as at 31 December 2021 (on 31 December 2020: EUR 253 thousand) in respect of receivables from companies financed from municipal budgets. Receivables are not secured by collateral or other instruments and will be settled in cash. No guarantees have been obtained for receivables.

On 31 December 2020 and 31 December 2021 the Company's transactions with subsidiaries and the balance sheet balances at the end of the period were as follows:

| AB Petrašiūnų katilinė | Purchases | Sales | Amounts receivable | Amounts payable |
|---|---|---|---|---|
| 31 December 2021 | 746 | 10 | 644 | - |
| 31 December 2020 | 1 177 | 11 | 443 | 220 |

| UAB GO Energy LT | Purchases | Sales | Amounts receivable | Amounts payable |
|---|---|---|---|---|
| 31 December 2021 | 77 | 12 | 43 | - |
| 31 December 2020 | 14 | 11 | 50 | 3 |

Receivables from AB Petrašiūnų katilinė consist of a loan. No provision for expected credit losses has been made for the loan granted.
AB Petrašiūnų katilinė produces and sells heat energy to AB Kauno energija. UAB GO Energy LT provides real estate management services to AB Kauno energija and participates in unregulated energy development projects together with its parent company.

(in thousands euro, unless specified otherwise)

## 26. Related party transactions (continued)

Management's salary and other benefits

On 31 December 2021 the Group's and the Company's management consists of 3 and 1 persons (3 and 1 at 31 December 2020) respectively.

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2021-12-31 | 2020-12-31 | 2021-12-31 | 2020-12-31 |
| Wages and salaries charged to the management | 89 | 59 | 78 | 47 |
| Reimbursements of employee benefits calculated for the management | - | - | - | - |

During 2020 and 2021, there were no loans, guarantees, other disbursements or accruals to the management of the Group and the Company, or transfers of assets.

## 27. Events after the date of the balance sheet

On 28 October 2021 the Boards of AB Kauno energija and AB Petrašiūnų katilinė (of which AB Kauno energija is the sole shareholder) decided to initiate the reorganisation of AB Kauno energija and AB Petrašiūnų katilinė by merger, merging AB Petrašiūnų katilinė with AB Kauno energija, with AB Petrašiūnų katilinė ceasing to operate as a legal entity after the reorganisation, and to call for general meetings of shareholders of both companies to be held for the purpose, with a view to approving the reorganisation. The reorganisation of the companies was completed on 2 March 2022.

According to the management's expert assessment, due to the war in Ukraine, it is expected that the supply of the main raw materials for heat production, i.e. biofuel and gas, will not be disrupted, the number of heat consumers will not decrease, and the solvency of heat consumers will not be significantly affected by the increase in the heat prices. This is confirmed by the available indicators for February and March. In addition to that, the heating season is coming to an end and heating bills will decrease accordingly. It is therefore expected that the war in Ukraine will have no direct or indirect impact on the Company's and Group’s activities.

There have been no other events after the reporting date that could have a material effect on the financial statements or that should be disclosed in the financial statements.

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# AB KAUNO ENERGIJA CONSOLIDATED ANNUAL REPORT OF THE YEAR 2021

Kaunas, 2021

## CONTENTS

# 1. Reporting period of the Consolidated Annual Report

Reporting period for which the AB Kauno Energija Consolidated Annual Report has been prepared is January 1, 2021 – December 31, 2021.

# 2. Companies consisting the Group of companies and their contact details

AB Kauno Energija (hereinafter – the Company or the Issuer) prepares both the Company's and the Consolidated Financial Statements. The group of companies (hereinafter referred to as the Group) consists of AB Kauno Energija and its subsidiaries – UAB GO Energy LT and AB Petrašiūnų Katilinė in which the Issuer directly controls 100 per cent of the shares of these companies.

*Main details of the Company:*

| | |
|---|---|
| Name of the Company: | AB Kauno Energija |
| Legal-organizational form: | Public Limited Liability Company |
| Headquarters' address | Raudondvario av. 84, 47179 Kaunas |
| Code of legal entity: | 235014830 |
| Telephone | (8 37) 305 650 |
| Fax | (8 37) 305 622 |
| E-mail: | info@kaunoenergija.lt |
| Webpage | www.kaunoenergija.lt |
| Registration date and place | August 22, 1997, Kaunas, Order No 513 |
| Register manager | State Enterprise Centre of Registers Kaunas Branch |
| VAT payer code | LT350148314 |

*Main information about the subsidiaries:*

| | |
|---|---|
| Company name | AB Petrašiūnų Katilinė |
| Legal-organizational form | Limited Liability Company |
| Headquarters address | R. Kalantos str. 49, 52303 Kaunas |
| Code of legal entity | 304217723 |
| Telephone | +370 687 48413 |
| Registration date and place | April 1, 2016, Kaunas |
| Register manager | State Enterprise Centre of Registers Kaunas Branch |

| | |
|---|---|
| Company name | UAB Go Energy LT |
| Legal-organizational form | Limited Liability Company |
| Headquarters' address | Savanorių pr. 347, 49423 Kaunas |
| Code of legal entity | 303042623 |
| Telephone | (8 37) 305 693 |
| E-mail | kent@kaunoenergija.lt |
| Registration date and place | April 16, 2013, Kaunas |
| Register manager | State Enterprise Centre of Registers Kaunas Branch |

# 3. Nature of core activities of the companies composing the group of companies

The nature of core activities of the Group is manufacture and rendering of services. The Company is the parent company of the Group. The Company generates and supplies heat to consumers (for the purposes of heating and hot water production) in the cities of Kaunas and Jurbarkas and in Kaunas district Akademija town, Ežerėlis town, Domeikava village, Garliava town, Girionys village, Neveronys village, Raudondvaris village, (hereinafter referred to as Kaunas district).

Also, following provisions of the Law on Heat Sector, the Company supplies hot water (is engaged in hot domestic water supplier activities) from May 1, 2010 for consumers in the cities of Kaunas and Jurbarkas and

Kaunas district, who chose the Company as a hot water supplier. As of December 31, 2021, the Company supplied hot water to 733 residential buildings in Kaunas and Kaunas district, and 7 in Jurbarkas city.

In addition, the Company maintains engineering structures (collectors – manifolds) and operates heat and electricity production facilities. The Group and the Company carries out a supervision of indoor heat and hot water supply systems, maintenance of heat unit equipment, repairs of heat units and other heating equipment, provides premises rental services under agreements. The Group and the Company are engaged in licensed activity in accordance with the licenses held. On February 26, 2004 the National Commission for Energy Control and Prices (hereinafter – the Commission) issued a heat supplier licence to the Company. The licence is valid indefinitely. Maintenance of indoor heat and hot water supply systems is pursued following the provisions of Article 20 of The Law on Heat Sector of the Republic of Lithuania.

The vision of the Group and the Company is to be an innovative, competitive, and added value for shareholders creating Company engaged in heat and cooling generation and their centralized supply, maintenance of indoor heating and hot water systems.

**Values of the Group and the Company:**

- More than 50 years of experience in heat production and supply.
- Responsibility towards consumers for reliable heat and hot water supply.
- High qualification of employees allowing to reach the highest efficiency indicators.
- Ability to apply innovative solutions in everyday activities.

**Strategic goals of the Group and the Company:**
AB Kauno Energija is the most advanced and innovative district heating (hereinafter – DH) company in Lithuania.

**Principled guidelines of Company's heat economy strategy are as follows:**

- Increase of safety and reliability of heat supply – the Company intends to formulate an expert assessment of safety / vulnerability of heat supply system, to implement update and modernization of system of parameters data transfer, collection and evaluation, to implement optimization of the network hydraulic mode and increase of speed of parameters reaction / change, to reconstruct and optimize sections of termofication pipelines and elements (average age of DH pipelines reaches approximately 30 years), to implement update and development of the system of DH network water reserve – emergency replenishment, to implement technical solutions and / or use a good practice increasing reliability and safety, ensuring stability of thermofication mode;
- to actively participate in formation of policy of Kaunas city supply with heat and in increase of Company's desirability and in expansion of district heating market.
- formation of good practice and its publicizing.

# 4. Issuer's agreements with credit institutions

On September 13, 2018 the Issuer Service Agreement with AB SEB Bankas (company code 112021238, Gedimino pr. 12, Vilnius).

# 5. Trade in securities of companies composing the Group of companies in regulated markets

20,031,977 (twenty million thirty-one thousand nine hundred seventy-seven) of the Issuer's ordinary registered shares (VP ISIN code LT0000123010) with the total nominal value equal to EUR 34,855,639.98 (thirty-four million eight hundred fifty-five thousand six hundred thirty-nine euro and 98 cents) were listed in the secondary trade list of Nasdaq Vilnius Baltic stock exchange as of December 31, 2021. The beginning of listing of the Company's shares is December 28, 1998.

# 6. Overview of the condition, performance, and development of the Group of companies

## 6.1. Overview of the condition, performance, and development of the Group of companies

The Company performed its activities of the year 2021 with a main focus on development of capacities of production facilities and increase of reliability of DH network, considering Strategic guidelines of centralized heat supplies of Kaunas city.

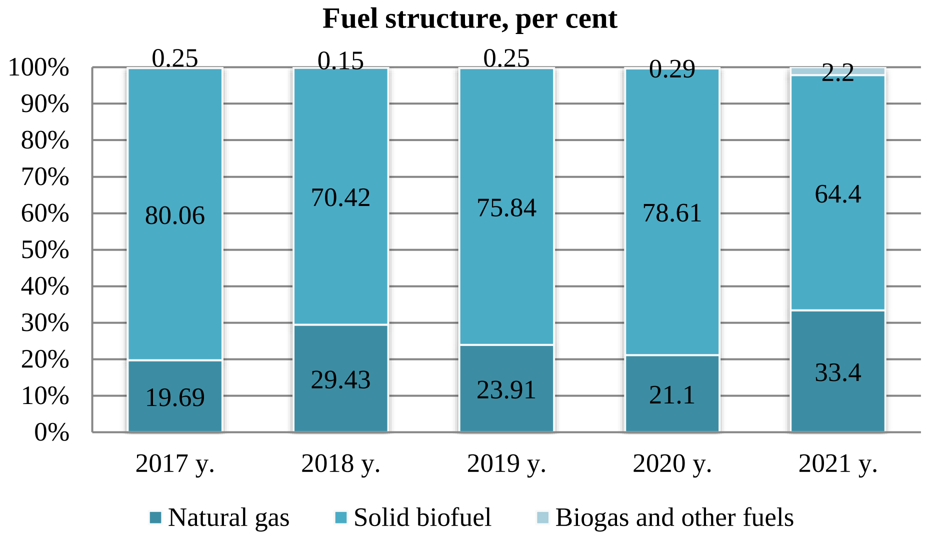
When planning its activities, the Company also considers the AB Kauno Energija Strategy for the Heating System Development for the years 2007–2020 developed in 2016 by the Lithuanian Energy Institute under initiative of the Company. On February 7, 2019 the Supervisory Board of the Company approved the "Adjustment report of AB Kauno Energija Strategy, implementing the directions of the development of the energy sector until 2021".

The Company covers a major part of heat production and supply market in the cities of Kaunas and Jurbarkas and Kaunas district. Group's generation capacities consist of Company's boiler-houses capacities and subsidiary's AB Petrašiūnų Katilinė capacities in Kaunas city. Company's generation capacities consist of Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 boiler-house in Jurbarkas city, 14 boiler-houses of isolated networks and 26 local gas burning boiler-houses in Kaunas city (25 of them are gas burned and 1 of them – burned with pellets), also 8 local water heating boiler-houses in Sargėnai catchment. In September 2021, a gas boiler of 1.6 MW was dismantled at the integrated grid boiler house at A. Juozapavičiaus pr. 23A. Total installed heat generation capacities of the Group consist of approx. 683 MW, and total energy generation capacity of the Group is approx. 692 MW (including 48 MW capacities of condensational economizers). Total installed heat production capacity of the Company consists of approx. 664 MW (including 48 MW capacities of condensational economizers), electricity generation capacities – 8.75 MW. From them 314.6 MW of heat generation capacities (including 17.8 MW capacities of condensational economizers) and 8 MW of electricity production capacities are in Petrašiūnai power plant. 39.4 MW of heat generation capacities (including 4.4 MW capacities of condensational economizer) is in Jurbarkas city. Total Company's power generation capacity is 673 MW (including 48 MW of condensational economizers' capacities).

30 per cent of heat supplied to consumers in the year 2021 was produced in Company's heat production facilities. The rest of required quantity of heat was purchased from independent heat producers (hereinafter – IHP) in monthly auctions, according to legal acts. Starting from May 2018 an electronic heat purchasing auctions are arranged by the Energy Stock Exchange operator UAB Baltpool. Electronic auctions are carried out in accordance with the Regulations of the Heat Auctions approved by the National Energy Regulatory Council. The Schedule of the Procedure and Conditions for the Purchase of Heat from Independent Heat Producers, the Methodology for Determining Heat Prices, the Rules for the Provision of Information on Energy, Drinking Water Supply and Wastewater Treatment, Sewage and Surface Water Treatment Companies, a Summary of Conditions of Usage of Heat Transfer Networks, and a schedule of the Procedure for Publicly Disclosed Information were changed respectively.

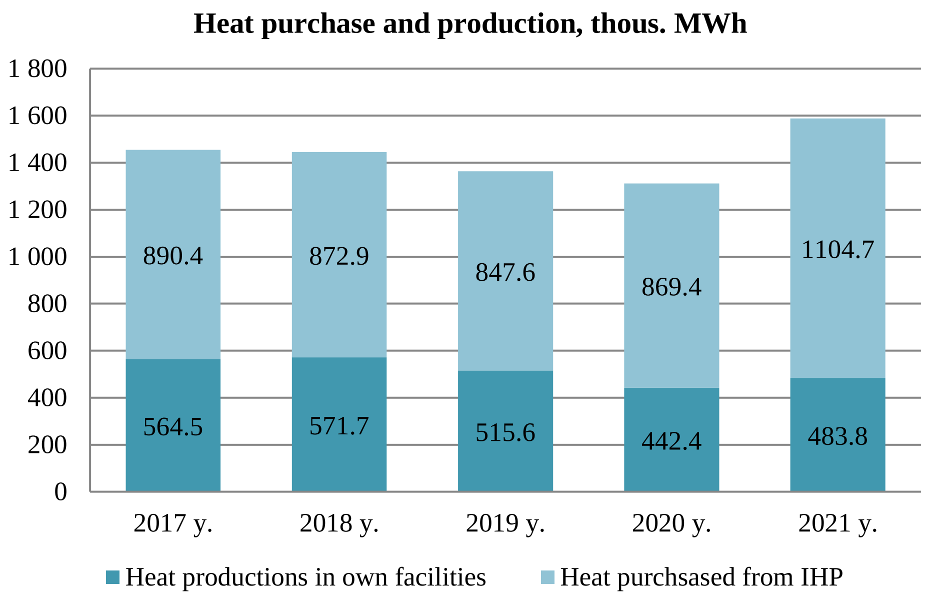
Fuel used by the Company for heat production in the year 2021 is presented in Chart 1.

*Chart 1*




The Company purchased heat during the year 2021 from 12 IHP in Kaunas and Kaunas district as follows: from UAB Kauno Termofikacijos Elektrinė, UAB Idex Taika, UAB Idex Taika Elektrinė, UAB Lorizon Energy, UAB Ekoresursai, AB Petrašiūnų Katilinė, UAB Aldec General, UAB ENG, UAB Idex Biruliškių, UAB "Ekopartneris", UAB Foksita and UAB Kauno Kogeneracinė Jėgainė. Total purchases consisted of 1105 thousand MWh of heat, i.e., 70 per cent of heat supplied to the.
Amounts of heat purchased from IHP and produced with Company's equipment during the period of the years 2017–2021 are presented in chart 2, thousand MWh:

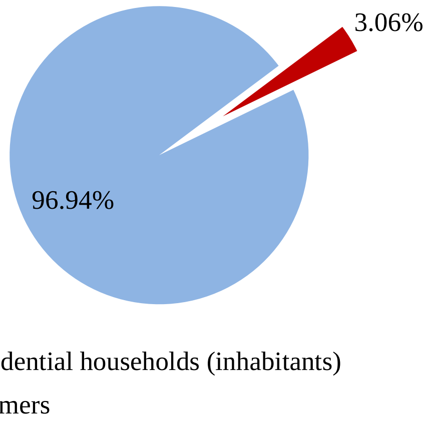
*Chart 2*




The Company supplied this produced and purchased heat with integrated and local heat supply networks to 3,744 businesses and organizations as well as to 118,468 households, in total – to 122,212 consumers (objects by addresses) as of December 31, 2021.

*Chart 3*

**Repartition of Company's heat consumers by groups**




## Investments

Investments are made in accordance with Company's investment plan for the year 2021, which has been approved by decision No T-162 of Kaunas City Municipality Council of April 20, 2021 "Regarding investment plan of AB Kauno Energija for the year 2021 and its financing" (hereinafter – Investment plan). The Company makes investments based on an assessment of the economic situation, the competitive environment and the availability of financing. Investment plans are approved by the Board of Directors and coordinated by the Kaunas City Municipal Council.

The Company implements trunk pipeline replacement projects co-financed by the European Union structural funds, optimizes pipeline diameters, connects new objects to the DH network and modernises heat production facilities according to Investment plan.

On November 16, 2018 the Company signed a contract with the Lithuanian Business Support Agency (hereinafter – LBSA) for the financing of the project "Development of Kaunas city district heating network in the Aleksotas catchment" (code 04.3.2-LVPA-K-102-04-0001) under the Measure No. 04.3.2-LVPA-K-102 "Modernization and development of heat supply networks" of Priority 4 "Promotion of Energy Efficiency and Renewable Energy Production" of the EU Funds Investment Action Program for 2014–2020. The value of the project is EUR 3.8 million, incl. EUR 1.9 million of EU Structural support.

On November 16, 2018 the Company signed two contracts with the LBSA to finance the projects "Biofuel Boiler Installation in Raudondvaris Boiler House" and "Biofuel Boiler Installation in Jurbarkas Boiler House". A 1.5 MW capacity biofuel-fired boiler is installed in Raudondvaris. The value of the project is EUR 0.5 million, incl. EUR 0.3 million of European Union Structural support. A 4.6 MW capacity biofuel-fired boiler is installed in Jurbarkas. The value of the project is EUR 0.8 million, incl. EUR 0.5 million of European Union Structural support. These projects were accomplished in 2021.

Two agreements were signed in 2020 on the allocation of support from the Climate Change Program funds for the following Company's projects:

- "Use of an Absorption Heat Pump and Installation of a Solar Light Power Plant at Petrašiūnai Power Plant". A subsidy was allocated for this project. Using it, the Company's Petrašiūnai power plant will be equipped with a 499.8 kW photovoltaic solar power plant and a 2400 kW absorption heat pump. The value of the project is 1.523 million. EUR 0.457 million Eur.
- "Installation of Solar Photovoltaic Power Plants (4 units) in boiler-houses of AB Kauno Energija". The value of the project is EUR 0.080 million, financial support is EUR 0.024 million.

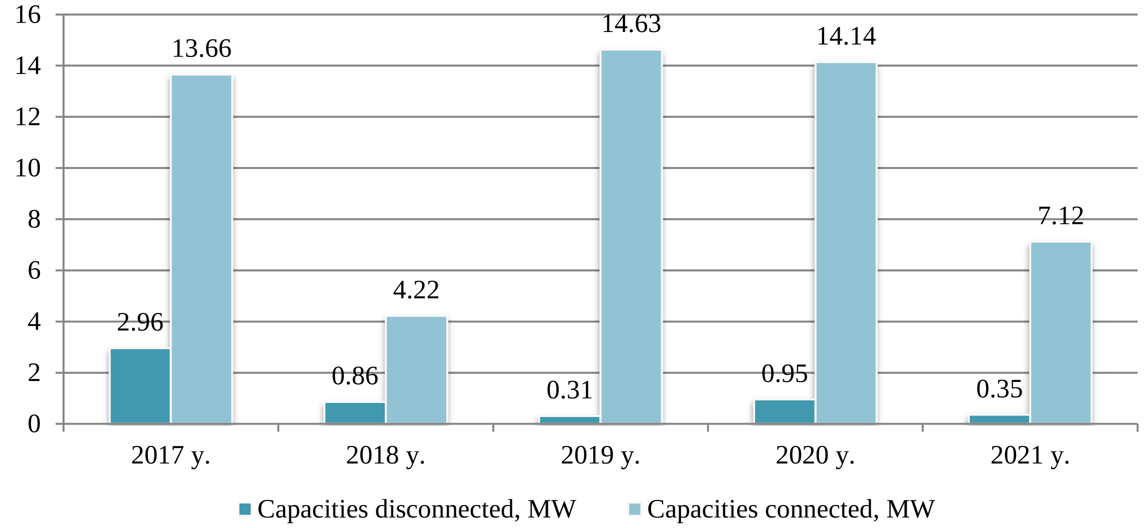
Implementation of these projects will reduce the fuel and electricity consumption and will create preconditions for heat price reduction.

2022 February 10 The company has signed a grant agreement with the Environmental Project Management Agency of the Ministry of Environment of the Republic of Lithuania for the financing of the project "Utilization of Solar Heat Energy in the Neveronių DH System" by providing a subsidy for the financing of projects with the funds of the climate change program. Up to 0.086 million will be allocated for this project. EUR subsidy, financing up to 25 percent of the project eligible costs.

The dynamics of consumers' heating capacities connections to Company's DH network and disconnections from them in 2017–2021 is shown in Chart 4.

Chart 4

**Dynamics of consumer's connections and disconnections**

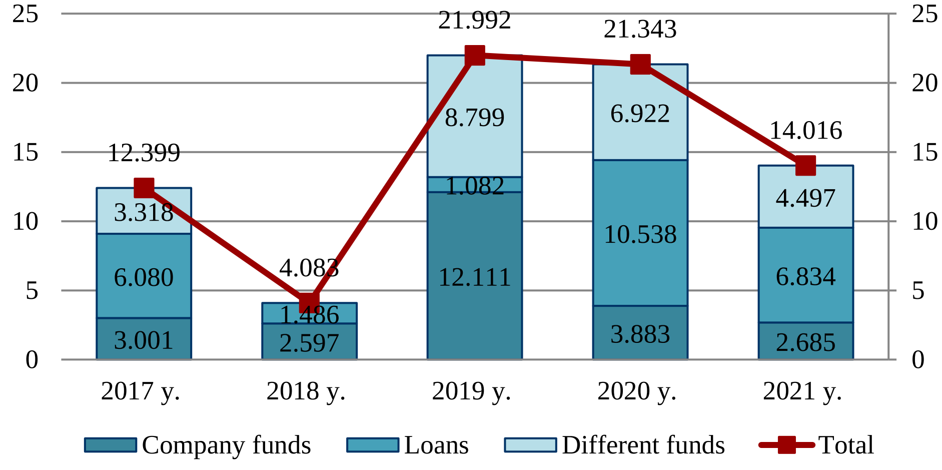



A total capacity of objects disconnected from DH network in 2021 was approx. 0.35 MW. Disconnection of heat equipment from centralized heat supply networks and the change of heating method is pursued following the order determined by the Civil Code of the Republic of Lithuania, the Law on Heat Sector of the Republic of Lithuania, the Law on Construction of the Republic of Lithuania and sub statutory legal acts implementing these Laws.

Company's investments by funding sources of the years 2017–2021 are presented in Chart 5.

*Chart 5*

**Implementation of investments by funding sources, million euro**



## 6.2. Description of exposure to key risks and uncertainties the Company confront with and their impact on activity results

**External risk factors affecting the Company's core business:**

- Increase in competition between heat producers in Kaunas.
- Increase in final (i.e., including all expenditures) price of natural gas and biofuel.
- Ever-changing legal environment.
- Heat production pricing policies.

**Competition environment risk factors.**

To operate effectively and reliably in creation the added value for shareholders, the Company is facing threats specific to the sphere of its activity, but also takes advantage of opportunities to work efficiently and effectively by exploiting the available potential. One of the biggest threats that the Company may face is a relatively high price for heat purchased from IHP, who are ranked as private business units committed to profit generation. Purchase of heat is pursued following valid law and the Description of procedure for purchase of heat from independent suppliers of heat approved by NERC. In turn, the Company invests extensively in modernization and construction of its own manufacturing facilities, to reduce the comparative costs of heat production. Thus, it takes advantage of the regulatory environment and reduces the energy purchase price.

Together with coming of new IHP the Company faced additional technical, economical, legal and other issues that needs to solve: management of heat supply network and balancing of power of these producers in case of emergency stop of them, retaining of optimum working parameters of the network, regulation, change and applying of heat purchase from IHP order.

**Commercial risk factors**

The Company is a major supplier of the heat produced centrally to the city of Kaunas, part of Kaunas district and the city of Jurbarkas. To retain this market, it is necessary to implement modern and efficient heat production technologies in own production facilities and to focus on production at the lowest cost, benefiting from private differences of different types of fuel.

Company's heat sales are directly dependent on heat demand, i.e., heat consumption, which is mostly affected by the average outdoor air temperature, the amount of investment of consumers in energy-saving and rational use of heat and the pace of development of the heat sales.

Changes in fuel prices and the price of heat, produced by IHP have an impact on cost of Company's heat and electricity production.

Company's performance is affected by the decrease in sales due to reduced and further reducing heat demand (in pursuance of residential buildings renovation and by installing a heat saving equipment), due to consumer's disconnections from DH network (due to the various reasons). Risks can be mitigated by Company's current and further investments in heat and electricity production facilities, using renewable energy sources, reducing heat production expenditures and the price heat, purchased from IHP as well as the price of heat supplied for consumers, and continually reasonably informing customers on the benefits of DH network systems (safety, reliability, correlation with one sort of fuel, fuel conversion, local pollution sources in residential areas, total environmental pollution, etc.) in comparison with autonomous heating.

**Operational risk**

Detailed information on the risk management policy and credit, exchange rate, interest rate and liquidity risks are provided in an Explanatory Notes of AB Kauno Energija Consolidated and Company's Financial Statements.

During the year 2021 in comparison with the year 2020 heat consumers' debts decreased by approx. 20% and consisted of EUR 4.934 million. Decrease was affected by application of effective methods of debts administration.

To recover these debts as soon as possible, the Company actively uses a variety of legal debt management measures, such as pre-trial actions, judicial recovery, and cooperation with law Companies. In addition, when a debt becomes big, a restriction of heat supplies is applied as a prevention measure (if there are technical possibilities and according to the law).

On January 2, 2018 the Kaunas Unified Service Center "Mano Kaunas" started its operations in Statybininkų str. 3, Kaunas, at the premises of UAB Kauno Švara. Here residents can get immediate information / consultation about Kaunas city services provided by municipality owned companies – AB Kauno Energija, UAB Kauno Švara, UAB Kauno Autobusai, UAB Kauno Butų ūkis, UAB Kauno Gatvių Apšvietimas and UAB Kauno Vandenys, as well as conclude contracts, pay invoices, requests, certificates, etc.

Activities of the Company are cyclical. During the heating season (October – April) a major operating income is earned. During the non-heating season, the Company's revenues are at their lowest since only heat for hot water is used. In addition, during the non-heating season, the Company incurs more costs because it must prepare for the upcoming heating season, i.e., to carry out the repairs and reconstruction of heat supply networks and heat production facilities.

**Legal conformity risk**

Energy activities are governed by the Law on Heat Sector, the Law on Energy, the Law on Electricity, the Law on Natural Gas, the Law on Drinking Water Supply and Wastewater Management, Government resolutions, Heat supply and consumption rules, Methodology of heat prices and payments for heat of NCC and other legislation. Their amendments affect the heating industry.

With new amendments of articles 2, 3, 20, 22, 28, 31, and 32 of the Law on Heat Sector No XI-1608 of the Republic of Lithuania that came in affect from November 1, 2011 in accordance with Article 7, the heat and hot water prices may not include any costs related with the indoor building heating (including heat units), and hot water systems. In implementing the legislation, from November 1, 2011 all these costs directly reduce the profit of the Company.

Legal conformity risk is a risk of increase in losses and (or) loss of prestige, an (or) decrease in confidence, which can be determined by the external environment factors (for example, violation of external legal acts, non-compliance of requirements of supervising institutions, etc.) or internal factors (for example, violation of internal legal acts and ethical standards, cases of employee's abuse, etc.).

**Technical and process factors**

The biggest process risks are so shaded with the condition of heating systems. Company's trunk pipelines are an average about 30 years old. Modernization rate of them is determined by lack of funds – it is necessary to reconstruct more than 13.5 km of pipelines per year to condition of age of heat supply system and the minimum investments should consist of approximately 6 million euros. Hydraulic testing identifies their weakest points. Every year, about 200 points where cracks occur are identified during the tests. Upon discovery of defects, pipes are exposed and promptly repaired.

Mains of heating networks in the most worn-out places are reconstructed using support from the EU Structural Funds. New industrially (polyurethane foam insulation in polyethylene shell) insulated pipes not requiring concrete channels are mounted in the reconstructed sections of the heat supply network. Heat loss is very low in reconstructed sections (process level), while the pipelines no longer pose a threat of rupture and ensure reliable heat supply to consumers.

One of the technical risk factors for heat generation facilities is their age. Some of heat generation facilities are already renewed now. Every year boiler repairs, and preventive work is carried out during the non-heating season. They are necessary to make secure heat supplies and reliability, i.e., securing of heat production facilities and fuel reserves.

More detailed information on Company's production facilities modernization is provided in chapters on operations and development.

## Ecological factors

With respect to the Company, they may be divided into those affecting the Company and affected by the Company's operations.

In order not to adversely impact the environment and comply with the pollution limits, vibration and noise values, the Company is guided by the requirements of the Kyoto Protocol, the Helsinki Commission (HELCOM) and environmental constraints of Helsinki Convention, as well as the European Parliament and Council Directive 2001/80/EB of regulating energy emissions and Lithuanian environmental normative document LAND 43-2013 for the use of natural resources, and releases and emissions of air pollutants to the environment in its activities. Main sources of pollution of the Company: burning fossil fuel in the Company's heat sources, production of heat and wastewater, are used in the industrial processes.

The Company pays taxes for atmospheric and water pollution. If allowable emission rate limits or annual limits are exceeded, the Company would pay the fines under the applicable laws of the Republic of Lithuania. The Company was not imposed any penalties in the year 2021.

Main Company's emission reduction measures: modernization of heat generation facilities, heat transfer loss reduction by replacing the existing pipes with the pipes with polyurethane foam insulation, installation of new technology and improvement of existing technological equipment, use of less polluting fuels, and continuous emission monitoring (the fuel balance in the 1 half of the year 2021 was dominated by the solid biofuel – 64.4 %, natural gas – 33.4 %, other fuels – 2.29 %).

Additional efforts by the company to reduce CO2 emissions:

- Green procurement. We choose suppliers not only on the basis of the price and the quality of goods, services or works, but also on the basis of the reduced impact they have on the environment.
- The Company is currently implementing an environmental management system (ISO 14001:2015). It assists in the systematic management of the direct and long-term environmental impact of the activities and consistently addresses the relevant environmental issues of the Company. With this system in place, we will be able to increase green procurement.
- We are renewing our fleet of vehicles giving preference to electric and hybrid cars. We have purchased 3 electric cars in 2021.
- We sort waste generated in production and administrative activities and transfer it to waste managers in accordance with the established procedure. We have also refused rubbish bins in the offices in the administration building and dispose rubbish in the sorting bins in the common corridors. This encourages employees to recycle and has reduced the amount of bins and bags (plastics) used.
- The company is taking the initiative to inform the public about energy-saving measures in order to reduce air pollution. We regularly raise the awareness of the public by writing informative articles about renewable energy sources, their benefits for nature and people, informing what modern technologies are used by our company and how they contribute to climate change mitigation.
- Employees of the Company are also encouraged to come to work with less polluting vehicles, to cooperate as much as possible and to travel to work with a single vehicle for several colleagues.

# 7. Analysis of financial and non-financial performance results, information related to environmental issues

Company's sales revenue of the year 2021 was EUR 50,981 thousand and in comparison, with the year 2020 increased by 21.3 per cent (in the year 2020 it consisted of EUR 42,036 thousand). Sales revenue of the Group of the year 2021 was EUR 50,963 thousand (in the year 2020 it consisted of EUR 42,030 thousand).

This change was mainly affected by the increase in the amount of heat sold by 23.4 percent in comparison with the year 2020. The average price of heat sold increased by 2.3 percent (in the year 2021 it was 3.63 ct/kWh, and in the year 2020 – 3.55 ct/kWh).

Comprehensive income of the Group in the year 2021 is EUR 72 thousand, the Company's – EUR 457 thousand. Comprehensive income increased by EUR 224 and 400 thousand respectively in comparison with the year 2020.

Comparison of financial indicators of the Group of the year 2021 with the indicators of the years 2017–2020 is presented in Table 1.

*Table 1*

| No | Indicator of the Group | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| 1 | Revenue from sales, thousand euros | 59,680 | 61,316 | 54,649 | 42,030 | 50,963 |
| 1.1 | Including: Heat energy | 56,084 | 57,387 | 49,711 | 37,147 | 47,125 |
| 1.2 | Cooling supply | 0 | 0 | 0 | 0 | 2 |
| 1.3 | Maintenance of indoor heating and hot water supply systems, heating substation facilities | 10 | 11 | 12 | 11 | 12 |
| 1.4 | Income from the maintenance of collectors | 250 | 250 | 251 | 268 | 348 |
| 1.5 | Hot water supply including cold water price | 2,981 | 3,260 | 3,228 | 2,935 | 3,014 |
| 1.6 | Income from maintenance of hot water meters | 355 | 408 | 422 | 433 | 456 |
| 1.7 | Revenue from the sale of trading emission allowances | - | - | 1,025 | 1,236 | 6 |
| 2 | Profit, thousand euros | 6,861 | 3,963 | 933 | -152 | 72 |
| 3 | EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros | 15,861 | 12,417 | 8,816 | 8,202 | 7,541 |
| 4 | Profitability of core business, per cent (operating profit / sales and services) * 100 | 11.7 | 6.4 | 1.2 | -5.7 | -0.6 |
| 5 | Net profitability, per cent (net profit / sales and services) *100 | 11.5 | 6.5 | 1.7 | -0.4 | 0.1 |
| 6 | Assets, thousand euros | 149,158 | 148,266 | 154,096 | 162,903 | 179,934 |
| 7 | Equity, thousand euros | 89,343 | 89,967 | 89,829 | 89,673 | 89,745 |
| 8 | Return on equity (ROE), per cent (net profit / average equity) *100 | 8.2 | 4.7 | 1.1 | -0.2 | 0.1 |
| 9 | Return on assets (ROA), per cent (net profit / average assets) *100 | 4.8 | 2.8 | 0.6 | -0.1 | 0.0 |
| 10 | Asset turnover ratio (sales and services / assets) | 0.40 | 0.41 | 0.36 | 0.26 | 0.28 |
| 11 | Return on tangible assets, per cent (net profit / average value of tangible assets) *100 | 5.4 | 3.2 | 0.7 | -0.1 | 0.1 |

| No | Indicator of the Group | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| 12 | Debt ratio (liabilities /assets) | 0.40 | 0.39 | 0.42 | 0.45 | 0.50 |
| 13 | Debt-to-equity ratio (liabilities / equity) | 0.7 | 0.6 | 0.7 | 0.8 | 1.0 |
| 14 | General liquidity ratio (short-term assets / short-term liabilities) | 1.22 | 1.58 | 1.03 | 0.86 | 1.33 |
| 15 | Quick ratio ((short-term assets-inventory) / short-term liabilities) | 1.13 | 1.47 | 0.92 | 0.75 | 1.23 |
| 16 | Cash ratio (cash in hand and at bank / short-term liabilities) | 0.42 | 0.60 | 0.16 | 0.14 | 0.21 |
| 17 | Net earnings per share (net profit / average weighted number of shares in issue) | 0.16 | 0.09 | 0.02 | 0.01 | 0.00 |
| 18 | Equity per share, euros | 2.09 | 2.1 | 2.1 | 2.1 | 2.1 |
| 19 | Last share market price of the year /net profit /number of shares at year-end (P / E ratio) | 7.36 | 10.80 | 45.97 | -232.31 | 656.89 |
| 20 | Share capital, thousand euros | 74,476 | 74,476 | 74,476 | 74,476 | 74,476 |
| 21 | Share capital-to-assets ratio | 0.5 | 0.5 | 0.49 | 0.46 | 0.41 |
| 22 | Return on equity (capital), per cent (net profit / capital and reserves) *100 | 8.8 | 4.9 | 1.1 | -0.2 | 0.1 |
| 23 | Dividend pay-out ratio (dividend per share / earnings per share) | 0.49 | 0.28 | 0.0 | 0.0 | |

Comparison of financial indicators of the Company of the year 2021 with the indicators of the years 2017–2020 is presented in Table 2.

*Table 2*

| No | Indicator of the Company | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| 1 | Revenue from sales, thousand euros | 59,692 | 61,328 | 54,659 | 42,036 | 50,981 |
| 1.1 | Including: Heat energy | 56,096 | 57,399 | 49,721 | 37,153 | 47,133 |
| 1.2 | Cooling supply | 0 | 0 | 0 | 0 | 2 |
| 1.3 | Maintenance of indoor heating and hot water supply systems, heating substation facilities | 10 | 11 | 12 | 11 | 12 |
| 1.4 | Income from the maintenance of collectors | 250 | 250 | 251 | 268 | 348 |
| 1.5 | Hot water supply including cold water price | 2,981 | 3,260 | 3,228 | 2,935 | 3,024 |
| 1.6 | Income from maintenance of hot water meters | 355 | 408 | 422 | 433 | 456 |
| 1.7 | Revenue from the sale of trading emission allowances | - | - | 1,025 | 1,236 | 6 |
| 2 | Profit, thousand euros | 6,046 | 4,414 | 747 | 57 | 457 |
| 3 | EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros | 14,391 | 12,227 | 7,946 | 7,811 | 7,170 |
| 4 | Profitability of core business, per cent (operating profit / sales and services) * 100 | 12.2 | 6.8 | 0.7 | -2.8 | 0.2 |
| 5 | Net profitability, per cent (net profit / sales and services) *100 | 10.1 | 7.2 | 1.4 | 0.1 | 0.8 |

| No | Indicator of the Company | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| 6 | Assets, thousand euros | 145,002 | 145,402 | 151,595 | 161,250 | 178,654 |
| 7 | Equity, thousand euros | 89,024 | 90,099 | 89,776 | 89,833 | 90,290 |
| 8 | Return on equity (ROE), per cent (net profit / average equity) *100 | 7.05 | 5.12 | 0.87 | 0.07 | 0.43 |
| 9 | Return on assets (ROA), per cent (net profit / average assets) *100 | 4.32 | 3.1 | 0.5 | 0.0 | 0.2 |
| 10 | Asset turnover ratio (sales and services / assets) | 0.41 | 0.42 | 0.36 | 0.26 | 0.29 |
| 11 | Return on tangible assets, per cent (net profit / average value of tangible assets) *100 | 4.9 | 3.7 | 0.6 | 0.0 | 0.3 |
| 12 | Debt ratio (liabilities /assets) | 0.39 | 0.38 | 0.41 | 0.44 | 0.49 |
| 13 | Debt-to-equity ratio (liabilities / equity) | 0.6 | 0.6 | 0.7 | 0.8 | 1.0 |
| 14 | General liquidity ratio (short-term assets / short-term liabilities) | 1.48 | 1.65 | 1.07 | 0.91 | 1.36 |
| 15 | Quick ratio ((short-term assets-inventory) / short-term liabilities) | 1.38 | 1.54 | 0.95 | 0.80 | 1.27 |
| 16 | Cash ratio (cash in hand and at bank / short-term liabilities) | 0.51 | 0.62 | 0.14 | 0.14 | 0.17 |
| 17 | Net earnings per share (net profit / average weighted number of shares in issue) | 0.14 | 0.10 | 0.02 | 0.02 | 0.01 |
| 18 | Equity per share, euros | 2.08 | 2.11 | 2.1 | 2.1 | 2.11 |
| 19 | Last share market price of the year / net profit / number of shares at year-end (P / E ratio) | 8.35 | 9.70 | 57.3 | 619.5 | 103.49 |
| 20 | Share capital, thousand euros | 74,476 | 74,476 | 74,476 | 74,476 | 74,476 |
| 21 | Share capital-to-assets ratio | 0.51 | 0.51 | 0.49 | 0.46 | 0.42 |
| 22 | Return on equity (capital), per cent (net profit / capital and reserves) *100 | 7.8 | 5.4 | 0.9 | 0.1 | 0.5 |
| 23 | Dividend pay-out ratio (dividend per share / earnings per share) | 0.56 | 0.25 | 0.0 | 0.0 | |

The more detailed analysis of financial indicators of the Group and the Company is provided in the Consolidated and Company's financial statements for the year 2021.

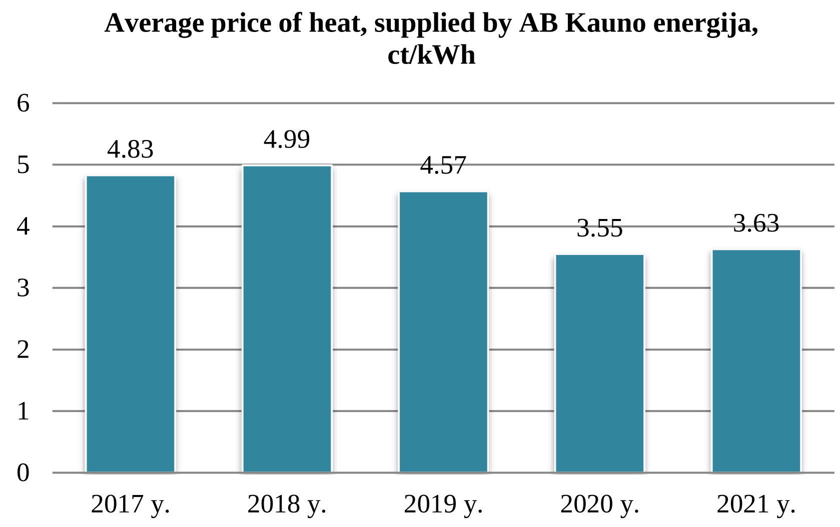
**Environmental impact on operations**

The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher of lower outdoor temperature during the heating season, changes in fuel prices, heat purchase price from IHP.

Company's reconstructed heat production facilities changing fossil fuel to biofuel will make a serious competition with their costs of production to IHP, operating in Kaunas.

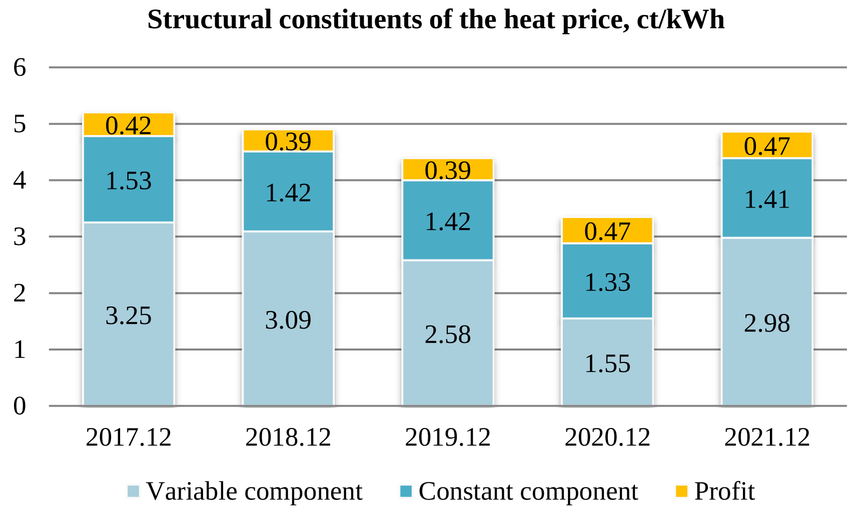
The dynamics of heat price of the Company in the years 2017–2021 is provided in Chart 6.

*Chart 6*




Constituents of Company's heat price structure of December of the years 2017–2021 are provided in Chart 7.

*Chart 7*

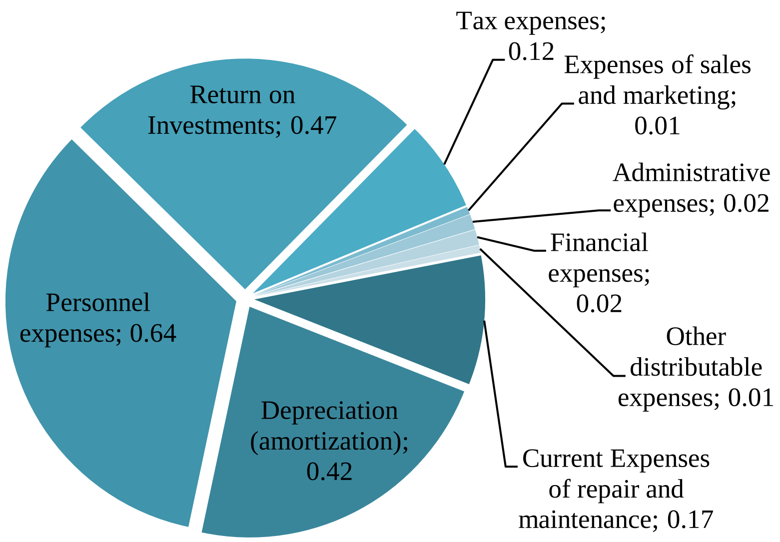



The prices of heat and hot water are calculated and approved in accordance with the Methodology for the determination of heat prices, approved by the resolution of NERC No. O3-96 of July 8, 2009. Constituents of a base heat price are determined for a period of 3-5 years. In the case of regulated pricing services (products), the mechanism of long-term prices applies to heat pricing, i.e., for the base period, the base heat price (price constituents) is determined, which is adjusted for the second and subsequent years by setting the recalculated heat price (price constituents).

On September 25, 2020 the NERC determined unilaterally by the Resolution No. O3E-880 the heat price constituents of AB Kauno Energija for the second year of validity of the basic heat price. The constant constituent of the heat price, valid until October 30, 2020 amounted to 1.81 ct/kWh, and the new constant constituent that entered into force from November 1, 2020 and is currently in force is 1.88 ct/kWh.

*Chart 8*

**Heat price constant constituent, euro ct/kWh**

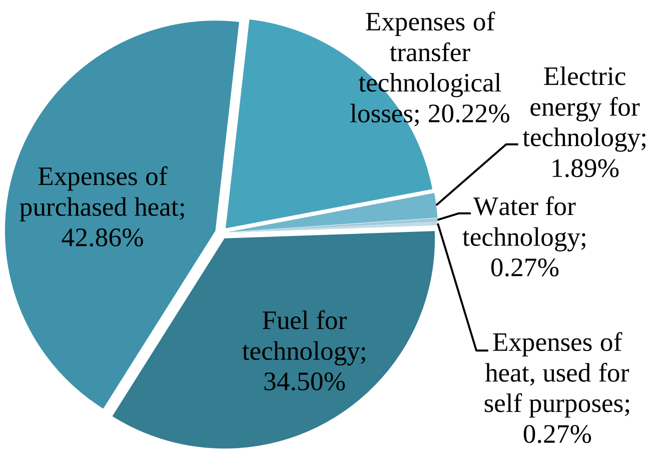



The Company recalculates values of heat price variable constituents and final heat prices every month, considering changes in prices of fuel and purchased heat.

Details of variable heat price constituent valid on December 2021 are provided in Chart 9.

*Chart 9*

**Heat price variable constituent in December 2021, per cent**




## Information related to environmental issues

In carrying out their activities, the Group and the Company seek to prudently use natural resources, install fewer polluting technologies, and follow the environmental legislation and apply preventive measures to minimize the negative impact on the environment.

**Waste management**

The Group and the Company have organized the waste collection, sorting, and disposal of them to waste managers, i.e., to licensed waste management businesses. In 2021, the Group and the Company disposed for recycling 2,528 tons of various waste (absorbents, filter materials, packages containing hazardous chemicals or that are contaminated with them, paper and carton, insulation materials containing asbestos, used tyres, bituminous mixes, batteries and accumulators, fluorescent lamps, concrete, bottom ash, iron, and steel.

**Wastewater management**

In accordance with the schedule agreed with the Environmental Protection Agency (EPA), the Group and the Company constantly monitor that the effluent discharges from stationary sources are within the permissible limits set out in the integrated pollution prevention and control permits.

**Air pollution**

The measurement laboratory of stationary air pollution sources of the Group and the Company, in possession with the permit issued by the EPA and following the schedule agreed with EPA, continuously monitors the emissions to the atmosphere from stationary sources to would not exceed the permissible limits established in integrated pollution prevention and control permits. Company's Šilkas, Ežerėlis, Girionys and Noreikiškės boiler-houses, and starting from 2015 – Inkaras boiler-house and Petrašiūnai power-plant use biofuel, thus reducing atmospheric pollution.
The comparison of the amount of pollutants emitted into the atmosphere in 2021 from the Company's stationary facilities with the amount of the years 2017–2020 is presented in table 3 below.

*Table 3*

| Period | Particulates, t | Nitrogen oxides, t | Carbon monoxide, t | Sulphur dioxide, t | Hydrocarbons, t | Other pollutants, t |
|---|---|---|---|---|---|---|
| 2021 | 72.9579 | 196.5479 | 781.2462 | 158.4375 | 1.2315 | 0.2966 |
| 2020 | 98.6841 | 217.8864 | 884.9974 | 102.9845 | 1.1430 | 0.2801 |
| 2019 | 86.0888 | 253.4443 | 1090.2436 | 0.2746 | 1.1978 | 0.4313 |
| 2018 | 48.7984 | 283.0412 | 1082.9366 | 31.6210 | 1.1982 | 0.1509 |
| 2017 | 79.7242 | 285.6461 | 1236.7667 | 145.0571 | 1.1982 | 0.4297 |

Cyclones for smoke cleaning from particulates are installed in Šilkas, Ežerėlis, Girionys, Noreikiškės, Inkaras boiler-houses and Petrašiūnai power-plant. Their working efficiency is checked every year. The Company is involved in the greenhouse gas emissions trading system.

## 8. References and additional explanations

Main financial data of the Group and the Company are provided in the Consolidated and Company's Financial Statements of AB Kauno Energija for the year 2021.

The financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and their interpretations. Standards have been issued by the International Accounting Standards Board and interpretations have been issued by the International Financial Reporting Interpretations Committee.

**Internal control over consolidated statements**

When preparing its consolidated financial statements, the Company combines the itemised financial statements of the Company and its subsidiaries, by summing up the items of assets, liabilities, equity, revenue, and expenses. Afterwards, it eliminates the book value of the Company's investment in the subsidiary and Company's share of equity in the subsidiary; amounts on balance sheets, transactions, income and expenses inside the Group (for this purpose, it prepares a reconciled report of all transactions, income and expenses for the period); difference in depreciation of contribution in kind measured at market value as compared to its book value.

For composing of the consolidated financial statements of the Group, the financial statements of the Company and subsidiaries are composed for the same date.

It's controlled if the accounting policy of the Company and its subsidiaries for accounting of similar transactions is the same. The subsidiaries' income and expenses are included into the Consolidated Financial Statements as of the date of acquisition.

# 9. Significant events after the end of the reporting period

On 2021-11-26, the Board of AB Kauno energija, which performs the functions of the sole shareholder of AB Petrašiūnų katilinė, adopted a decision to approve the reorganisation of the limited lability company Petrašiūnų katilinė by way of merger, by merging the limited lability company Petrašiūnų katilinė (company code 304217723), which after the reorganisation will cease its as a legal entity, to the limited lability company Kauno energija (company code 235014830), which is participating in the reorganisation.

On 2 March 2022, the reorganisation process was completed, AB Petrašiūnų katilinė was deregistered and merged with the Company.

On April 6, 2022 the audit of the set of Financial Statements for 2021 has been completed. It was performed by audit company UAB ROSK Consulting. A candidacy of the company performing audit of the Financial Statements of the Company for 2021 was nominated to the General Meeting of Shareholders by the Management Board of the company following the results of the procurement carried out in 2021. This Annual Report of the Company is presented together with the audited set of Financial Statements for 2021 and an independent auditor's report on it. The Company's management approved these financial statements on 6 April 2022. The Company's shareholders have a statutory right to approve these financial statements or disapprove them and require the management to draft new financial statements.

# 10. Plans and forecasts of activities of the group of companies

Inasmuch investments allow continual business development and profitability, the aims of the Group's and the Company's investment program for the year 2021 is further increase in volumes of heat production and effectiveness, expansion of heat selling market, through increase of use of biofuel for heat production, development of heat transmission and distribution increasing safety and reliability, developing services of maintenance of engineering systems and further improvement of consumers services quality.

In compliance with the provisions of the plan for the facilities on the implementation of the National Renewable Energy Development Strategy, in order to implement the Company's key business objectives and the provisions of the National Energy Independence Strategy related to the assurance of technical requirements for reliability of heat facilities and heat supply networks, to guarantee the quality keeps apply to consumers, Kaunas city municipality decided to approve Company's investment plans with the decision No. T-162 "Regarding Investment Plans of AB Kauno Energija for the Year 2021 and Their Financing" on April 20, 2021.

In 2021 the implementation of Company's investment program will involve further modernization of boiler-houses owned by the Company automating the production process and installing condensational economizers; reconstruction of heat networks; replacement of heat meters. It's important to notice, that implementation of these measures will allow to reduce losses of heat transmission and to perform optimization of heat supply to the consumers and to ensure heat supplies reliability.

## 11. Information on research and development activities

In September 2021 the Company performs its rebranding. The new Company's brand is associated with constant movement, which requires constant, never-ending energy. The circles on the new sign symbolize the Perpetuum mobile model, known to many, in which a side ball, when it strikes the inside, transfers the energy of motion to another side ball. And so, it goes on constantly.

The new Company's brand is this:

KAUNO ENERGIJA

Company's representatives are constantly invited to work in committees of preparation of Energy Engineering studies programs of Kaunas University of Technology and in groups of external and self-evaluation. Working in these groups and committees Company's representatives analyse aims of programs and goals of studies, composition of training plans, appropriateness of staff, material basis, process, and evaluation of studies, as well as program management. Performing external and self-evaluation, committees apply recommendations for improvement of program structures and implementation process, to satisfy the needs of employers and to meet the requirements of national and European legal acts in the field of higher education.

The Company together with the Lithuanian Energy Institute took part in READY project ("Resource efficient cities implementing advanced smart city solutions") supported by European Commission. 23 companies from Denmark, Sweden, Austria, France, and Lithuania took part in it. Project is finished in 2021. Experiences in implementing the latest energy efficiency measures were shared among participants pf the project.

Starting from 2018 the Company together with 9 more European companies and research institutions and with the Innovation and Network Program Institution (INEA), which manages infrastructure and research programs in the EU transport, energy and telecommunications sectors, takes part in the international research project "Flexible combined heat and power generation from renewable energy sources" (FLEXCHX). The essence of the project is to ensure biomass power-plants to work in a full load the whole year. The goal of the project is to create a flexible energy production process, which could be used in various Europe's energy production facilities in the future, using high effectiveness at the minimal expenditures.

On January 15, 2019 the European Commission has proposed EUR 1.66 million support for project No. 847056 "Residential Building Energy Renovations with On-Bill Financing" (Ren-on-Bill). The application for financing of the project was submitted under the Horizon 2020 program. The Company participates in the project as a partner with 8 other companies from Lithuania, Italy, Germany, Belgium, and Spain. The project is coordinated by Creara Consultores SL (Spain). EUR 71.5 thousand of EU support is allocated for the Company. The aim of the Ren-on-Bill project is to increase investment in residential renovation by promoting the use of OBF (On-Bill Financing) utility schemes based on cooperation between energy suppliers and financial institutions.

The Company, which supplies district heating to Kaunas, responding to the changes of the warming climate, enters a new district cooling market, which is still poorly tested in Lithuania. District cooling is the production and supply of district cooling by converting heat energy into cool and using the existing district heating infrastructure. One of the latest technologies to produce cooling from heat is absorption heat pumps. During a rather sophisticated technological process in them, heat energy is converted into cool, which is supplied to the premises by other devices. One of such absorption heat pumps was also acquired by the Company.

The first project of the Company entering the cooling supply market is two refrigerating machines with a total power of 1576 kW, which will supply the Mokslo Sala science museum, being built on the island of Nemunas in Kaunas, with cooling facilities. The coolness of the Mokslo Sala island, with an area of 11.5 thousand square meters, will be produced by absorption heat pumps. This innovative technology, which is still in its infancy in Lithuania, converts the heat energy from the heat network's cogeneration water into cooling through a rather complex technological process. An important factor is that absorption-type machines do not use greenhouse gases.

## 12. Information on own shares acquired and held by the Issuer

The Company does not hold the shares of its own. The Company's subsidiaries have not purchased any of the Company's shares. Neither the Company nor its subsidiaries purchased or sold own shares during the reporting period.

## 13. Information on the aims of financial risk management, hedging instruments in use

All relevant information on this issue is provided in Explanatory Notes to the Consolidated Financial Statements for the year 2021 of AB Kauno Energija.

## 14. Information on the Issuer's subsidiary undertakings

The name of Company's subsidiary UAB Kauno Energija NT was changed by the decision of company's shareholders. Starting from August 19, 2020 the name of the company is UAB GO Energy LT. Other details of the company remain unchanged, all concluded contracts remain valid.

The authorised capital of UAB GO Energy LT registered in the Register of Legal Entities on June 30, 2021 is 2,762,958 euros and it is divided into 95,406 ordinary registered shares with par value of 28.96 euros each.

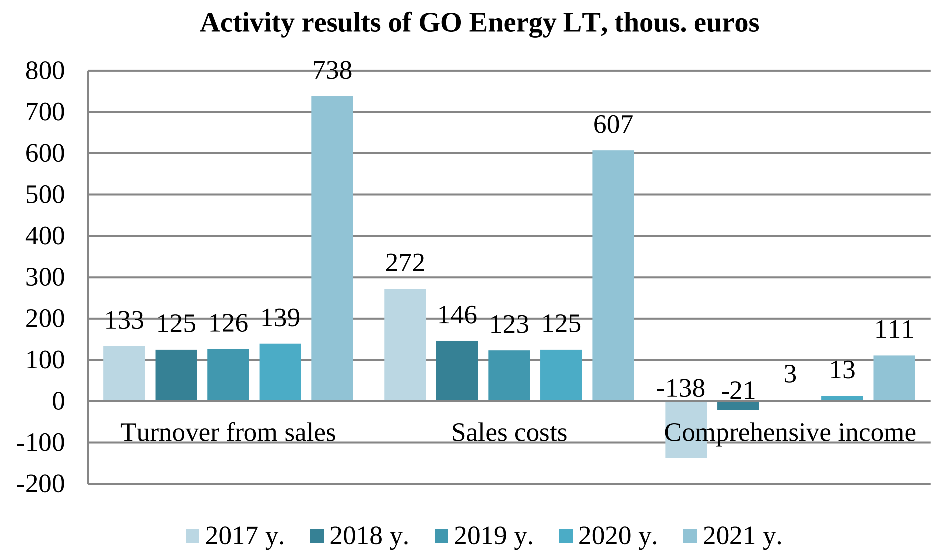
UAB GO Energy LT has no holdings directly or indirectly managed in other companies.

Activities of UAB GO Energy LT include the real estate development, management, leases, purchase, and sale.

As of December 31, 2021, company UAB GO Energy LT had 23 employees.

Comparison of financial indicators of UAB GO Energy LT of the year 2021 with the indicators of the years 2017–2020 is provided in Chart 10.

*Chart 10*




Authorized capital of AB Petrašiūnų Katilinė registered at the Register of Legal Entities as of December 31, 2021 is EUR 231,696 and it is divided to 800 ordinary registered shares at par value of EUR 289.62 each.

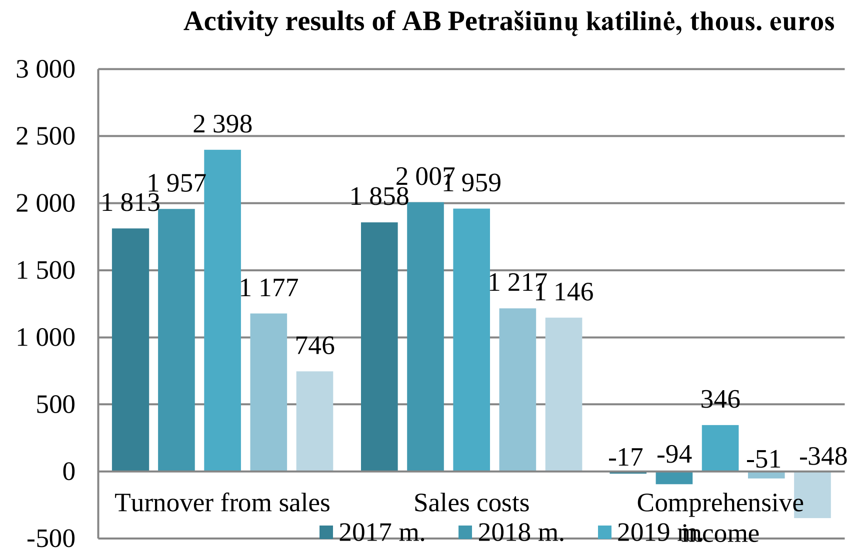
AB Petrašiūnų katilinė holds no shares directly or indirectly managed in other companies.

Activities of AB Petrašiūnų Katilinė include production of heat.

AB Petrašiūnų Katilinė had 6 employees as of December 31, 2021.

Comparison of financial indicators of AB Petrašiūnų Katilinė of the year 2021 with the indicators of the years 2017–2020 is provided in Chart 11.

*Chart 11*




## 15. Structure of authorized capital

The authorised capital of the Company registered in the Register of Legal Entities of the Republic of Lithuania as of December 31, 2021 is EUR 74,475,728.82 (seventy-four million four hundred seventy-five thousand seven hundred twenty-eight euros and 82 cents).

Structure of authorized share capital of the Issuer by types of shares is specified in Table 4.

*Table 4*

| Type of shares | Number of shares, units | Nominal value, euros | Total nominal value, euros | Municipal share in the authorised capital, per cent | Share of private shareholders in the authorised capital, per cent |
|---|---|---|---|---|---|
| Ordinary nominal shares | 42,802,143 | 1.74 | 74,475,728.82 | 98.33 | 1.67 |

# 16. Data on shares issued by the Issuer

The authorised capital of AB Kauno Energija was registered on May 18, 2015 by the decision of General Meeting of Shareholders held on April 28, 2015 and amounts to EUR 74,475,728.82 (seventy-four million four hundred seventy-five thousand seven hundred twenty-eight euros and 82 cents) and it is divided to 42,802,143 (forty-two million eight hundred and two thousand one hundred forty-three) ordinary shares of par value of 1.74 euros each.

There are no limitations on the transfer of securities.

**Main characteristics of shares released into free circulation of securities (as of December 31, 2021).**

| | |
|---|---|
| Securities registration No | A01031430 |
| ISON code of securities | LT0000123010 |
| Number of shares | 20 031 977 ordinary nominal shares |
| Nominal value | EUR 1.74 |
| Total nominal value of shares | EUR 34,855,639.98 |

**Main characteristics of shares issued and registered for non-public trading (as of December 31, 2021).**

| | |
|---|---|
| ISON code of securities | LT0000128407 |
| Number of shares | 22,770,166 ordinary nominal shares |
| Nominal value | EUR 1.74 |
| Total nominal value of shares | EUR 39,620,088.84 |

History of trade in Company’s securities in the years 2017–2021 is provided in Table 5.

*Table 5*

| Indicator | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Opening price, euro | 0.592 | 1.18 | 1.01 | 0.98 | 0.82 |
| Highest price, euro | 1.180 | 1.24 | 1.32 | 1.03 | 1.19 |
| Lowest price, euro | 0.571 | 1 | 0.905 | 0.77 | 0.80 |
| Last price, euro | 1.180 | 1 | 0.98 | 0.925 | 1.11 |
| Circulation, units | 229,220 | 147,516 | 40,868 | 89,524 | 149,664 |
| Circulation, million euro | 0.19 | 0.16 | 0.04 | 0.07 | 0.15 |

Historical data on share prices (in euro) and turnovers in the years 2017 – 2021 is provided in Chart 12.

*Chart 12*


Comparison of Company's share price with the index of own sector (utility services) and OMX Vilnius index is given in Chart 13.

*Chart 13*


| INDEX \| EQUITY | OPENING VALUE | CLOSING VALUE | CHANGE % |
|---|---|---|---|
| OMX_Baltic_Benchmark_GI | 1,104.74 | 1,568.82 | +42.01 |
| OMX_Baltic_10 | 235.88 | 319.37 | +35.4 |
| OMX Vilnius_GI | 816.64 | 966.13 | +18.31 |
| KNR1L - Kauno energija | 0.82 | 1.11 | +34.55 |

## 17. Information on the Issuer's shareholders

The number of Company's shareholders as of December 31, 2021 was 630.

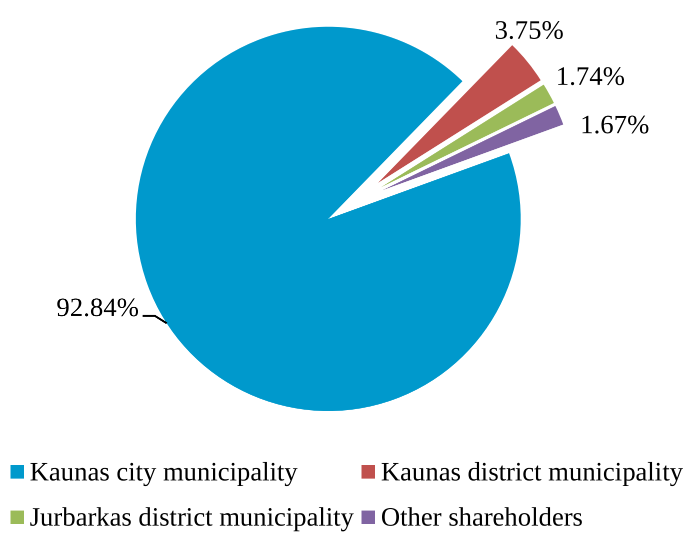
Information on Shareholders of the Issuer who owned more than 5 per cent of the authorised capital of the Company registered on May 18, 2015 (42,802,143 ordinary nominal shares) as of December 31, 2021 is provided in Table 6 and Chart 14.

*Table 6*

| Full name of shareholder (company name, type, headquartered dress, code) | Number of ordinary nominal shares owned by the shareholder, units | Owned share in the authorised capital, per cent | Share of votes carried by owned shares. per cent | Share of votes owned by the shareholder together with acting entities, per cent |
|---|---|---|---|---|
| Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319 | 39,736,058 | 92.84 | 92.84 | - |
| Other shareholders | 3,066,085 | 7.16 | 7.16 | - |
| Total: | 42,802,143 | 100 | 100 | - |

*Chart 14*

**Structure of shareholders as of December 31, 2021**




The distribution of the Company's shareholders by groups at the end of the reporting period is presented in Table 7.

*Table 7*

| Group | Number of shares owned by the group, pcs. | Available share of the authorized capital, per cent of the total number of shares |
|---|---|---|
| Local authorities | 42 088 631 | 98.33 |
| Households | 500 720 | 1.17 |
| Other shareholders | 212 792 | 0.50 |
| Total | 42 802 143 | 100 |

17.1. The shareholders, who owned more than 5 per cent of the shares (20,031,977 ORS) issued for public trading (reg. No. A01031430, VP ISIN code – LT0000123010) as of December 31, 2021 are listed in Table 8.

*Table 8*

| Name | Type of shares | Number of shares, units | Total nominal value of shares, euros | Percentage of shares from those released into the public circulation | Share of the authorised capital (%) |
|---|---|---|---|---|---|
| Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319 | Ordinary registered shares | 16,965,892 | 29,520,652 | 84.69 | 39.64 |
| Kaunas District Municipality Savanorių pr. 371, 49500 Kaunas, Code 111100622 | Ordinary registered shares | 1,606,168 | 2,794,732 | 8.02 | 3.75 |
| Other shareholders | Ordinary registered shares | 1,459,917 | 2,540,256 | 7.29 | 3.41 |
| Total: | | 20,031,977 | 34,855,640 | 100 | 46.80 |

17.2. The shareholders, who owned more than 5 per cent of the shares (22,770,166 ORS) issued for non-public trading (VP ISIN code – LT0000128407) as of December 31, 2021 are listed in Table 9.

*Table 9*

| Name | Type of shares | Number of shares, units | Total nominal value of shares, Euro | Percentage of shares from those released into the public circulation | Share of the authorised capital (%) |
|---|---|---|---|---|---|
| Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319 | Ordinary registered shares | 22,770,166 | 39,620,089 | 100 | 53.20 |

None of the shareholders of the Issuer holds any special rights of control. The rights of all shareholders are the same; they are specified in article 4 of the Law on Companies of the Republic of Lithuania. The number of shares carrying votes at the General Meeting of Shareholders of the Company is 42,802,143 units.

The Company has not been notified on the limitations of voting rights or any other mutual agreements of shareholders which may limit the transfer of securities and / or voting rights.

In 2017, the dividends from the profit of the year 2016 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.106 euro, in total – 4.537 million euro. The profit was allocated to the statutory reserve, other reserves, and bonuses for employees. A total of 0.1 million euros was allocated for sponsorship.

In 2018, the dividends from the profit of the year 2017 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.078 euro, in total – 3.339 million euro. The profit was allocated to the statutory reserve, other reserves, and bonuses for employees. A total of 0.1 million euros was allocated for sponsorship.

In 2019, the dividends from the profit of the year 2018 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.025 euro, in total – 1.070 million euro. The profit was allocated to the statutory reserve, other reserves, and bonuses for employees. A total of 0.05 million euros was allocated for sponsorship.

In 2020, no dividends from the profit of 2019 were allocated and paid to the Issuer's shareholders.

In 2021, no dividends from the profit of 2020 were allocated and paid to the Issuer's shareholders.

## 18. Employees

379 employees were employed in the Group as of December 31, 2021. Changes in the number of employees of the Group in year 2017 – 2021 are provided in Table 10.

*Table 10*

| Actual number of employees | Group 31/12/2017 | Group 31/12/2018 | Group 31/12/2019 | Group 31/12/2020 | Group 31/12/2021 |
|---|---|---|---|---|---|
| Total: | 513 | 441 | 402 | 365 | 379 |
| management | 6 | 3 | 3 | 3 | 3 |
| specialists | 272 | 238 | 214 | 203 | 212 |
| workers | 235 | 200 | 185 | 159 | 164 |

Changes in number of employees of the Company in year 2017 – 2021 are provided in Table 11.

*Table 11*

| Actual number of employees | Company 31/12/2017 | Company 31/12/2018 | Company 31/12/2019 | Company 31/12/2020 | Company 31/12/2021 |
|---|---|---|---|---|---|
| Total: | 501 | 427 | 389 | 354 | 350 |
| management | 4 | 1 | 1 | 1 | 1 |
| specialists | 269 | 234 | 210 | 200 | 197 |
| workers | 228 | 192 | 178 | 153 | 152 |

Education of employees of the Group as at the end of the reporting period.

*Table 12*

| No | Education | Group 31/12/2017 | Group 31/12/2018 | Group 31/12/2019 | Group 31/12/2020 | Group 31/12/2021 |
|---|---|---|---|---|---|---|
| 1 | Secondary incomplete | 5 | 3 | 3 | 1 | 1 |
| 2 | Secondary | 185 | 156 | 139 | 124 | 176 |
| 3 | College | 75 | 62 | 59 | 49 | 38 |
| 4 | Higher | 248 | 220 | 201 | 191 | 164 |
| | Total: | 513 | 441 | 402 | 365 | 379 |

Education of employees of the Company as at the end of the reporting period.

*Table 13*

| No | Education | Company 31/12/2017 | Company 31/12/2018 | Company 31/12/2020 | Company 31/12/2020 | Company 31/12/2021 |
|---|---|---|---|---|---|---|
| 1 | Secondary incomplete | 5 | 3 | 3 | 1 | 1 |
| 2 | Secondary | 181 | 151 | 135 | 121 | 156 |
| 3 | College | 73 | 60 | 57 | 47 | 38 |
| 4 | Higher | 242 | 213 | 194 | 185 | 155 |
| | Total: | 501 | 427 | 389 | 354 | 350 |

Company's management pays a lot of attention on increase in work efficiency, working conditions improvement, supply with latest working tools, professional development, planning of internal activities and control implementation, also for improvement of consumer service quality. Executive and professional qualification levels suit their positions, and work experience and practical knowledge of subject of other employees makes them possible to work in their positions. Staff turnover in the Group and the Company is inconsiderable.

To increase work efficiency, the Company conducts an annual work performance evaluation of structural units' managers, the main goal of which is to evaluate the employee's qualifications and abilities of functions performance assigned in job regulations, to properly evaluate employees' activities, provide feedback on the goals execution in order to increase employee loyalty, satisfaction with conducted work, encouraging them to improve. The result of this process is information allowing better coordination of the Company's activities and for encouraging employees to improve their working activities.

The Company actively cooperates with educational institutions and enables high school students to apply theoretical knowledge and gain practical skills. When there is a need for new employees, the most active and best students are given the opportunity to get a job in the Company.

The salary of employees of the Issuer consists of the constant part of salary, variable part of salary, benefits and allocations paid according to the Labour Code of the Republic of Lithuania and other laws, Collective agreement of the Company, and bonuses. Bonuses are paid from net profit, if the General Meeting of Shareholders allocates part of the profit for the bonuses of the Company employees.

8. The collective agreement provides for special rights and obligations of the issuer's employees or part of them. In accordance with the Company's new Collective agreement effective from 1 January 2019 and subsequent amendments thereto:

1. For continuous employment within the Company employees are granted additional paid leave.
2. The record of service of employees who worked in Lithuanian energy system companies and who were redeployed to the Company according to the corporate employer agreement, i.e., when the transfer was carried

out according to the Labour Code or the Law on Employment Contract, is considered uninterrupted and those employees are granted an additional paid leave for an uninterrupted record of service within the Company.

3. At the agreement of the employer and employee, the employee may be granted unpaid leave for family related issues and other important reasons.

4. Company's employees are entitled to additional paid leave.

The employer obligates:

1. To ensure the conditions of preventive health check and, if necessary, to provide free health services at the Company's occupational health unit.

2. In the event of the death of an employee, the Company grants a benefit in the amount of 4 minimum monthly salaries of the Republic of Lithuania (hereinafter referred to as the MMS), free transport, or covers transport costs (the benefit is granted to the person burying the deceased);

3. In the event of the death of the employee's close relative (parent (adoptive parent), child (adoptive child) or spouse), the Company grants the employee an MMS benefit, free transport or covers transport costs;

4. In the event of the birth of one or more children, the Company grants the employee a gift in the amount of 50 per cent MMS for each child;

5. Upon registration of the marriage, the employee is granted a gift in the amount of 50 per cent MMS;

6. A cash gift of EUR 50 is granted when an employee reaches the age of 25, 35, 45, 55, 65, and a cash gift of EUR 100 when the employee reaches the age of 20, 30, 40, 50, 60, 70;

7. In other cases, when the employee needs financial support (in case of losses due to natural disasters and other reasons beyond the control of the employee), the Company grants a benefit of up to 3 MMS;

8. In the event of a serious illness or accident, a benefit of up to 5 MMS is granted. The sickness benefit is paid once a year (within 12 months).

## 19. Procedure for amending the Issuer's Statutes

The Statutes of the Issuer say that the General Meeting of Shareholders of the Company has the exceptional right to amend the Statutes other than the exceptions provided in the Law on Companies of the Republic of Lithuania. The resolution on the amendment of the Company's Statutes 2/3 qualified majority of votes of the members participating in the meeting of shareholders is needed.

The Statutes of the Company were amended on October 22, 2020 by the decision of the General Meeting of Shareholders. The new wording of the Statutes was registered on November 25, 2020 in the Register of Legal Entities of the Republic of Lithuania. It can be found on Company's website at www.kaunoenergija.lt.

## 20. Issuer's management bodies

According to the Statutes of the Company, the management bodies of the Company include the General Meeting of Shareholders, a collegial management body – the Supervisory Board, a collegial management body – the Management Board, and a sole management body – General Manager.


Decisions of the General Meeting of Shareholders made on the issues within the competence of the General Meeting of Shareholders provided for in the Statutes of the Company are binding to its shareholders, the Supervisory Board, the Management Board, and the General Director, and to other employees of the Company.

All persons who are the shareholders of the Company on the date of the General Meeting of Shareholders have the right to attend the Company's General Meeting of Shareholders personally or by proxy or be represented by persons with whom they had entered into the agreement on the transfer of the voting right. The record date of the meeting of the Company is the fifth working day before the General Meeting of Shareholders or the fifth working day before the repeat General Meeting of Shareholders. A person attending the General Meeting and entitled to vote shall provide a document which is a proof of his personal identity and sign the registration list of the Meeting of Shareholders. A person who is not a shareholder shall additionally provide a document attesting to his right to vote at the General Meeting of Shareholders.

3 (three) General Meeting of Shareholders was convoked in the year 2021. Company's General Manager and the Chief Finance Officer attended it. Issuers' shareholders can ask questions and can get answers or explanations from Company's managers and speakers.

The collegial management body – Supervisory Board is elected by the General Meeting of Shareholders according to the procedure specified in the Law on Companies of the Republic of Lithuania. The Supervisory Board consists of 7 (seven) members. The Supervisory Board is elected for a term of 4 (four) years. The Supervisory Board elects the chairman of the Supervisory Board from among its members. The General Meeting of shareholders may remove from office the entire Supervisory Board or its individual members before the expiry of the term of office of the Supervisory Board. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

The Supervisory Board elects and dismisses the Management Board members and supervises the activities of the Board and the General manager of the Company; submits its comments and proposals to the General Meeting of Shareholders on the Company's operating strategy, set of annual financial statements, draft of profit / loss allocation and the annual report of the Company as well as the activities of the Board and the General Manager of the Company; submits proposals to the Board and the General Manager of the Company to revoke their decisions which are in conflict with laws and other legal acts, the statutes of the Company or decisions of the General Meeting of Shareholders; addresses other issues assigned to the scope of powers of the Supervisory Board by decisions of the General Meeting of Shareholders regarding the supervision of the activities of the Company and its management bodies. The Supervisory Board shall not be entitled to assign or delegate the functions assigned to the scope of its powers by the Law on Companies of the Republic of Lithuania and the statutes of the Company to other bodies of the Company.

The Supervisory Board, following the resolution No. 1K-18 of August 21, 2008 of the Securities Commission of the Republic of Lithuania "Regarding The Requirements For Audit Committees", as well as "Guidelines For The Application Of Requirements For Audit Committees" which were approved by the decision of the Securities Commission of November 28, 2008 approves the internal rules of procedure for forming the Audit Committee and elects the Audit Committee members.

The Supervisory Board of the Company approved on May 21, 2019 a new wording of the internal rules of procedure of the Audit Committee of the Company.

The Management Board is a collegial management body of the Company. The Management Board is comprised of 5 (five) members. The Management Board is elected for the period of 4 (four) years by the Supervisory Board. The Supervisory Board can remove from office the entire Management Board *incorpore* or its individual members before the expiry of their term. If individual members of the Management Board are elected, they shall serve only until the expiry of the term of office of the current Management Board. The Management Board elects the chairman of the management Board from among its members.

The General Manager is the manager of the Company. The manager of the Company is a sole person management body of the Company organising its activities. Authority and responsibilities of the administration members of the Company are established by the order of the General Manager.

## 20.1. Data on the committees in the Company

The members of Audit Committee appointed by the decision No. 2019-4 of the Supervisory Board of May 21, 2019:

| Full name | Position | Beginning of term | End of term* |
|---|---|---|---|
| Mr. Mindaugas Šimkus | Independent member of Audit Committee | May 21, 2019 | April 26, 2023 |

| Full name | Position | Beginning of term | End of term* |
|---|---|---|---|
| Mr. Artūras Aladaitis | Member of Audit Committee | December 6, 2019 | February 23, 2022 |
| Ms. Violeta Kavaliauskienė | Independent member of Audit Committee | November 25, 2021 | April 26, 2023 |

** The term of office of the Audit Committee coincides with the term of office of the Supervisory Board of the Company.*

In carrying out its activities, the Audit Committee follows the internal rules of procedure of the Company's Audit Committee approved by decision No 2019-4 of May 21, 2019 of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. The Audit Committee performed the monitoring of the process of financial statements audit performed by independent auditor in the year 2021.

### 20.2. Information on the members of the Company's Supervisory Board:

Members of the Supervisory Board of the Company as of December 31, 2021:

| Full name | Position | Beginning of term | End of term |
|---|---|---|---|
| Mr. Antanas Etneris | Chairman of the Supervisory Board | April 26, 2019 | April 26, 2023 |
| Mrs. Rūta Šimkaitytė - Kudarauskienė | Deputy chairman of the Supervisory Board | April 2, 2020 | April 26, 2023 |
| Mr. Konstantinas Pesenka | Member of the Supervisory Board | April 26, 2019 | April 26, 2023 |
| Mr. Mindaugas Šimkus | Member of the Supervisory Board | April 26, 2019 | April 26, 2023 |
| Mr. Saulius Lazauskas | Member of the Supervisory Board | April 2, 2020 | April 26, 2023 |
| Mr. Justas Limanauskas | Member of the Supervisory Board | April 2, 2020 | April 26, 2023 |

Company's Supervisory Board comprised of five independent members and of one member of Kaunas City Municipality administration, as he partially represents the controlling shareholder, i.e., Kaunas City Municipality, holding 92.84 per cent of the Company's voting shares.

2 session of the Supervisory Board was held during the year 2021. More than ½ of the members of the Supervisory Board attended the session.

**Mr. Antanas Etneris**

Mr Antanas Etneris, director of UAB Wisewood (code 302527538, Ringuvos str. 74, LT-45245 Kaunas), director of UAB Mana Grupė (code 303991865, Kruonio str. 16, Kaunas), director of UAB Airhotel (code 302598948, Oro Uosto str. 2, Karmėlava, LT-54460 Kaunas distr.), member of the Board of UAB Stoties Turgus, member of the Board of UAB Kauno Vandenys.
Holds no shares of the company. Hodls the shares of the companies UAB Wisewood, UAB Mana Ranga, UAB Mana Grupė, UAB Airhotel, UAB Dramart, UAB Ukraineičių 4, UAB Vėjo Dukra, UAB Plėtros Fondas, UAB Aguonų Projektai, UAB My Group.

**Mrs. Rūta Šimkaitytė-Kudarauskienė**

Head of the Legal and Consulting Department of Kaunas City Municipality (company code 111106319, Laisvės av. 96, LT-44251 Kaunas); Director of UAB Centrinis Knygynas (company code 133607044, Laisvės av. 81, LT-44297 Kaunas).
Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

**Mr. Saulius Lazauskas**

General Director of UAB Kauno Švara (company code 132616649, Statybininkų str. 3, LT-50124 Kaunas), Member of the Board of UAB Kauno Vandenys, Member of the Board of PI Kaunas Region Waste Management Centre".
Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

**Mr. Justas Limanauskas**

Director of the budgetary institution Parkavimas Kaune (company code 134929849, Puodžių str. 24-1, LT-44295 Kaunas); director of the budgetary institution "S. Dariaus and S. Girėno Aerodromas" (company code 135087311, Veiverių str. 132, LT-46337 Kaunas).
Holds no shares of the company. No interest in the capital of other Lithuanian companies.

**Mr. Konstantinas Pesenka**

Member of the Management Board of UAB Windex Group (code 303522864, Draugystės str. 17-1, Kaunas), chairman of the Management Board of UAB Kauno Vandenys.
Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

**Mr. Mindaugas Šimkus**

Head of economics of UAB Vičiūnų Grupė (code 303211678, V. Krėvės av. 97, LT-50369 Kaunas), member of the Board of UAB Kauno Švara, member of the Board of UAB Kauno Vandenys.
Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

### 20.3. Information on the members of the Company's Management Board

Members of Company's Management Board as of December 31, 2021:

| Full name | Position | Beginning of term | End of term |
|---|---|---|---|
| Nerijus Mordas | Chairman of the Management Board | May 21, 2019 | May 21, 2023 |
| Paulius Keras | Deputy chairman of the Management Board | May 21, 2019 | May 21, 2023 |
| Algimantas Stasys Anužis | Member of the Management Board | May 21, 2019 | May 21, 2023 |
| Karolis Šiugžda | Member of the Management Board | May 21, 2019 | May 21, 2023 |
| Karolis Dekeris | Member of the Management Board | May 21, 2019 | December 31, 2021 |

24 sessions of Company's Management Board were held in the year 2021. More than 2/3 members of the Management Board attended all the sessions.

**Mr. Nerijus Mordas**

Chief finance officer of UAB Vičiūnų Grupė (code 303211678, V. Krėvės av. 97, LT-50369 Kaunas). Member of Company's Management Board from June 1, 2015.
Holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Nerijus Mordas charged EUR 20.4 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

**Mr. Paulius Keras**

Deputy Director of Kaunas city municipality (code 111106319, Laisvės av. 96, LT-44251 Kaunas). Member of the Management Board of the Company from May 21, 2019. Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Paulius Keras charged EUR 12.2 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

**Mr. Algimantas Stasys Anužis**

Member of the Council of Kaunas Chamber of Commerce, Industry and Crafts, president of Lithuanian Veterans Basketball League.

Member of Company's Management Board from June 1, 2015.

Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Algimantas Stasys Anužis charged EUR 12.2 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

**Mr. Karolis Šiugžda**

Lawyer of UAB Vičiūnų Grupė (code 303211678, V. Krėvės av. 97, LT-50369 Kaunas), lawyer of UAB Groward Group (code 302764932, V. Krėvės av. 97, LT-50369 Kaunas).

Member of Company's Management Board from May 21, 2019.

Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Karolis Šiugžda charged EUR 12.2 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

**Mr. Karolis Dekeris**

Marketing Director of UAB Kauno Autobusai (code 133154754, Raudondvario rd. 105, LT-47185 Kaunas).

Member of Company's Management Board from May 21, 2019 to December 31, 2021.

Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Karolis Šiugžda charged EUR 12.2 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

## 20.4. Information on the General Manager and Chief accountant of the Company:

**Mr. Tomas Garasimavičius**

General Director of the Company from March 30, 2020. Education - higher university, Vilnius University in 2003, Bachelor of Political Science, Vilnius University in 2005, Master of Political Science, Creighton University, USA 2005, Master of Political Science. Workplaces during the last 10 years and positions: Head of the Sustainable Energy Development Division of Energetikos Agentūra, PI (June 2010 – December 2012), Adviser to the Prime Minister of the Republic of Lithuania on Energy (December 2012 – December 2016), Member of the Supervisory Board of UAB Lietuvos Energija (July 2013 – July 2017), Member of the Nomination and Remuneration Committee of the Supervisory Board of UAB Lietuvos Energija (July 2013 –

July 2017), Member of the Risk Management Supervisory Committee of the Supervisory Board of UAB Lietuvos Energija (September 2013 – July 2017), Member of the Support Fund Council of UAB Lietuvos Energija (September 2014 – September 2017), Adviser to the Prime Minister of the Republic of Lithuania on Energy and the Environment (January 2017 – March 2018), Adviser to the Mayor of Kaunas city on Energy (June 2018 – March 2020).
Holds no shares of the Company. No interest in the capital of other companies.

**Mrs. Inga Šliačkuvienė**

Company's chief accountant from August 1, 2019 to December 23, 2021. Education – higher university, Kaunas University of Technology, Faculty of Economics and Management – Bachelor of Economics. Workplaces during the last 10 years and positions: Company's Senior Accountant (from August 2009), Deputy Chief Accountant of the Company (from May 2014).

**Rita Plančiūnienė**

Chief Accountant of the Company from 14 March 2021. Education – higher university degree, Vytautas Magnus University, Master's degree in Accounting and Finance. Workplaces in the last 10 years, and job positions: Chief Accountant at UAB Agrochema since 2011, Chief Economic and Financial Officer at UAB Agrochema since November 2013, Chief Financial Officer at UAB Agrochema plius since December 2018, Chief Financial Officer at UAB Doresta from April 2021 to March 2022.

Company's General Manager and the Chief Accountant charged 130.88 thousand euros of remuneration in the year 2021, and the average amount per member is 65.44 thousand euros. No other assets had been transferred; no guarantees granted.

## 21. Information on significant agreements

There are no significant agreements that would come into force, change or termination in case of change in controls of Issuer (their impact as well, except cases when due to the character of agreements the disclosure of them would make a significant harm).

## 22. Information on agreements of the Issuer and its managerial body members or employees

There are no agreements of the Issuer or its managerial body members or employees (which provide for compensation in case of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Issuer).

## 23. Information on major transactions with related parties

There were no larger individual transactions. More detailed information is provided in the Note 25 of the Explanatory Notes to the Financial Statements.

## 24. Information on harmful transactions concluded on behalf of the Issuer during the reporting period

There are no harmful transactions concluded on behalf of the Issuer during the reporting period (not complying with the 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 Issuer's activities and (or) performance in the future, as well as information on transactions entered into in a conflict of interest between the Issuer's management, controlling shareholders or other related parties' obligations to the Issuer and their private interests and (or) other duties.

## 25. Information on compliance with the Governance Code of Companies and the Company's corporate social initiatives and policies

Information on compliance with the corporate governance code is provided in Annex 1 to this Annual Report. Annual reports on the Company's corporate social initiatives and policies are provided in Annex 2 to this Annual Report named AB Kauno Energija Report on Social Responsibility and it is announced on the Company's website.

## 26. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information starting from January 1, 2021 over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. This information was also posted on the website of the Issuer. All the information is available on website of Nasdaq Vilnius (http://www.nasdaqbaltic.com/market/?lang=lt) and Issuer's website (http://www.kaunoenergija.lt).

| Title | Announcement category | Language | Time |
|---|---|---|---|
| Notice of public limited liability company Kauno energija on the reorganisation terms drawn up | Notification on material event | EN, LT | 23/12/2021 07:31 |
| Resolution of the sole shareholder of AB Petrašiūnų katilinė on approval of the reorganisation | Notification on material event | EN, LT | 26/11/2021 16:00 |
| Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija | General meeting of shareholders | EN, LT | 25/11/2021 16:00 |
| Convocation of the Extraordinary General Meeting of Shareholders of AB Kauno Energija | General meeting of shareholders | EN, LT | 29/10/2021 17:01 |
| On initiating the reorganisation of AB Kauno energija and AB Petrašiūnų katilinė by merger | Notification on material event | EN, LT | 29/10/2021 16:39 |
| Business activity results of the 1 half of the year 2021 | Interim information | EN, LT | 28/10/2021 17:00 |
| AB Kauno Energija half-yearly reports and unaudited financial statements for the 1 half of the year 2021 | Half-Yearly information | EN, LT | 30/09/2021 16:00 |
| Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija | General meeting of shareholders | EN, LT | 16/09/2021 16:00 |
| Convocation of the Extraordinary General Meeting of Shareholders of AB Kauno Energija | General meeting of shareholders | EN, LT | 19/08/2021 12:40 |
| Business activity results of the 1 half of the year 2021 | Notification on material event | EN, LT | 30/07/2021 16:00 |
| Audited annual information of AB Kauno Energija for the year 2020 | Annual information | EN, LT | 30/04/2021 13:15 |
| Resolutions of the General Meeting of Shareholders of AB Kauno Energija | General meeting of shareholders | EN, LT | 30/04/2021 13:11 |
| Activity results of the 1 quarter of the year 2021 | Interim information | EN, LT | 30/04/2021 13:02 |
| Regarding the approval of the Supervisory Board of AB Kauno Energija for the audited results | Notification on material event | EN, LT | 23/04/2021 14:31 |

| Title | Announcement category | Language | Time |
|---|---|---|---|
| Notice of public limited liability company Kauno energija on the reorganisation terms drawn up | Notification on material event | EN, LT | 23/12/2021 07:31 |
| Resolution of the sole shareholder of AB Petrašiūnų katilinė on approval of the reorganisation | Notification on material event | EN, LT | 26/11/2021 16:00 |
| Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija | General meeting of shareholders | EN, LT | 25/11/2021 16:00 |
| Convocation of the Extraordinary General Meeting of Shareholders of AB Kauno Energija | General meeting of shareholders | EN, LT | 29/10/2021 17:01 |
| On initiating the reorganisation of AB Kauno energija and AB Petrašiūnų katilinė by merger | Notification on material event | EN, LT | 29/10/2021 16:39 |
| Business activity results of the 1 half of the year 2021 | Interim information | EN, LT | 28/10/2021 17:00 |
| AB Kauno Energija half-yearly reports and unaudited financial statements for the 1 half of the year 2021 | Half-Yearly information | EN, LT | 30/09/2021 16:00 |
| Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija | General meeting of shareholders | EN, LT | 16/09/2021 16:00 |
| Convocation of General Meeting of Shareholders of AB Kauno Energija, agenda and the resolution projects | General meeting of shareholders | EN, LT | 01/04/2021 09:20 |
| Activity results of 12 months of the year 2020 | Interim information | EN, LT | 28/01/2021 17:20 |
| AB Kauno Energija became a participant of another legal entity | Notification on material event | EN, LT | 15/01/2021 18:09 |

Annex 1

# AB KAUNO ENERGIJA
# REMUNERATION REPORT FOR 2021

## GENERAL INFORMATION ON THE REMUNERATION REPORT

The Remuneration Report of AB Kauno Energija (hereinafter – the Company) has been prepared for the reporting financial period of 2021, which coincides with the calendar year. The Remuneration Report (hereinafter - the Report) was prepared in accordance with the Law on Financial Statements of Entities of the Republic of Lithuania, the Remuneration Policy of AB Kauno Energija (hereinafter - the Remuneration Policy) and other legal acts.

On April 30, 2020 the General Meeting of Shareholders approved the Remuneration Policy of AB Kauno Energija. This Remuneration Policy applies to the General Director and members of the Management Board and Supervisory Board of the Company insofar as it relates to the payment of monetary remuneration for activities in the management and / or supervisory bodies of the Company. The Remuneration Report shall include information on remuneration of each member of the management and supervisory bodies, information on other (un) received benefits, other data.

## INFORMATION ON THE REMUNERATION RECEIVED BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

According to the Remuneration Policy approved by the Company's General Meeting of Shareholders, the specific remuneration is paid only to the Company's General Director and members of the Management Board. Members of the Supervisory Board do not receive remuneration.

### Report on the remuneration of the Company's General Director in 2021

The remuneration accrued and paid to the Company's General Director during 2021, determined by the Management Board, complied with the remuneration forms provided for in the Remuneration Policy (Item 3.1). The amount of remuneration for the General Director of the Company was determined by the decision of the Management Board No. 2021-1-4 of January 25, 2021. As a reward for excellent performance, remarkable efforts in carrying out the assigned duties and initiatives, by the decision No 2021-5-6 as of 31 March 2021, the Management Board of the Company granted a bonus equal to his three months average salary.The General Director of the Company was paid with EUR 73.6 thousand remuneration during 2021 (the General Director started working for the Company on March 30, 2020).

The Head of the Company – the General Director - did not receive any remuneration from the companies referred to the group of companies, as defined in the Law on Consolidated Financial Statements of Companies of the Republic of Lithuania. The salary of the Head of the Company was paid in accordance with the procedure, scope and terms provided for in the Employment Contract, the General Director did not receive other property benefits during 2021, including the award of shares or other transactions in favour of and in the interests of the Head.

### Report on the remuneration of the members of the Management Board of the Company in 2021

The Company has 5 (five) independent members of the Management Board. During 2021 the Company accrued EUR 69.3 thousand to independent members of the Management Board under activity agreements. The average EUR 13.9 thousand per one independent member of the Management Board per year. The members of the Management Board did not receive payments from the subsidiaries. Information on the remuneration of each individual member of the Management Board is provided in the Annual Report.

No bonuses were paid to the members of the Company's Supervisory board and Management Board.

During the reporting period, no guarantees or sureties were given to the members of the Supervisory Board, Management Board and the Head of the Company, no assets or other property rights were transferred, no other benefits were received from the Company.

Members of the Supervisory Board and Management Board, the General Director of the Company and members of the Audit Committee have no significant material obligations to the Company (Issuer), just as the Company (Issuer) has no obligations to these persons.

Guarantees and sureties and / or other measures to secure the fulfilment of the obligations of the Head of the Company, members of the management bodies and Supervisory Board were not granted on behalf of the Issuer during 2021, the Issuer did not grant loans and Company shares to these persons.

The remuneration paid to the Head of AB Kauno Energija, members of the Management Board and the Supervisory Board in 2021 complied with the principles, grounds and conditions approved in the Remuneration Policy.

## FINAL PROVISIONS OF THE REMUNERATION REPORT

The Report approved by the Management Board of the Company is submitted to the General Meeting of Shareholders, which decides whether to approve the Remuneration Report or not. Such (non) approval does not release the Management Board from the responsibility for the decision taken.

The Remuneration Report for 2021 is an integral part of the Consolidated Annual Report and is published on the website of the Company http://www.kaunoenergija.lt and www.nasdaqomxbaltic.com in accordance with the procedure established by legal acts.

## PLLC KAUNO ENERGIJA, PURSUE THE GOVERNANCE REPORT

PLLC Kauno Energija (hereinafter – the Company), following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of PLLC NASDAQ Vilnius, discloses its compliance with the Corporate Governance Code for the Companies, whose securities are traded on the regulated market, as approved by the NASDAQ Vilnius PLLC, and its specific provisions and recommendations. If any of the provisions or recommendations of the Codex are not respected due to any reasons, the explicable information is provided herein.

**Summary of the Corporate Governance Report:**

*Specifics of the Company's activities:*

The Company is listed on the secondary list of the Nasdaq Vilnius Stock Exchange starting from December 28, 1998.

The main activities of the Company are production, rendering of services. The Company is the parent company of the Group consisting of PLLC Petrašiūnų Katilinė and LLC GO Energy LT. The Company produces and supplies heat to consumers (for heating and hot water preparation purposes) in the cities of Kaunas and Jurbarkas and in the Kaunas district (Akademija, Ežerėlis, Domeikava, Garliavos, Girioniai, Neveronys, Raudondvaris).

*Company's governance structure:*

- The Company's managing bodies consists of the Management Board, elected for the 4 years term of office, and the General Manager, elected by the Management Board (for further information on the Issuer's governing bodies and the composition of the committees please refer to the Article 20 "Issuer's bodies" of this Consolidated Annual Report). The Management Board's and the manager's activities are concentrated on the fulfilment of the Company's strategic objectives taking count of the shareholders' equity value increase.

- A supervisory body – the Supervisory Board acts in the Company.

The Management Board and the general Manager acts in close cooperation seeking to obtain the maximum benefit for the Company and its shareholders. The Management Board periodically reviews and assesses Company's activity results.

- The Chairman of the Management Board of the Company is not and was not the Head of the Company. The duties he holds or held in the past shall not prevent independent and impartial supervision.

- The members of the Management Board elected by the General Meeting of Shareholders are independent and act for the benefit of the Company and its shareholders.

- The Audit Committee acts in the Company. 1 independent member act in this committee. There are no nomination and remuneration committees in the Company.

*Accountability to the Company's shareholders:*

- Information on the General Manager, composition of the Supervisory and Management Boards, members education, work experience, competence and participation in activities of other companies is disclosed and constantly updated in Company's periodical reports as well as website.

- The Company discloses all regulated information through PLLC Nasdaq Vilnius news distribution system. This ensures access to the broadest public in the Republic of Lithuania and other EU countries.

The information shall be provided simultaneously in Lithuanian and English. The company publishes the information before or after the trading session of PLLC Nasdaq Vilnius. The Company shall not disclose information that may affect the price of the issued securities in the form of comments, interviews or in any other manner until such information is made public through the news distribution system of PLLC Nasdaq Vilnius.

- All shareholders of the Company have equal access to and participate in the decision-making process important for the Company.

The procedures for convening and conducting general meetings of shareholders shall comply with the provisions of the legal acts and shall provide equal opportunities for shareholders to participate in the meeting, to acquaint themselves in advance with draft resolutions and decision-making materials, as well as to ask.

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLICABLE | COMMENTARY |
|---|---|---|
| **Principle 1: General Meeting of Shareholders, equitable treatment of shareholders, and shareholders' rights**<br><br>**The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.** | | |
| 1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed. | Yes | All shareholders have equal access to the information and / or documents provided for in legal acts and participate in making important decisions for the Company. The Company provides information through the Nasdaq Vilnius Stock Exchange Central Regulated Information Base in Lithuanian and English simultaneously. The information is published immediately at once, thus ensuring the simultaneous provision of information to all. |
| 1.2. It is recommended that the Company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders. | Yes | The authorized capital of the Company consists of ordinary registered shares, which grant equal voting, ownership, dividend and other rights to all shareholders of the Company. |
| 1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company enables investors to familiarize themselves with the rights granted by the new or already issued shares well in advance. |
| 1.4. Exclusive transactions that are particularly important to the Company, such as transfer of all or almost all assets of the Company which in principle would mean the transfer of the Company, should be subject to approval of the General Meeting of shareholders. | Yes | According to the Statutes of the Company, important transactions, such as decisions on the execution, assignment, lease, pledge and mortgage of long-term assets the book value of which exceeds EUR 3 million, an approval of General Meeting of Shareholders or Supervisory Board must be received<br>Due to extremely important transactions, such as the transfer of all or almost all the Company's assets, the Company would be guided by the Law on Companies of the Republic of Lithuania and other legal acts establishing requirements for the approval of such transactions. |

| | | |
|---|---|---|
| 1.5. Procedures for convening and conducting a General Meeting of Shareholders should provide shareholders with equal opportunities to participate in the General Meeting of Shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the General Meeting of Shareholders should not prevent active participation of shareholders at the General Meeting. In the notice of the General Meeting of Shareholders being convened, the Company should specify the last day on which the proposed draft decisions should be submitted at the latest. | Yes | All shareholders of the Company are informed about the date, place and time of the General Meeting of Shareholders in accordance with the established procedure in advance, in accordance with the terms established by legal acts, announcing the General Meeting of Shareholders, agenda, and draft resolutions in the Central Regulated Information Base of PLLC Nasdaq Vilnius Stock Exchange. The Company specifies the date of the General Meeting of Shareholders and may propose draft resolutions in the Notice of the General Meeting of Shareholders to be convened on the Company's website www.kaunoenergija.lt In the notice of the convention of the General Meeting of Shareholders, the Company shall indicate when the shareholders may supplement the agenda of the General Meeting of Shareholders and propose draft resolutions. |
| 1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the General Meeting of Shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the General Meeting of Shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the Company. Such documents may be published to the extent that their public disclosure is not detrimental to the Company or the Company's commercial secrets are not revealed. | Yes | The documents prepared for General Meeting of Shareholders including draft resolutions of the meeting are available not later than 21 day prior the date of General Meeting of shareholders as required by the Law on Joint stock companies. The documents placed on the website of NASDAQ Vilnius security exchange and the Company website are available in Lithuanian and English languages. Resolutions accepted by the General Meeting of Shareholders including financial reports, the audit report, annual report, amendments of the Statutes etc. are announce in Lithuanian and English languages are announced via the central base of regulated information of NASDAQ Vilnius security exchange and the Company website www.kaunoenergija.lt |
| 1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the General Meeting of Shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the General voting ballot. | Yes | The shareholders of the Company have the right to participate in the General Meeting of Shareholders both personally and through a representative, if the person has the appropriate authorization or the contract of transfer of voting rights concluded with him/her in accordance with the procedure established by legal acts, as well as the conditions for the shareholders to vote by filling in the General voting bulletin as provided by the Law on Companies of the Republic of Lithuania. |

| | | |
|---|---|---|
| 1.8. With a view to increasing the shareholders' opportunities to participate effectively at General Meetings of Shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in General Meetings of Shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured, and it must be possible to identify the participating and voting person. | No | The Company does not comply with the provisions of this recommendation as there is no possibility to ensure the security of the information transmitted and it is not possible to identify the person who participated and voted. |
| 1.9. It is recommended that the notice on the draft decisions of the General Meeting of Shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit Company if these issues are included into the agenda of the General Meeting of Shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided. | Yes | When announcing the General Meeting of Shareholders, and if the agenda of the General Meeting of Shareholders includes the issue of electing new members of the collegial body or electing the audit firm, it shall disclose in the draft resolutions the nominations of the proposed new members of the collegial body and the proposed election Company.<br>Information about the candidates to the members of the collegial body shall be provided in advance by publishing this information on the Nasdaq Vilnius Stock Exchange website, on the website of PLLC Kauno Energija, www.kaunoenergija.lt, or by publishing it to the shareholders participating in the General Meeting during the meeting if the shareholders, whose shares give at least 1/20 of all votes, propose an additional candidate during the meeting.<br>In its annual and six-month interim report, the Company publicly informs about the positions held by the collegial body, work experience and education. |
| 1.10. Members of the company's collegial management body, heads of the administration[1] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders. | Yes | Members of the Company's collegial body and heads of administration participate in the General Meetings of Shareholders. Proposed nominees for members of the collegial body are also present if possible, if the election of new members is included on the agenda of the General Meeting. |
| **Principle 2: Supervisory Board** | | |

[1] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

| | | |
|---|---|---|
| **2.1. Functions and liability of the Supervisory Board**<br>**The Supervisory Board of the Company should ensure representation of the interests of the Company and its shareholders, accountability of this body to the shareholders and objective monitoring of the Company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the Company.**<br><br>**The Supervisory Board should ensure the integrity and transparency of the Company's financial accounting and control system.** | | |
| 2.1.1. Members of the Supervisory Board should act in good faith, with care and responsibility for the benefit and in the interests of the Company and its shareholders and represent their interests, having regard to the interests of employees and public welfare. | Yes | According to the knowledge of the Company all the members of the Supervisory Board are acting in good faith in the interests of the Company following the Company's but not the own interests or interests of the third persons. |
| 2.1.2. Where decisions of the Supervisory Board may have a different effect on the interests of the Company's shareholders, the Supervisory Board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the Company's strategy, risk management and control, and resolution of conflicts of interest. | Yes | The Company's Supervisory Board in its work aim to behave honestly and impartially with all the Company's shareholders and by the knowledge of the Company, there was no such kind of the contrary case. The Chairman of the Company's Supervisory Board and the Chairman of the Management Board harmonizes and coordinates interaction with Company's General Manager and in the name of Supervisory and Management Boards communicates with shareholders, informs the shareholders about the Company's strategy, activity and other essential questions. |
| 2.1.3. The Supervisory Board should be impartial in passing decisions that are significant for the Company's operations and strategy. Members of the Supervisory Board should act and pass decisions without an external influence from the persons who elected them. | Yes | The Supervisory Board of the Company acts impartially when taking decisions that are significant for the Company's activities and strategy. |
| 2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[2] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence. | Yes | According to the information available to the Company, all members of the Supervisory Board act in the best interests of the Company and shareholders, are guided by the interests of the Company and not by themselves or by third parties, trying to maintain their independence in decision making. |
| 2.1.5. The Supervisory Board should oversee that the Company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the longterm | Yes | In exercising its competence to supervise the activities of the Company's management bodies, the Supervisory Council performs the duties specified in |

[2] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

| | | |
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| interests of the Company and its shareholders, which may give rise to reputational, legal or other risks. | | the recommendation and submits its opinion on tax planning issues. |
| 2.1.6. The Company should ensure that the Supervisory Board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the Supervisory Board and its committees. | Yes | Based on the Company's opinion, the Supervisory Board are provided with sufficient resources, including their right to get all the necessary information, especially from the employees of the Company. |
| **2.2. Formation of the Supervisory Board**<br><br>**The procedure of the formation of the Supervisory Board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.** | | |
| 2.2.1. The members of the Supervisory Board elected by the General Meeting of Shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the Supervisory Board, it should be ensured that members of the Supervisory Board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks. | Yes | Pursuant to the Law on Companies of the Republic of Lithuania, the Supervisory Board is elected, and the qualification of its members is assessed at the General Meeting of Shareholders. |
| 2.2.2. Members of the Supervisory Board should be appointed for a specific term, subject to individual reelection for a new term in office in order to ensure necessary development of professional experience. | Yes | The Supervisory Board is elected for the term of 4 (four) years. The term of office of members on the Supervisory Board is the maximum term of office prescribed by the Lithuanian Law on Companies.<br>A General Meeting of Shareholders may remove from office both the entire Supervisory Board and individual members thereof before the end of their term of office. |
| 2.2.3. Chair of the Supervisory Board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or Management Board member of the Company should not be immediately appointed as chair of the Supervisory Board either. Where the Company<br>decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision. | Yes | The Chairman of the Company's Supervisory Board and the CEO of the Company is not the same person.<br>The members of the Supervisory Board and the Chairman have not been members of the Management Board of the Company or the CEO of the Company. |
| 2.2.4. Each member should devote enough time and attention to perform his duties as a member of the Supervisory Board. Each member of the Supervisory Board should undertake to limit his other professional | Yes | Members of the Supervisory Board are active participants of the meetings of the collegial body and devote enough time to perform their duties as members of the collegial body. In 2021 there were 2 |

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| obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the Supervisory Board. Should a member of the Supervisory Board attend less than a half of the meetings of the Supervisory Board throughout the financial year of the Company, the shareholders of the Company should be notified thereof. | | (two) Supervisory Board's meetings, and all of them were attended by more than 2/3 of all the members of the Supervisory Board. |
| 2.2.5. When it is proposed to appoint a member of the Supervisory Board, it should be announced which members of the Supervisory Board are deemed to be independent. The Supervisory Board may decide that, even though a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or Company related circumstances. | Yes | Information on the candidates to the Company's Supervisory Board members (as well as information on the candidate's compliance with the independence requirements) is provided to the General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania (see commentary on recommendation 1.9). |
| 2.2.6. The amount of remuneration to members of the Supervisory Board for their activity and participation in meetings of the Supervisory Board should be approved by the General Meeting of Shareholders. | Not applicable | The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company. |
| 2.2.7. Every year the Supervisory Board should carry out an assessment of its activities. It should include evaluation of the structure of the Supervisory Board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the Supervisory Board, and evaluation whether the Supervisory Board has achieved its objectives. The Supervisory Board should, at least once a year, make public respective information about its internal structure and working procedures. | No | There was no practice of assessment of the activity of Supervisory Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Supervisory Board exhaustively knows the experiences and competences of each candidate. |
| **Principle 3: Management Board**<br><br>**3.1. Functions and liability of the Management Board**<br><br>**The Management Board should ensure the implementation of the Company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.** | | |
| 3.1.1. The Management Board should ensure the implementation of the Company's strategy approved by the Supervisory Board if the latter has been formed at the Company. In such cases where the Supervisory Board is not formed, the Management Board is also responsible for the approval of the Company's strategy. | Yes | The Company's Management Board carries out the duty of implementation of the Company's strategy approved by the Company's Supervisory Board. |
| 3.1.2. As a collegial management body of the Company, the Management Board performs the functions assigned to it by the Law and in the Statutes of the Company, and in such | Yes | As the Supervisory Board is formed in the Company, the Management Board performs the functions of the Company's collegial management body. The |

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| cases where the Supervisory Board is not formed in the Company, it performs inter alia the Supervisory functions established in the Law. By performing the functions assigned to it, the Management Board should consider the needs of the Company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development | | obligation to consider the Company, the shareholders, the employees and other interest groups is established in the agreement on performance of the Management Board signed by each member of the Management Board. |
| 3.1.3. The Management Board should ensure compliance with the laws and the internal policy of the Company applicable to the Company or a group of companies to which this Company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers. | Yes | The Management Board ensures that the laws and Company internal policies applicable to the Company and its entire group are respected. The Company also operates a risk management and control program. Risk management is carried out by the management of the Company. |
| 3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[3] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards. | Yes | The Company has a policy of internal control and business ethics. The Company has adopted a Business Ethics Policy that clearly and publicly declares a negative attitude towards bribery and corruption. The provisions of this policy apply to all employees, agents, intermediaries, suppliers and subcontractors of the Company. |
| 3.1.5. When appointing the manager of the Company, the Management Board should consider the appropriate balance between the candidate's qualifications, experience and competence. | Yes | When appointing the CEO of the Company the Management Board considers the balance of his/her qualifications, experience and competence as well as the opinion of the Company's Supervisory Board. |
| **3.2. Formation of the Management Board** | | |
| 3.2.1. The members of the Management Board, elected by the Supervisory Board or, if the Supervisory Board is not formed, by the General Meeting of Shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the Management Board, it should be ensured that the members of the Management Board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks. | Yes | The members of the Management Board are elected by the Supervisory Board of the Company. The members of the Management Board of the Company are qualified and competent to perform their functions, having a long experience in management. |
| 3.2.2. Names and surnames of the candidates to become members of the Management Board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and | Yes | Information about candidates to the Company's Management Board is provided to the shareholders together with the documents of the shareholders' meeting following the requirements of the Law on Public Limited Liability |

[3] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

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| potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the Supervisory Board in which the Management Board or individual members of the Management Board are elected. If the Supervisory Board is not formed, the information specified in this paragraph should be submitted to the General Meeting of Shareholders. The Management Board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the Company's annual report. | | Companies of the Republic of Lithuania. Shareholders may see the documents prior the meeting. Information about the members of the Management Board (names, education, qualifications, professional experience, participation in the activities of other companies, other important professional obligations) is provided in the periodical reports. |
| 3.2.3. All new members of the Management Board should be familiarized with their duties and the structure and operations of the Company. | Yes | All new members of the Management Board are familiarized with their duties, Company structure and activities. |
| 3.2.4. Members of the Management Board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status. | Yes | The members of the Management Board are elected for a 4-year term. The number of terms is unlimited. Members of the Management Board are elected by the General Meeting of Shareholders. Shareholders who nominate and vote for the Management Board follow their own approach, which candidates are best to represent the interests of the shareholders. |
| 3.2.5. Chair of the Management Board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the Supervisory Board is not formed, the former manager of the Company should not be immediately appointed as chair of the Management Board. When a Company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision. | Yes | The Chairman of the Company's Management Board hasn't been the General Manager of the Company. His current or past position is not an obstacle for independent and impartial supervision. |
| 3.2.6. Each member should devote enough time and attention to perform his duties as a member of the Management Board. Should a member of the Management Board attend less than a half of the meetings of the Management Board throughout the financial year of the Company, the Supervisory Board of the Company or, if the Supervisory Board is not formed at the Company, the General Meeting of Shareholders should be notified thereof. | Yes | Each member of the collegial body fulfils his/her functions properly: actively participates at the meetings of collegial body and devotes enough time to perform his / her duties as a member of the collegial body. The quorum of each meeting was regulated so the Management Board would be enabled to accept decisions constructively.<br>In 2021, 24 meeting of the Management Board had been held. All the meetings were attended by more, than 2/3 members of the Management Board. |
| 3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will | Yes | Al the members of the Management Board are independent. |

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| be independent[4], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances. | | |
| 3.2.8. The General Meeting of Shareholders of the Company should approve the amount of remuneration to the members of the Management Board for their activity and participation in the meetings of the Management Board. | Yes | Remuneration is paid for the work on the Management Board to its members, by decision of the General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania. The members of the Management Board are not remunerated for their performance and participation in the meetings. |
| 3.2.9. The members of the Management Board should act in good faith, with care and responsibility for the benefit and the interests of the Company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to noncompete agreements and they should not use the business information or opportunities related to the Company's operations in violation of the Company's interests. | Yes | By the Company's information, all Management Board members should act in good faith, with care and responsibility for the benefit and in the interests of the Company and its shareholders. They are guided by the Company's interests but not their own or any third parties seeking to maintain their independence in decision-making, and they do not accept any unjustified privileges that would compromise their independence. |
| 3.2.10. Every year the Management Board should carry out an assessment of its activities. It should include evaluation of the structure of the Management Board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the Management Board, and evaluation whether the Management Board has achieved its objectives. The Management Board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data. | No | There was no practice of assessment of the activity of Management Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Management Board exhaustively knows the experiences and competences of each candidate. |
| **Principle 4: Rules of procedure of the Supervisory Board and the Management Board of the Company**<br><br>**The rules of procedure of the Supervisory Board, if it is formed at the Company, and of the Management Board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the Company's management bodies.** | | |
| 4.1. The Management Board and the Supervisory Board, if the latter is formed at the Company, should act in close cooperation | Yes | Legal acts, Statutes and rules of procedure governing activities of the Company's Supervisory and |

[4] For the purposes of this Code, the criteria of independence of the members of the board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.

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| in order to attain benefit for the Company and its shareholders. Good corporate governance requires an open discussion between the Management Board and the Supervisory Board. The Management Board should regularly and, where necessary, immediately inform the Supervisory Board about any matters significant for the Company that are related to planning, business development, risk management and control, and compliance with the obligations at the Company. The Management Board should inform he Supervisory Board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this. | | management bodies lay down the principles and procedure of cooperation between Supervisory and management bodies of the Company and ensure that management and Supervisory bodies cooperate to attain the greatest possible benefit to the Company and its shareholders. |
| 4.2. It is recommended that meetings of the Company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each Company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the Company's collegial bodies should be convened at least once per quarter. | Yes | The Company follows the order foreseen in the work regulations of the Supervisory Board and the Management Board and the information about the convened meeting is presented in advance together with an agenda and all the necessary information and documents related to the meeting agenda.<br>The Supervisory Board and the Management Board meeting agenda may be changed or added during the meeting, in the presence of all members of the collegial body, or when there is an urgent need to deal with Company's certain key issues. |
| 4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have enough time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the Company require immediate resolution. | Yes | According to the Company's Statutes and the working procedure regulations of the Supervisory Board and the Management Board, the members of the collegial body and persons that are invited to such meetings, are informed of them in advance. They are also provided with all the information and materials, needed to examine the questions, presented in the agenda. |
| 4.4. In order to coordinate the activities of the Company's collegial bodies and ensure effective decision-making process, the chairs of the Company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of | Yes | The chairmen of Company's Supervisory and management bodies coordinate dates of the meetings, their agendas and cooperate in solving other issues of corporate governance. The Chairman of the Management Board and members of the Management Board are invited to the |

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| the Company's Supervisory Board should be open to members of the Management Board, particularly in such cases where issues concerning the removal of the Management Board members, their responsibility or remuneration are discussed. | | meetings of the Supervisory Board of the Company. |
| **Principle 5: Nomination, remuneration and audit committees**<br><br>**5.1. Purpose and formation of committees**<br>**The committees formed at the Company should increase the work efficiency of the Supervisory Board or, where the Supervisory Board is not formed, of the Management Board which performs the Supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.**<br><br>**Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.** | | |
| 5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees[5]. | Yes/No | The Audit Committee is formed by the Supervisory Board from March 31, 2009 and the term of office of this committee coincides with the term of office of the Company's Supervisory Board. |
| 5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees. | Yes/No | The Audit Committee is an independent, and objective committee carrying out the functions of supervision, analysing, evaluation and consultation in order to improve General organization and create value added. The main function of the Committee is systematic and versatile evaluation, as well as encouragement of better risk management, and enough control and maintenance procedures resulting in submission of recommendations to the Management Board and management regarding implementation of the objectives and tasks, risk management procedure and internal control functioning.<br>The nomination and remuneration committees are not formed at the Company. As the Management Board of the Company is composed of competent members and they perform their activities efficiently, the Company does |

[5] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

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| | | not currently see the need for other committees. |
| 5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole. | Not applicable | The Management Board of the Company does not perform the functions assigned to the Audit Committee. |
| 5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the Management Board should not serve as the chair of committees. | Yes | The Audit Committee consists of 3 members, two of whom are independent, with at least 5 years of experience in accounting, with relevant experience in finance and accounting in listed companies.<br>The Chairman of the Management Board is not a member of the Committee. |
| 5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the Company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance. | Yes | The Audit Committee follows the regulations of the Committee approved by the Supervisory Board. These Regulations establish the rules defining the rights and duties of the Audit Committee, the size of the Audit Committee, the period of membership of the Audit Committee, the requirements for the education, professional experience and independence principles of the members of the Audit Committee.<br>The Audit Committee annually submits an annual activity report to the General Meeting of Shareholders, announcing the composition of the Committee, the number of meetings and the attendance of the members, describing the work performed and presenting the results. |
| 5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the Company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee. | Yes | The members of the collegial body take decisions at the meetings of their members, but in certain cases the committee invites the head of the Company and the responsible employees of the Company to attend its meetings, who are responsible for the areas of activity of the issues under discussion. The Chairman of the Audit Committee is also provided with the opportunity to communicate with the shareholders. |

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| **5.2. Nomination committee** | | |
| 5.2.1. The key functions of the nomination committee should be the following:<br>1) to select candidates to fill vacancies in the membership of Supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected;<br>2) assess, on a regular basis, the structure, size and composition of the Supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought;<br>3) devote the attention necessary to ensure succession planning. | No | The Nomination Committee is not formed in the Company. |
| 5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the Company and the heads of the administration, the manager of the Company should be consulted by granting him/her the right to submit proposals to the Nomination Committee. | No | See article 5.5.1 |
| **5.3. Remuneration committee** | | |
| The main functions of the remuneration committee should be as follows:<br>1) submit to the collegial body proposals on the remuneration policy applied to members of the Supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the Company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so;<br>2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the Company's remuneration policy and the evaluation of the performance of the persons concerned; | No | There is no Remuneration Committee in the Company.<br>The Company has implemented a remuneration policy that includes all forms of remuneration, including fixed salary, performance-based benefits and severance payments. The Company is approved by the Company's management in coordination with the Trade Union Committee operating in the Company. |

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| 3) review, on a regular basis, the remuneration policy and its implementation. | | |
| **5.4. Audit committee** | | |
| 5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[6]. | Yes | The Audit Committee follows the regulations of the Audit Committee approved by the Supervisory Board of the Company.<br>The Audit Committee carries out independent, objective monitoring, investigation, evaluation and advisory activities to improve the Company's performance and create added value. |
| 5.4.2. All members of the committee should be provided with detailed information on specific issues of the Company's accounting system, finances and operations. The heads of the Company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches. | Yes | All members of the Committee are provided with detailed information on the specific accounting, financial and operational characteristics of the Company and, upon request, information on the execution of important transactions. |
| 5.4.3. The audit committee should decide whether the participation of the chair of the Management Board, the manager of the Company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present. | Yes | The Audit Committee decides on the participation of other persons in its meetings and, if necessary, the Audit Committee invites the head of the Company and the responsible employees of the Company to its meetings, who are responsible for the areas of activity of the issues under consideration. The Chairman of the Audit Committee is also provided with the opportunity to communicate with the shareholders. |
| 5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the Company and its group. | Yes | The Audit Committee is informed about the work performed by the Internal Auditor and receives conclusions about the research performed. Each year, the Audit Committee receives reports from external auditors describing all relationships between the independent auditor and the Company and its group. |
| 5.4.5. The audit committee should examine whether the Company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the Company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions. | Yes | The Company has provided employees with the opportunity to submit complaints or anonymous reports about violations committed in the Company, however the Company has not received such complaints or reports during the reporting period. |

[6] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

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| 5.4.6. The audit committee should submit to the Supervisory Board or, where the Supervisory Board is not formed, to the Management Board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved. | Yes | The Audit Committee analyses and evaluates the Company's annual and semi-annual financial statements, makes recommendations to the Management Board for their approval, together with its activity reports for that period. |
| **Principle 6: Prevention and disclosure of conflicts of interest**<br><br>**The corporate governance framework should encourage members of the Company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.** | | |
| Any member of the Company's Supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the Company's interests. In case such a situation did occur, a member of the Company's Supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the Company which elected him/her or the Company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value. | Yes | Members of the Company's management bodies behave in such a way that there is no conflict of interest with the Company. During the reporting period, there is no known conflict of interest between the Company and the member of its management body. |
| **Principle 7: Remuneration policy of the Company**<br><br>**The remuneration policy and the procedure for review and disclosure of such policy established at the Company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the Company's remuneration policy and its long-term strategy.** | | |
| 7.1. The Company should approve and post the remuneration policy on the website of the Company, such policy should be reviewed on a regular basis and be consistent with the Company's long-term strategy. | Yes/no | The Company has implemented and operates a remuneration policy approved by the Company's management, but it is not published on the Company's website. The Company will follow the recommendations of Principle 7 when the respective laws and other legal acts of the Republic of Lithuania are adopted. |
| 7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the Company can recover the disbursed amounts or suspend the payments. | Yes | The Company has implemented a remuneration policy that includes all forms of remuneration, including fixed salary, performance-based benefits and severance payments. This procedure is approved by the management of the Company in agreement with the Trade Union Committee. |
| 7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the Supervisory functions should not receive remuneration based on the Company's performance. | Yes | See article 3.2.8 |
| 7.4. The remuneration policy should provide enough information on the policy regarding termination payments. Termination | Yes | Termination benefits shall be granted in accordance with the provisions of Chapter 5 of the Labour Code of the |

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| payments should not exceed a fixed amount or a fixed number of annual wages and in General should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance. | | Republic of Lithuania and the provisions of the Collective Agreement in the Company. |
| 7.5. If the financial incentive scheme is applied at the Company, the remuneration policy should contain enough information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares. | No | The Company does not apply a system of financial incentives. |
| 7.6. The Company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the Company's remuneration policy, compared to the previous financial year. | No | See article 7.1. |
| 7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the General Meeting of Shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the General Meeting of Shareholders. | No | See article 7.1. |
| **Principle 8: Role of stakeholders in corporate governance**<br><br>**The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the Company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the Company concerned.** | | |
| 8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected. | Yes | The corporate governance framework assures the rights of stakeholders that are protected by law are respected. The Company applies a Corporate Contract |
| 8.2. The corporate governance framework should create conditions for stakeholders to | | |

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| participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the Company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the Company's authorized capital, involvement of creditors in corporate governance in the cases of the Company's insolvency, etc. | | with employees, and the contract is signed by the CEO and Trade Union.<br>The Company pursues the maximum possible transparency in its relations with all stakeholders and the compliance with the highest ethical requirements and principles – in its activities, because honest and open business activities are one of the key elements of impeccable business reputation.<br>The Company takes into account the changing customer needs, constantly improving its operational processes, empowering employees, taking care of the safety and health of its employees, seeking to maintain a close relationship with investors and ensure information accessible to all, continuously updating the information and posting it in the "Investors" section of its website. |
| 8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | | |
| 8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the Supervisory function. | | |
| **Principle 9: Disclosure of information**<br><br>**The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the Company.** | | |
| 9.1. In accordance with the Company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the Company should include but not be limited to the following: | Yes | The information contained in this recommendation shall be disclosed in the annual and semi-annual reports of the Company in accordance with the requirements of legal acts regulating data processing and confidential information procedures. This information is published on the website of PLLC Nasdaq Vilnius. Stock Exchange and on the Company's website. |
| 9.1.1. operating and financial results of the Company; | | |
| 9.1.2. objectives and non-financial information of the Company; | | |
| 9.1.3. persons holding a stake in the Company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary; | | |
| 9.1.4. members of the Company's Supervisory and management bodies who are deemed independent, the manager of the Company, the shares or votes held by them at the Company, participation in corporate governance of other companies, their competence and remuneration; | | |
| 9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities; | | |

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| 9.1.6. potential key risk factors, the Company's risk management and supervision policy; | | |
| 9.1.7. the Company's transactions with related parties; | | |
| 9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the Company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.); | | |
| 9.1.9. structure and strategy of corporate governance; | | |
| 9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects.<br>This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts. | | |
| 9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the Company which is a parent Company in respect of other companies should disclose information about the consolidated results of the whole group of companies. | Yes | The Company discloses information on the Company's and the Group's consolidated results. The information is disclosed in the consolidated annual report and consolidated financial statements. |
| 9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the Company's Supervisory and management bodies and the manager of the Company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the Company's Supervisory and management bodies and the manager of the Company should be disclosed, as provided for in greater detail in Principle 7. | Yes | The information specified in the recommendation is presented in the Company's annual and semi-annual reports. The Company will implement the recommendations of Principle 7 once the legislation governing is adopted. |
| 9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time. | Yes | The Company discloses all regulated information through the news distribution system of PLLC Nasdaq Vilnius. This ensures that it is accessible to the widest possible public. The information is simultaneously available in Lithuanian and English. In addition, the Company publishes information before or after the Nasdaq Vilnius trading |

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| | | session so that all shareholders and investors of the Company have equal access to information and make appropriate investment decisions. The Company shall not disclose information that may affect the price of the securities issued by it in the comments, interviews or other ways until such information is made public through the Central Regulatory Information base. |
| **Principle 10: Selection of the Company's audit firm**<br><br>**The Company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.** | | |
| 10.1. With a view to obtain an objective opinion on the Company's financial condition and financial results, the Company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm. | Yes | An independent audit Company performs auditing of the Company's and its subsidiaries individual and consolidated (the group) annual financial reports in accordance with International Accounting Standards applicable in the EU. An independent auditing Company also evaluates conformity of annual report to the audited financial statements. |
| 10.2. It is recommended that the audit firm would be proposed to the General Meeting of Shareholders by the Supervisory Board or, if the Supervisory Board is not formed at the Company, by the Management Board of the Company. | Yes | The Management Board proposes an audit Company to the General Meeting of Shareholders. |
| 10.3. If the audit firm has received remuneration from the Company for the non-audit services provided, the Company should disclose this publicly. This information should also be available to the Supervisory Board or, if the Supervisory Board is not formed at the Company, by the Management Board of the Company when considering which audit firm should be proposed to the General Meeting of Shareholders. | Yes | Information on remuneration to the audit Company is made public in the decisions of the General Meeting of Shareholders. The audit firm provides non-audit services only with the approval of the Audit Committee. In 2021, the audit firm did not receive any remuneration for the non-audit services provided. |

## Introduction

This 2021 GRI Standards Report forms part of the Kaunas Energy "Social Responsibility Report", which is produced annually and published in conjunction with the company's consolidated annual report and financial statement.

The report has been prepared **in accordance with GRI Standards: Core option** - providing the information required in order to understand the nature of the company and how it manages its material topics and related economic, environmental, and social impacts. Only those that are required for core option are listed and reported on.

GRI Standards are separated into three distinct sections: **General Disclosures** (GRI 102); **Management Approach** (GRI 103) which reports on each of the topic specific standards; and **Topic Specific Standards** (GRI 200, 300, and 400).

Within the set of Topic Specific Standards, only those material topics with significance (as defined by guidance in GRI 101: clause 1.3) are reported on in full. In the few cases where a disclosure requires additional supporting information, an external reference with a specific publicly available location may be included. These additional external references may refer to other materials produced by the company such as its annual report and full financial statements. For some material topics it is not possible to provide a full disclosure. This is allowed under GRI 101: clause 3.2 'Reasons for Omission' and the reason for omission will be given.

The material topics chosen for this report are as follows:

**GRI 204 Procurement Practices (2016)**

**GRI 205 Anticorruption (2016)**

**GRI 302 Energy (2016)**

**GRI 303 Water and Effluents (2018)**

**GRI 305 Emissions (2016)**

**GRI 306 Waste (2020)**

**GRI 307 Environmental Compliance (2016)**

**GRI 402 Labour / Management Relations (2016)**

**GRI 403 Occupational Health & Safety (2018)**

**GRI 404 Training and Education (2016)**

**GRI 405 Diversity & Equal Opportunity (2016)**

**GRI 406 Non-discrimination (2016)**

**GRI 407 Freedom of Association & Collective Bargaining (2016)**

**GRI 408 Child Labour (2016)**

**GRI 409 Forced or Compulsory Labour (2016)**

**GRI 415 Public Policy (2016)**

**GRI 416 Customer Health and Safety (2016)**

**GRI 418 Customer Privacy (2016)**

With this report Kaunas Energy seeks to provide non-financial corporate responsibility information to its stakeholders: clients (users), shareholders, investors, employees, suppliers, business and social partners and the public. This sustainability report is produced as a stand-alone report in accordance with GRI Standards.

Please note that the report for 2022, to be produced in 2023, will use a new updated and heavily revised version of the GRI Universal Standards. This will mean significant changes to the format and content of next year's report.

| GRI Content Index | | |
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| **GRI Standard disclosure number, title, and publication year.** | | **Disclosure** |
| **GRI 102: General Disclosures (2016)** | | |
| **Organisational profile** | | |
| **102-1** | **Name of the organisation** | AB “Kauno energija” (ENG – Public Company Kaunas Energy). |
| **102-2** | **Activities, brands, products, and services** | Supplier of heat energy and hot water to clients and customers in regions within Lithuania. |
| **102-3** | **Location of headquarters** | Raudondvario pl. 84, Kaunas, LT- 47179, LIETUVA. |
| **102-4** | **Location of operations** | Lithuania – specifically Kaunas, Kaunas District and Jurbarkas. |
| **102-5** | **Ownership and legal form** | Information presented in the annual report |
| **102-6** | **Markets served** | Information presented in the annual report |
| **102-7** | **Scale of the organisation** | Information relating to the total number of employees and the total number of operations, net revenues, and quantity of products / services provided is all presented in the annual report in sections 3, 6, 7, 14 & 18. |
| **102-8** | **Information on employees and other workers** | Figures shown are for the full year ending 31 December 2021 (They include employees of AB Kauno Energija, UAB ‘Petrašiūnų katilinė’ and UAB ‘GO Energy LT’). All employees are employed in and within the Kaunas and Jurbarkas region. |

| Total Number of Employees by Employment Contract and Gender | | | | | | |
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| **Total Number** | **Fixed-term employment contracts** | | | **Open-ended contracts** | | |
| | **Total** | **Women** | **Men** | **Total** | **Women** | **Men** |

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| | | <table><tr><td>377</td><td>36</td><td>7</td><td>29</td><td>341</td><td>94</td><td>247</td></tr></table><br><table><tr><th colspan="7">Total Number of Employees by Employment Type and Gender</th></tr><tr><th rowspan="2">Total Number</th><th colspan="3">Full-time Employees</th><th colspan="3">Part-time Employees</th></tr><tr><th>Total</th><th>Women</th><th>Men</th><th>Total</th><th>Women</th><th>Men</th></tr><tr><td>377</td><td>340</td><td>88</td><td>252</td><td>37</td><td>13</td><td>24</td></tr></table><br>The major parts of the company's activities are carried out by company employees. Although there are external service contractors employed on projects (selected and employed through public procurement in accordance with Lithuanian law), the percentage of work they perform is not monitored.<br>Since the last reporting period, there has been an increase in staff numbers of approx. 3.28%. All employee data is compiled and processed by the company's personnel administration department. |
| **102-9** | **Supply chain** | The company supplies heat to 3,744 companies and organizations and 118,468 households, in total - 122,212 consumers. Pursuant to legal acts, the company purchases heat energy from 12 independent producers operating in Kaunas city and Kaunas district. In 2021, heat energy was purchased from the following suppliers:<br>1. UAB Kauno termofikacijos elektrinė;<br>2. UAB 'Ekoresursai';<br>3. UAB 'ENG';<br>4. UAB 'Idex Taika';<br>5. UAB 'Idex Taika elektrinė';<br>6. UAB 'Lorizon Energy';<br>7. UAB 'Petrašiūnų katilinė';<br>8. UAB 'Aldec General';<br>9. UAB 'Idex Biruliškių';<br>10. UAB 'Ekopartneris';<br>11. UAB Foksita;<br>12. UAB Kauno kogeneracinė jėgainė.<br>In 2021, the company and its subsidiaries hired 648 external suppliers, who provided various volumes of services to the company. Of these, 634 were Lithuanian and 14 were non-Lithuanian suppliers. Local suppliers are defined as operating in Lithuania. |
| **102-10** | **Significant changes to the organisation and its supply chain** | The company recruited new staff across a number of the departments, and carried out a review and a renewal of key management positions. This resulted in 90 new employees starting (to replace almost the same number leaving), and represented approx. 80% of the management team. The Marketing and Communication Department changed substantially, with highly qualified professionals joining the team so that it now has the |

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| | | required expertise to promote the company rebrand and new logo. In addition, the Asset Management Division is now attached to the Personnel Management Division.<br><br>These changes reflect our desire to create a modern, innovative and attractive employer and service provider. The new logo is on the new company workwear, stationery and internet, and on the outside of our buildings and our company cars. The management’s approach to sustainable growth has been substantially renewed, with new services introduced to the market in line with our new visual identity |
| **102-11** | **Precautionary principle or approach** | The EU policy on the environment states that it shall *“aim at a high level of protection taking into account the diversity of situations in the various regions of the Union. It shall be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay”.*<br><br>Within this understanding, the company applies where practical the same precautionary principle in seeking not to generate significant environmental impact, and where there is impact of any nature the company seeks to address this quickly and clearly. |
| **102-12** | **External initiatives** | Kauno Energija continues to participate in the international EU funded project ‘RenOnBill’ (https://www.renonbill.eu/), which aims to encourage complex renovation of residential buildings by creating models for paying its costs through energy bills. AB Kauno Energija participates in it as a partner with eight other companies from Lithuania, Italy, Germany, Belgium and Spain, and the project will finish in April 2022. There were no other external initiatives during 2021. |
| **102-13** | **Membership of associations** | Kauno Energija is a member of the United Nations Global Compact, as well as the following five associations:<br>• Responsible Business Association of Lithuania<br>• Lithuanian District Heating Association<br>• Lithuanian Electricity Association<br>• Kaunas Region Industrialists and Employers Association<br>• Lithuanian Thermal Technology Engineers Association |
| | **Strategy** | |
| **102-14** | **Statement from senior decision-maker** | Dear customers, partners and all stakeholders,<br><br>The recent global challenges - the COVID-19 pandemic and the tense geopolitical situation at Europe's borders - have affected everyone without exception. The impact on the energy sector has been particularly severe, with energy prices hitting record highs. In 2021, we have managed to remain fully focused on our work, without distraction. We have successfully managed these unplanned, long-term challenges, and Kauno Energija has continued to provide its vital |

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| | | services of supplying heat and hot water to Kaunas city, Kaunas district and Jurbarkas. In addition, we have continued our renewal and development of more than 410 km of city heating networks, as well as offering new services to the market.<br><br>We have ensured the uninterrupted production and supply of heat and hot water in accordance with the EU Green Deal. Approximately 90% of city heat supplied by Kauno Energija, was produced (Kauno Energija boiler houses and independent suppliers) from biofuel - a renewable energy source. By using renewable energy sources (RES), we reduced $CO_2$ emissions by 268 375 tons.<br><br>We have continued our active participation in the international project RenOnBill. This project – promoting complex renovation and energy saving initiatives for apartment buildings - was selected as 2021 finalist for the prestigious European Union Sustainable Energy Awards.<br><br>We have streamlined the management of the company, with a substantial renewal of the chain of management, with many highly regarded professionals in their fields joining the company.<br><br>We have implemented innovations that make production and supply more efficient: a 2.4 MW heat-absorbing heat pump with a second-degree smoke condensing economizer has been installed in the biofuel boiler house at Petrašiūnai power plant. This in turn has increased the boiler efficiency by about 10%, leaving less than 20 mg / m3 solids in the smoke; eleven large scale projects were carried out for the reconstruction of heat supply pipelines; and we started to supply heat to the Kaunas Free Economic Zone.<br><br>All of these activities and developments, allows heat to be supplied to inhabitants, and business and public sector consumers at one of the lowest prices in Lithuania.<br><br>Developing the company's main activity – the production and supply of heat and hot water, we also focused on the development of new Kauno Energija services for individuals and the public sector, businesses. These included Kaunas city coverage with the LoRA 'Internet-of-things' network, allowing remote scanning of data from various meter devices; the installation of two absorption heat pumps at the Science Museum (currently being constructed and due to open in 2022). Each pump weighs 30 tons and has a capacity of 1,576 kW, able to cool 11,500 tons of heat per square metre. This is one of the first cooling supply projects of this scale in Lithuania and this type of chilling machine does not use greenhouse gases.<br><br>Our new Kauno Energija brand was launched and used to inform public and interested groups about the changes taking place in the company and the expanding portfolio of services<br><br>By submitting this Consolidated Corporate Social Responsibility Report, we show our commitment to continuing the introduction of new technologies, to improving our quality of services, and to reducing environmental pollution.<br><br>Tomas Garasimavičius General Director of AB Kauno Energija |
| | **Ethics and Integrity** | |
| **102-16** | **Values, principles, standards, and norms of** | Full information is provided on the company website under mission and vision, and values and strategic |

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| | **behaviour** | objectives: https://www.kaunoenergija.lt/apie-bendrove.<br>The Code of Ethics is publicly disclosed within the company and is applicable to all employees, agents, brokers, contractors, subcontractors or suppliers of the Company. A copy of this can be found on the company website: https://www.kaunoenergija.lt/esame-atsakingi/etikos-kodeksas. |
| | **Governance** | |
| **102-18** | **Governance structure** | Committees responsible for decision-making on economic, environmental, and social topics include:<br>• **Audit Committee:** there are currently three members: one external/independent, and two from among the company's employees. During 2021 the Audit Committee did not meet.<br>• **Technical Board:** established by order of General Director, it examines adopted resolutions and makes recommendations to the company's General Manager on a range of economic, social and environmental topics. During 2021, the board met 19 times.<br>• **Occupational Health & Safety Committee:** with no issues to deal with in 2021, it had no reason to meet. |
| | **Stakeholder Engagement** | |
| **102-40** | **List of stakeholder groups** | These stakeholders are those individuals or groups to whom the company considers itself accountable and those expected to be affected by the company's activities or provision of services:<br>• The company's shareholders (among them Kaunas City Municipality and Jurbarkas District Municipality). A full list of the 630 individual shareholders is held by our financial partner SEB Bank<br>• The company's managers and employees, and workers trade union<br>• Non-employee workers (connected to key service providers for the company), and service customers<br>• Business partners - including suppliers of goods, service providers, contractors, independent heat producers. |
| **102-41** | **Collective bargaining agreements** | The company has a 'Collective Agreement' established and in operation. It is posted on the company intranet site and updated periodically. It applies not only to workers' trade union members, but also to all employees of the company (100%). |
| **102-42** | **Identifying and selecting stakeholders** | All stakeholders and interest groups are identified through their direct connection to the company and the company activities. Any other interested individuals or groups are encouraged to be involved in our engagement activities or events. With regard to suppliers of goods, service providers and works contractors, these are selected through public procurement in accordance with Lithuanian and/or EU law. |

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| 102-43 | **Approach to stakeholder engagement** | The company's shareholders receive periodical activity reports, annual reports, CSR reports, and reports on coordinated investment projects. The company's managers and employees communicate on a daily basis on the principle of vertical (between managers and subordinates) and horizontal (between divisions and within divisions) communication.<br><br>Customers with queries about their service provision are dealt with by the customer service staff at the centralised municipality service centre 'Mano Kaunas' via telephone, e-mail, and postal mail. Information is also available to consumers and the media through the company and through the Kaunas City Municipality websites. Post-COVID-19, the company hopes to increase activities with stakeholders in 2022. |
| 102-44 | **Key topics and concerns raised** | Nothing reported or raised by customer representatives (including buildings administrators and systems supervisors) during 2021. |
| | **Reporting Practice** | |
| 102-45 | **Entities included in the consolidated financial statements** | A list of all entities is included in the company's consolidated financial statements or equivalent documents (please see annual report). The company's consolidated financial statements or related documents include the company, and its two subsidiaries –UAB 'GO Energy LT' (formally UAB Kauno Energija NT) and UAB 'Petrašiūnų Katilinė'. Within this report, 'the company' refers to this group of three companies. |
| 102-46 | **Defining report content and topic boundaries** | Now in our sixth year of reporting under the GRI Standards, the company have chosen those material topics that have the biggest bearing on the company's day-to-day activities; those that constitute the biggest part of our economic, social and environmental impact; and those which we can effectively monitor and report on. |
| 102-47 | **List of material topics (and publication year)** | GRI 204: Procurement Practices (2016)<br>GRI 205: Anti-Corruption (2016)<br>GRI 302: Energy (2016)<br>GRI 303: Water and Effluents (2018)<br>GRI 305: Emissions (2016)<br>GRI 306: Waste (2020)<br>GRI 307: Environmental Compliance (2016)<br>GRI 402 Labour/Management Relations (2016)<br>GRI 403: Occupational Health and Safety (2018)<br>GRI 404: Training and Education (2016)<br>GRI 405: Diversity and Equal Opportunities (2016)<br>GRI 406: Non-Discrimination (2016)<br>GRI 407: Freedom of Association & Collective Bargaining (2016)<br>GRI 408: Child Labour (2016)<br>GRI 409: Forced or Compulsory Labour (2016)<br>GRI 415: Public Policy (2016)<br>GRI 416: Customer Health and Safety (2016)<br>GRI 418: Customer Privacy (2016) |

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| **102-48** | **Restatements of information** | There are no reasons for restatements of information during the reporting period of 2021. |
| **102-49** | **Changes in reporting** | None to report |
| **102-50** | **Reporting period** | January 1st to December 31st 2021. |
| **102-51** | **Date of most recent report** | This is the sixth report produced under GRI Standards with the last report being for 2020. |
| **102-52** | **Reporting cycle** | Annual. |
| **102-53** | **Contact point for questions regarding the report** | Šarūnas Bulota<br>Head of Marketing and Communications Department<br>AB "Kauno energija"<br>Mob. +370 695 18 136<br>Email: s.bulota@kaunoenergija.lt<br>www.kaunoenergija.lt |
| **102-54** | **Claims of reporting in accordance with GRI Standards** | This report has been prepared in accordance with the GRI Standards: Core option. |
| **102-55** | **GRI content index** | This report constitutes the GRI context index in full and in doing so fulfils the reporting requirements in accordance with disclosure 102-54. |
| **102-56** | **External assurance** | This report has been prepared by an externally appointed organisation, procured through an open tender call for services. The preparation of the report takes information prepared for the audited accounts and annual report. The assurance of the quality of this GRI Standards Report is limited to following the guidelines of the GRI Standards only. However, the completed audited accounts and annual report (upon which this GRI Standards report is based) have been passed and assured by the company board as part of its normal quality control of all information prepared for shareholders. |

| GRI 103: Management Approach (2016) |
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| **The GRI 103: Management Approach applied to GRI 204: Procurement Practices** |

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| **103-1** | **Explanation of the material topic and its boundary** | The monthly procurement of heat from independent heat producers represents the main procurement for the company, and is a substantial amount representing approx. 69.9% of consumers heat demand.<br><br>The boundary is with all of the business and residential customers who receive heating using these sources, and it is here where any potential impacts will be felt. The company seeks to minimise boundary impacts through close management and quality control of these relationships on a regular basis. If serious impacts are likely to occur, we can correct through improved procurement procedure month by month if necessary. |
| **103-2** | **The management approach and its components** | The company's procurement policy is now governed by the Law on Procurement of Contracting Entities in the Field of Water Management, Energy, Transport or Postal Services. Within the provisions of this law, the company provides a 'Description of the Procedure for Low Value Purchases', which is publicly available on our website: https://www.kaunoenergija.lt/pirkimai-pardavimai/viesieji-pirkimai.<br><br>The company has an approved Gift Policy, which is publicly available on its website: https://www.kaunoenergija.lt/esame-atsakingi/dovanos and its Anticorruption Policy which is available here: https://www.kaunoenergija.lt/esame-atsakingi/korupcija. The company also publicises on its website a Notice of Restrictive Practices, issued by The Competition Council of the Republic of Lithuania: https://www.kaunoenergija.lt/esame-atsakingi/konkurencija .<br><br>Company goals and targets for procurement practices are defined in law as we are obliged to provide for the lowest price. All heat providers have technical measurements made of their service delivery to make sure it satisfies the conditions of the procurement contract. The company's procurement procedures are organised by the Procurement Commission constituted by the order of General Manager or Procurement Organiser, subject to the procurement amount. All announcements and winning contracts are published on the national central procurement portal: https://cvpp.eviesiejipirkimai.lt/.<br><br>A large majority of the company's procurement consists of the purchase of heat from independent heat producers. As such, the amendments to the Law on the Energy Resources Market (2018) had a bearing on how the company procures its heat. The Operator of the Energy Exchange 'UAB Baltpool' organises heat auctions in accordance with the procedure established by the law on heat, and the company started to purchase all of its heat through these electronic auctions. For all heat providers in Lithuania, procurement procedures are governed by national regulations based on legislation. |
| **103-3** | **Evaluation of the management approach** | Evaluation of the management approach is systematically linked to the procurement process and adjustments can be made through employee or client feedback, grievance mechanisms or through internal audit procedures. |

| The GRI 103: Management Approach applied to GRI 205: Anti-Corruption | | |
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| **103-1** | **Explanation of the material topic and its boundary** | The company and its subsidiaries are guided by our anticorruption policy which identifies the main principles and requirements for the prevention of corruption in the company and its subsidiaries. The policy includes guidelines for ensuring compliance and for implementation. This anticorruption policy is in harmony with the laws of the Republic of Lithuania, and the company constantly works hard to minimise any risk of corruption through a range of management and quality control measures. |
| **103-2** | **The management approach and its components** | The Corruption Prevention Policy is approved by the company and publicised on the company's website: https://www.kaunoenergija.lt/esame-atsakingi/korupcija.<br>To prevent corruption, a system has been created within the company in which named or anonymous cases of abusive or corrupt practices can be reported. This system encourages all company employees, suppliers, and customers to report on any incidents that they feel are abusive or corrupt.<br>The information can be submitted by e-mail: pasitikejimo.linija@kaunoenergija.lt or by filling out the notification form published on the company website (https://www.kaunoenergija.lt/esame-atsakingi/korupcija). Full confidentiality and assurance of anonymity of the data is guaranteed (although, applicants are invited but not forced to provide contact information).<br>Compliance with corruption prevention requirements and standards is an integral part of the company's business ethics, and the Corruption Prevention Policy applies to all company representatives, subsidiaries, contractors, subcontractors, suppliers and intermediaries. |
| **103-3** | **Evaluation of the management approach** | Evaluation of the management approach is carried out through user feedback and improvements are considered based on issues raised. For this category of 103-3 disclosure reporting, the company remains committed to continually improving these methods of encouraging and collecting evaluation feedback, and providing resources where necessary to maintain our performance. |
| **The GRI 103: Management Approach applied to all five GRI 300 Environmental material topics** | | |
| **103-1** | **Explanation of the material topic and its boundary** | Five GRI 300 Environmental material topics have been combined for this disclosure (as per GRI 103 general guidance clause 1.1).<br>Due to the particularity of activities the company uses a lot of electricity and water and has high emissions into the air. The saving of energy and its resources is very important for the company's economic performance. Environmental compliance is crucial if the company wants to maintain its commitment to the environment, to stay compliant, and to continue its high level of transparency in reporting such actions. |

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| | | Emissions and environmental compliance have an impact wider than local company sites. Therefore, the boundary for impacts for these material topics is within all company sites as well as throughout the whole country. |
| **103-2** | **The management approach and its components** | Our record of providing grievance mechanisms for internal and external feedback on our performance is a solid part of our management approach. Internally the management systems in place to record and report on environmental impact are very strong. Although internally the company does a good job of managing the environmental material topic, it could still improve its management approach in external relationships with clients / service providers.<br><br>The company has a special environmental laboratory, certified by the Lithuanian Environmental Protection Agency. This enables the laboratory, on behalf of the company and its subsidiaries, to continuously monitor, manage, collect, and process all relevant data on the company's emissions into the atmosphere from stationary sources, and to make sure they do not exceed the permissible limits established within the integrated pollution prevention and control permits. In terms of activities to reduce emissions from energy production, six of our suppliers' boiler-houses use biofuels which contributes towards reducing atmospheric pollution.<br><br>All waste from AB Kauno Energija (and that produced within the whole of the Republic of Lithuania) is accounted for and managed in accordance with the applicable legislation. The electronic waste accounting system GPAIS (www.gpais.eu) has been developed, and the company accounts for all its waste on this portal. Through this, reports are submitted to the Environmental Protection Agency, and these reports can also be accessed by our customers and other members of the public. For this 2021 report, there are no significant waste-related impacts to report.<br><br>The company has limited information about interactions with water throughout its value chain. We do however perform wastewater tests at both our Petrašiūnai power plant and our Ežerėlis boiler house with the data published on our website. All standards set are done so through applicable national legislation.<br><br>Links to all decision making for these material topics are referred to in disclosure 102-18 (Governance Structure) and all links to the principles that make up the company policies are in disclosure 102-16 (Values, Principles, Standards and Norms of Behaviour). For targets and issues related to emissions, the company is guided by the following:<br><br>• Kyoto Protocol<br>• Helsinki Commission (HELCOM) and environmental constraints of Helsinki Convention<br>• European Parliament and Council Directive 2001/80/EB of regulating energy emissions<br>• Lithuanian environmental normative document LAND 43-2013 for the use of natural resources, and |

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| | | emissions from air pollutants into the environment<br>• Lithuanian special requirements for large combustion plants<br>• Lithuanian emissions rates from average combustion plants<br><br>The company pays taxes for atmospheric and water pollution and if allowable emission rate limits or annual limits are exceeded, the company must pay the relevant fines under Lithuanian laws. However, to date and in all previous GRI reports, the company itself has not incurred any fines for serious breaches of any environmental regulations across all disclosure topics covered here (although in 2021, a small administrative fine of 45 Euros was incurred for late provision of reporting data).<br><br>Small internal improvements, such as using recycled or environmentally friendly paper for printing are easy to implement. The company chooses to not print its sustainability report and instead, encourages e-downloads (unless events we attend require handout copies for participants). Improvements to our relationships with larger technical service providers, whose contracts are regulated based on national guidelines, are more difficult to make. The company reporting procedures and data collection methodologies are steadily improving as we increase the number of disclosures that we report on. However, we need to do more to evaluate what happens to the internal and external waste we generate. |
| **103-3** | **Evaluation of the management approach** | Evaluation of the management approach is carried out through grievance mechanisms and general user feedback, and improvements are considered based on issues raised. For this category of 103-3 disclosure reporting, the company remains committed to continually improving these methods of encouraging and collecting evaluation feedback. |
| **The GRI 103: Management Approach applied to all 11 GRI 400 Social material topics** | | |
| **103-1** | **Explanation of the material topic and its boundary** | Eleven GRI 400: Social material topics (see 102-47 above) have been combined for this disclosure (as per GRI 103 general guidance clause 1.1).<br><br>The company is strong on employee labour relations and as such, provides regular reports on progress made in the health and safety issues for the company and its employees. Qualification and technical improvement of employee skills is equally important to the company, and in support of this, the company provides and promotes an annual programme of different types of trainings, seminars, and conferences for employees to participate in.<br><br>The company respects the principles of gender equality, non-discrimination. Customer privacy, along with freedom of association and collective bargaining agreements, is automatically part of company policy (as is the outlawing of child labour and forced labour in the company).<br><br>Public policy is important for the company because we provide a public service and are part of city |

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| | | municipality services offered to the public, and therefore our public policies need to reflect our public profile. The company follows a strict regime of compliance to health and safety regulations because it is tantamount to the services we provide, the people who provide them, and those who use them.<br><br>The boundary for impacts for all these material topics, remains mainly focused on local and regional sites, along with all stakeholders within these areas. |
| **103-2** | **The management approach and its components** | Internally the company has a strong management approach for social and health and safety issues related to employees. This includes a collective agreement for all employees, an employee's health and safety division, an Occupational Health and Safety Committee, and established procedures for employees to voice their concerns, suggestions, or grievances. Links to all decision making for these material topics are referred to in disclosure 102-18 (Governance Structure) and all links to the principles that make up the company policies are in disclosure 102-16 (Values, Principles, Standards and Norms of Behaviour).<br><br>The Occupational Health and Safety Department reports directly to the General Manager, and its main objectives are to:<br><br>• establish employee safety and fire safety requirements in the company;<br>• monitor the compliance of employees with these requirements;<br>• organize preventive measures to improve the health and safety of workers;<br>• investigate incidents and accidents related to work;<br>• organize exercises and trainings on the issues of health and safety of employees and fire safety, and<br>• advise employees.<br><br>Full instructions on all of the above are provided by the company. Responsibilities for the implementation of employee safety have been transferred to the heads of departments, work supervisors, and those employees who maintain and operate equipment throughout the company.<br><br>The company's occupational health policy ensures that all employees must undergo a health check before employment to determine the hazards identified for that job. The company has a signed service agreement to allow a medical institution to complete this procedure. Employees are then provided with periodic health check-ups once every two years. If an employee is unable to perform their assigned work due to ill health, they are transferred to other jobs where they can work. Prior to any medical examination, employees sign a confidentiality form regarding personal data usage required for this.<br><br>In 2021, there were no specific health and/or safety promotional campaigns, apart from national requirements in line with restricting the spread of COVID-19. The company does however actively promote the availability of its recreation complex - sauna, swimming pool – which is provided free of charge to |

employees.

Regular workplace inspections are carried out on company sites where employees are working, as well as company sites where non-employees are working. New employees are provided with instructions on basic health and safety company policies. Those working in manual roles are provided with a safety supervisor during the initial employment starting period. All employees of the company are instructed once a year in accordance with the approved instructions for the safety and health of employees and fire safety. Depending on the complexity of the work, an account-permit, instructions and orders are issued for the work. These documents identify hazards, risks and measures to eliminate or reduce them. For external contractors working on the company's premises, a ‘Permit to Act’ is issued, which lists the requirements for the performance of work, the safety measures that must be implemented, and the identification of potentially hazardous areas. These areas, and the possible risks associated with them, are assessed in accordance with national safety legislation.

Under the requirements of the company's occupational health and safety regulations, any employee who notices an unsafe practice in the workplace must immediately stop work and inform their direct supervisor. In addition, employees can make suggestions to improve the situation directly to their supervisor or the occupational health and safety department. If a violation of any safe practice is identified that poses a real risk of injury or injury to a nearby employee, then work is stopped immediately, and an inspection report is filled in indicating the corrective actions and the date by which they must be implemented. The next inspection checks whether the irregularities have been rectified and corrective action has been taken. In 2021 there were no such violations.

The company holds periodic briefings with employees on these issues, and any measures that improve the safety situation in the company are coordinated with the company's trade union.

Employees are trained and certified periodically according to the company's established procedures. Training is carried out in accordance with the company's annual "Employee Training Plan", which specifies for which specific employee when and in which qualification training it is mandatory to participate. Training is planned for the operation of energy equipment, maintenance and management of potentially hazardous equipment, and the performance of any hazardous work. Upon successful completion of the theoretical training and examinations, qualification certificates are issued.

In addition, special emphasis is paid to improving the qualifications of employees through their placement on specialist work-related training programmes run by either government institutions or professional associations and these take place annually.

The trade union within the company had 92 members as of 31 December 2021. Both the trade union and

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| | | individual employees are free to enter associations and negotiate collectively for better working conditions or pay.<br>In 2021 and in previous years, the company did not record any violation of the principles of gender equality and non-discrimination. There were no cases of child or forced labour in 2021 not the previous years in the company. With our policy on this issue, we can be sure of not having any cases in future reports. |
| **103-3** | **Evaluation of the management approach** | Evaluation of the management approach is systematically linked to the company's commitment to non-financial reporting. The company encourages feedback and suggestions through employee or client feedback. For this category of 103-3 disclosure reporting, the company remains committed to continually improving these methods of encouraging and collecting evaluation feedback, and providing resources where necessary to maintain our performance. It is planned for 2022 to begin providing employee feedback for annual personal appraisals. |

| **Topic Specific Disclosures - GRI 200: Economic** | | |
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| **GRI 204: Procurement Practices (2016)** | | |
| **204-1** | **Proportion of spending on local suppliers** | The percentage of procurement budget that is spent on suppliers local to operations (such as percentage of products and services purchased locally) is 99.912%; locally is defined as being within Lithuania, and our definition of 'significant locations of operation' is within Lithuania. |
| **GRI 205: Anti-corruption (2016)** | | |
| **205-1** | **Operations assessed for risks related to corruption** | Procurement procedures, which represent 99.912% of company budget spend, are the only possible risk areas for corruption. However, with all procurement procedures being strictly regulated by the law and our anti-corruption policy, we believe that there are no significant risks related to corruption identified through our risk assessment of procurement procedures. In all other operations, we believe we are equally as robust. |
| **205-2** | **Communication and training about anti-corruption policies and procedures** | The company has had a Corruption Prevention Policy since February 2017 which is published on its website: https://www.kaunoenergija.lt/atsisiuntimas?download_id=38. Also published on its website is the company's statement of its position on corruption and what it is doing to help prevent it happening: https://www.kaunoenergija.lt/esame-atsakingi/korupcija . |

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| | | All 100% of the governance bodies have been notified of the organization's anticorruption policies and procedures, as has 100% of the workforce (all 377 employees) across all work categories. In total, 100% of our suppliers (12 major suppliers and 648 smaller external suppliers - detailed in disclosure 102-9) are informed of the company's anti-corruption policy. In addition, all contractors and suppliers participating in public procurements are made fully aware of the company's anti-corruption policy and procedures on a compulsory basis.<br><br>Compliance with the Corruption Prevention Policy is an integral part of our business ethics, and as such, it is fully applied to representatives (intermediaries) of the company. The regions covered by all of the above are as described in disclosure 102-4. The company also has in place a Code of Ethics https://www.kaunoenergija.lt/esame-atsakingi/etikos-kodeksas (see disclosure 102-16).<br><br>The company has in place a 'Gift Policy' covering the procedure of receiving, giving and dealing with Gifts for all employees regardless of position. In order to avoid possible conflicts of interest or possible misunderstandings, a description of procedures for receiving, giving and dealing with gifts is provided on the company's website: https://www.kaunoenergija.lt/esame-atsakingi/dovanos.<br><br>Specific activities in 2021 included training by the national Special Investigation Service (hereinafter - STT) on corruption prevention, including gift policy:<br>• Two employees from the company's Prevention Department attended STT trainings on an e-learning platform, passed tests and received certificates. Topics included - the concept of corruption, conflicts of interest, gift policy, and bribery of foreign officials.<br>• A list of company positions (totalling 51 different positions across 18 departments and sub-divisions) has been approved for the compulsory declaration of any public and private interests in these roles. This includes a list of positions for which a written request will be made to the Special Investigation Service to provide information on persons before they are appointed. |
| **205-3** | **Confirmed incidents of corruption and action taken** | No cases of corruption were identified or reported to the company during 2021. |
| **Topic Specific Disclosures - GRI 300: Environmental** | | |
| **GRI 302: Energy (2016)** | | |
| **302-1** | **Energy consumed within the organisation** | Kauno Energija is a producer of heat energy, so the largest part of electricity is consumed for the production and supply of this. Information on total fuel consumption from renewable and non-renewable sources is available in full in the company's annual report. Fuel usage for energy production in |

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| | | Kauno Energija in 2021 was as follows: Natural gas 33.4%; Solid biofuel – 64.4%; and other fuels – 0.22%. UAB 'Petrašiūnų Katilinė' was 100% solid biofuel, and UAB 'GO Energy LT' used no fuel and produced no energy in 2021.<br>The company purchased and consumed 11,356,331 kWh of electricity for internal needs and their internal electricity consumption was 10,584,867 kWh. The remaining 771,464 kWh was resold.<br>Internal needs: 1,154521 kWh; For heat production and supply: 9,430,346 kWh<br>UAB 'Petrašiūnų Katilinė' purchased and consumed 626,123 kWh of electricity for internal needs, and their internal electricity consumption was 626,123 kWh. Electricity was not resold.<br>Internal needs: 15,027 kWh; For heat production and supply: 611,096 kWh<br>UAB 'GO Energy LT' purchased and consumed 122,657 kWh of electricity for internal needs and their total internal electricity consumption was 1,100 kWh. The remaining 121,557 was resold.<br>Internal needs: 1,100 kWh; For heat production and supply: 0,000 kWh |
| **302-2** | Energy consumed outside the organisation | Omission of full disclosure as allowed under GRI Standard 101: clause 3.2. Currently, the company does not have the methodologies, assumptions and/or calculation tools in place to collect and fully report on these disclosures, but it is endeavouring to improve its data collection procedures. |
| **302-3** | Energy intensity | |
| **302-4** | Reduction of energy consumption | |
| **302-5** | Reductions in energy requirements of products and services | |
| **GRI 303: Water & Effluents (2018)** | | |
| **303-1** | *Interactions with water as a shared* | *These two disclosures are 'Management Approach Disclosures', and as such, they are reported under* |

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| | *resource* | *GRI103: Environmental Management Approach Disclosures.* |
| **303-2** | *Management of water discharge-related impacts* | |
| **303-3** | **Water withdrawal** | In 2021, Kauno Energija withdrew 374,861 $m^3$ of water taken from the following sources:<br>• 25,208 $m^3$ from the municipality water-supply<br>• 57,519 $m^3$ from company boreholes<br>• 292,134 $m^3$ from Nemunas river<br>UAB „Petrašiūnų Katilinė" withdrew 357 $m^3$ of water from the public water-supply, and UAB "GO Energy LT" withdrew 946 $m^3$ from the municipality water-supply.<br>Rates are set for withdrawals from all of the above sources, and the company does not exceed them. All calculations are taken from direct measurements using water meters. There were no water sources significantly affected by the company's withdrawal of water, nor was any water taken from areas suffering from 'water stress'. |
| **303-4** | **Water discharge** | 21 972 $m^3$ of water flows into the sewage system, through which it enters the sewage treatment plant and 106 603 $m^3$ of water flows into the open water bodies. |
| **303-5** | Water Consumption | Omission of full disclosure as allowed under GRI Standard 101: clause 3.2. Currently, the company does not have the methodologies, assumptions and/or calculation tools in place to collect and fully report on these disclosures, but it is endeavouring to improve its data collection procedures. |
| **GRI 305: Emissions (2016)** | | |
| **305-1** | **Direct (Scope 1) GHG emissions** | As the company is a producer of heat energy, it monitors emissions from these sources of production and provides data to public and state authorities in accordance with the procedures established by law. For 2021, we can report that total direct emissions from the company's heat production sources was 22,203 t $CO_2$, with gases included in these calculations being $CO_2$ only (the biological emissions of $CO_2$ in metric tonnes are not counted in $CO_2$ equivalents).<br>According to legislation, only the emissions of boiler houses that are more than 20 MW capacity are calculated. The company owns five boiler houses that are more than 20 MW capacity. Their individual total GHG emissions/t $CO_2$ equivalent data for 2021 are as follows:<br>• Petrašiūnų elektrinė – 10,412 t $CO_2$<br>• "Pergalės" katilinė – 4,937 t $CO_2$ |

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| | | • "Šilko" katilinė – 6,370 t $CO_2$<br>• Garliavos katilinė – 127 t $CO_2$<br>• Jurbarko katilinė – 357 t $CO_2$<br>For 2021, the baseline year of calculation of 2014-2018 has been used for Petrašiūnai power plant, and the boiler houses at Pergalė, Garliava and Noreikiškės. The base year of the calculation is applied based on the individual production sources and is chosen due to the higher median of activity data (reports and justifications are available from the Lithuanian Environmental Protection Agency (http://oras.gamta.lt/cms/index).<br>For the period 2013 to 2021, total GHG emissions/t $CO_2$ equivalent from the company's heat production facilities are as follows:<br>**Year** \| **2013** \| **2014** \| **2015** \| **2016** \| **2017** \| **2018** \| **2019** \| **2020** \| **2021**<br>GHG Emissions \| 36,042 \| 32,711 \| 8,607 \| 8,480 \| 8,918 \| 21,008 \| 12,644 \| 7,280 \| 22,203<br>Currently, no other scope 1 emissions data is collected by the company.<br>The source of the emission factors and the reference to the global warming potential (GWP) rates used (as well as standards, methodologies, and calculating tools) are all taken from the following documents:<br>• Directive 2003/87 / EC of the European Parliament and of the Council<br>• Commission Regulation No 600/2012<br>• Commission Regulation No 601/2012<br>• Standard ISO 14065. |
| **305-2** | Energy indirect (Scope 2) GHG emissions | Omission of full disclosure as allowed under GRI Standard 101: clause 3.2. Currently, the company does not have the methodologies, assumptions and/or calculation tools in place to collect and fully report on these disclosures, but it is endeavouring to improve the necessary procedures. |
| **305-3** | Other indirect (Scope 3) GHG emissions | |
| **305-4** | GHG emissions intensity | |
| **305-5** | **Reduction of GHG emissions** | In 2021 the company emitted 22,203 tonnes of greenhouse gases (CO2). |
| **305-6** | **Emissions of ozone-depleting** | Neither the company nor its subsidiaries produce or emits ozone-depleting substances in their operations. The only place where such substances are used are air conditioners for room cooling, but |

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| | **substances (ODS)** | these are closed systems. The air-cooling services are maintained by outsourced providers and not by the company and its subsidiaries. |
| **305-7** | **Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions** | For 2021, the decrease in emissions for some of the reported categories is again mainly due to the heat demand in the district network. Though this may still be related to adjustments to switch over to the EMEP calculation and reporting methodology. Full reporting of all available and relevant requirements of this disclosure is contained in the company annual report. |

| Per Year, t | Particulates | Nitrogen Oxides | Carbon Monoxide | Sulphur Dioxide | Hydro-carbons | Vanadium Pentoxide | Others |
|---|---|---|---|---|---|---|---|
| **2021** | **72.9579** | **196.5479** | **781.2462** | **158.4375** | **1.2315** | **0.0000** | **0.2966** |
| 2020 | 98.6841 | 217.8864 | 884.9974 | 102.9845 | 1.1430 | 0.0000 | 0.2801 |
| 2019 | 89.0913 | 280.7396 | 1,261.2142 | 0.2746 | 1.1978 | 0.0000 | 0.4313 |
| 2018 | 48.7984 | 283.0412 | 1,082.9366 | 31.6210 | 1.1982 | 0.0000 | 0.1509 |
| 2017 | 79.7242 | 285.6461 | 1,236.7667 | 145.0571 | 1.1982 | 0.0000 | 0.4297 |
| 2016 | 53.7542 | 265.0797 | 1,155.3349 | 231.4719 | 4.2871 | 0.0000 | 0.2818 |
| 2015 | 43.5783 | 203.6775 | 904.8513 | 193.3228 | 20.1586 | 0.0000 | 0.2818 |
| 2014 | 23.613 | 154.570 | 534.443 | 47.158 | 16.294 | 0.0000 | 0.440 |
| 2013 | 10.5967 | 101.3197 | 299.6656 | 5.0747 | 14.9647 | 0.0000 | 0.770 |
| 2012 | 7.6130 | 54.3160 | 135.1510 | 6.0280 | 1.2080 | 0.0000 | 0.4397 |

## GRI 306: Waste (2020)

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| **306-1** | *Waste generation and significant waste-related impacts* | *These two disclosures are 'Management Approach Disclosures', and as such, they are reported under GRI103: Environmental Management Approach Disclosures.* |

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| **306-2** | *Management of significant waste-related impacts* | |
| **306-3** | **Waste generated** | The company's waste minimisation strategy is being updated in order to be in line with the requirements of the new GRI 306: Waste (2020). Currently the company implements a waste sorting system on its own premises. There are facilities within our buildings to sort and collect different types of waste such as paper, plastics, glass, and general household waste. Information on how to sort was placed near sorting containers and it was sent to all employees by intranet and email. We currently have no data for the amount of waste collected in this way for recycling. |

| Type of Materials | Tonnes | Type of Materials | Tonnes |
|---|---|---|---|
| Glass | 1.04 t | Small IT and telecommunications equipment | 0.417 t |
| Mixed municipal waste | 27.14333 t | Large IT equipment | 0.523 t |
| Metal | 791.45 t | Portable lead-acid batteries | 0.412 t |
| Bottom ash, slag and boiler dust | 1,584.12 t | Engine, gearbox and lubricating oil | 0.35 t |
| Fuel oil and diesel fuel | 1.484 t | Mixed construction and demolition waste | 113.16 t |
| Fractions not otherwise specified | 2.46 t | Used tyres | 1.73 t |
| Components removed from discarded equipment | 0.057 t | Packages containing or contaminated with dangerous substances | 1.835 t |
| Wastes whose collection and disposal is subject to special requirements to prevent infection | 0.006 t | Screens, monitors and equipment containing screens with a surface area of more than 100 $cm^2$ | 0.1 t |
| Absorbents, filter materials (including oil filters not otherwise specified), wipes, and contaminated protective clothing | 0.07 t | Laboratory chemicals (including mixtures of laboratory chemicals, consisting of or containing of dangerous substances) | 0.421 t |
| Paper and cardboard | 0.864 t | Daylight lamps | 0.088 t |
| Batteries and accumulators | 0.147 t | Plastic | 0.197 t |

All of the above waste disposal methods are determined by local authorities and are carried out by certified waste disposal or recycling companies registered in the Register of Waste Managers, and all

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| | | are under written contracts. These companies include the following: Kaunas Biological Waste Plant (operated by Kaunas Region Waste Management Centre); UAB Kaunas Cogeneration Power Plant and Kaunas Region Waste Management Centre (landfill operators). The waste disposal companies provide no further information as to the disposal methods used. Kauno Energija is obliged under legislation to transfer waste to legal waste managers, but there is no further obligation on Kauno Energija to take an interest in how this waste is further recycled. However, our largest amount of waste generated is ash from the combustion of biofuels, and we are considering the possibility of handing this over to farmers to use. |
| **306-4** | Waste diverted from disposal | Omission of full disclosure as allowed under GRI Standard 101: clause 3.2. Currently, the company does not have the methodologies, assumptions and/or calculation tools in place to collect and fully report on these disclosures, but it is endeavouring to improve its ability to do so. |
| **306-5** | Waste directed to disposal | |
| **GRI 307: Environmental Compliance (2016)** | | |
| **307-1** | **Non-compliance with environmental laws and regulations** | In 2021, an administrative fine was imposed for failure to provide environmental monitoring data in a timely manner on the company's website. A company employee received a fine of 45 Euros. |
| **Topic Specific Disclosures - GRI 400: Social** | | |
| **GRI 402: Labour / Management Relations (2016)** | | |
| **402-1** | **Minimum notice periods regarding operational changes** | The minimum period within which workers and their representatives must be informed before any change in working conditions which significantly affects workers is five working days. This term is established by the Labour Code of the Republic of Lithuania |
| **GRI 403: Occupational Health and Safety (2016)** | | |
| **403-1** | *Occupational health and safety management system* | *These three disclosures are 'Management Approach Disclosures', and as such, they are reported under GRI103: Social Management Approach Disclosures.* |
| **403-2** | *Hazard identification, risk assessment, and incident investigation* | |

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| **403-3** | *Occupational health services* | *These four disclosures are 'Management Approach Disclosures', and as such, they are reported under GRI103: Social Management Approach Disclosures.* |
| **403-4** | *Worker participation, consultation, and communication on occupational health and safety* | |
| **403-5** | *Worker training on occupational health and safety* | |
| **403-6** | *Promotion of worker health* | |
| **403-7** | *Prevention and mitigation of occupational health and safety impacts directly linked by business relationships* | |
| **403-8** | **Workers covered by an occupational health and safety management system** | The system within the company for occupational health and safety management is in line with the national and EU legislation for health and safety requirements. This covers all employees, and those workers who are not employees, but whose work takes part on company premises or sites. |
| **403-9** | **Work-related injuries** | During 2021, one employee suffered a minor work-related injury. Details of the injury are as follows:<br>1. Trauma (multiple fractures of the ribs) classified as mild;<br>2. Employee had 35 days off work (280 hours) due to the injury;<br>3. Injury occurred when the worker fell from a height.<br>A plan of preventive measures was drawn up, and according to this, service sites were inspected, and barriers were placed where necessary in order to restrict access to hazardous areas.<br>Three other incidents in which workers suffered minor injuries occurred on their journey to work, injuries that were not directly related to the workplace. During 2021 the company received no information from contractors regarding injuries to, or accidents involving, employees at the facilities of Kauno Energija. |
| **403-10** | **Work-related ill health** | There were no reported or recorded cases of work related ill-health due to access or exposure to hazardous materials.<br>One worker was diagnosed with an occupational disease which may have been related to the work performed for the company. However this connection was never confirmed (his disease may have been |

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| | | connected with his previous employer), and as the employee has now left the company, we will not know. |
| **GRI 404: Training and Education (2016)** | | |
| **404-1** | **Average hours of training per year per employee** | The company has a permanent in-service training programme which includes: in-service training run by external experts on team-building for managers and middle managers. This training takes place once per month throughout the year. Participation is voluntary and open to each employee.<br>The average duration of training hours in 2021 per employee was 9 hours (a figure based only on the in-service training programmes the company runs), a decrease of seven hours per employee based on last year's figures.<br>The gender split is approx. 230 hours for women and 3,601 hours for men. This disparity between male and female hours is based on the fact that there are a larger number of men working in specialist technical jobs that require specialist technical training.<br>The split of training hours for categories of employees is as follows: 520 hours for managers, 1,143 hours for specialists, and 2,168 hours for workers. |
| **404-2** | **Programmes for upgrading employee skills and transition assistance programmes** | For current employees there are no special programmes, except for those employees who need to update on a regular basis their specific qualifications necessary for holding special certificates or professional licences. To date, the company does not record these by gender.<br>Transition programmes for those who are retiring (or being made redundant) do not currently exist within the company. |
| **404-3** | Percentage of employees receiving regular performance and career development reviews | Omission of full disclosure allowed under GRI Standard 101: clause 3.2. Full disclosure information is not available in the format required for this report. The company does not currently provide performance reviews as part of its training and education for employees. |
| **GRI 405: Diversity and Equal Opportunity (2016)** | | |
| **405-1** | **Diversity of governance bodies and employees** | The Supervisory Board has six members – five male and one female, all of whom are not employees of the company. The Management Board has five members, all male, and all are not employees of the company. The Audit committee currently consists of three members, one female and two males. The company does not have information on the age of members of these three bodies.<br>The Occupational Health & Safety Committee has three members: two female and one male. Two between 30 to 50, and one over 50 years old. |

| | | Age distribution of employees of Kauno Energija, UAB GO Energy LT and UAB Petrašiūnų katilinė: |
|---|---|---|

| | <30 | 30 to 50 | Over 50 | Total |
|---|---|---|---|---|
| Men | 19 | 117 | 137 | 273 |
| Women | 11 | 41 | 52 | 104 |
| Total | **30** | **158** | **189** | **377** |
| | | | Men | 72,4% |
| | | | Women | 38,1% |

The split between men and women at management level across the company is:

| Total Managers | Women | Men |
|---|---|---|
| Kauno Energija | 5 | 15 |
| UAB "GO Energy LT" | 0 | 1 |
| UAB "Petrašiūnų katilinė" | 0 | 1 |

The company does not have any information on persons belonging to minorities or vulnerable groups.

| | | |
|---|---|---|
| **405-2** | **Ratio of basic salary and remuneration of women to men** | There is no difference between the salaries of women and men with the same qualifications and working in the same positions within the company. |
| **GRI 406: Non-discrimination (2016)** | | |
| **406-1** | **Incidents of discrimination and corrective actions taken** | No cases of discrimination were recorded in the company in 2021. |
| **GRI 407: Freedom of Association and Collective Bargaining (2016)** | | |
| **407-1** | **Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk** | There are no risks to employees' being able to exercise their rights to freedom of association and collective bargaining. All employees of the company (and extended Group subsidiaries) are free to join any association and negotiate collectively for better working conditions or pay. A trade union operates in the company with 92 members as of December 31, 2021. |

| | | |
|---|---|---|
| | | A collective agreement operates in the company, which covers all issues related to the employee's working conditions as well as all issues of learning and professional development and social security. |
| **GRI 408: Child Labour (2016)** | | |
| **408-1** | **Operations and suppliers at significant risk for incidents of child labour** | There is no child labour in the company or its subsidiaries. There are also no company operations, or suppliers that the company works with, that can be considered to have significant risk for incidents of child labour. |
| **GRI 409: Forced or Compulsory Labour (2016)** | | |
| **409-1** | **Operations and suppliers at significant risk for incidents of forced or compulsory labour** | There is no forced or compulsory labour in the company or its subsidiaries. There are also no company operations, or suppliers that the company works with, that can be considered to have significant risk for incidents of forced or compulsory labour. |
| **GRI 415: Public Policy (2016)** | | |
| **415-1** | **Political contributions** | No financial or in-kind political contributions were made directly or indirectly by the company or through its subsidiaries. |
| **GRI 416: Customer Health and Safety (2016)** | | |
| **416-1** | **Assessment of the health and safety impacts of product and service categories** | No significant product and service categories for which health and safety impacts are assessed for improvement. Please note however, that in terms of employee assessment, the company has a series of regular and routine health and safety checks and assessments made as part of its statutory legal working practices. |
| **416-2** | **Incidents of non-compliance concerning the health and safety impacts of products and services** | The company has had no identified or registered non-compliance with regulations and/or voluntary codes. |
| **GRI 418: Customer Privacy (2016)** | | |
| **418-1** | **Substantiated complaints concerning breaches of customer privacy and losses of** | The company received no substantiated complaints from any outside parties or regulatory bodies, nor were there any identified leaks, thefts, or losses of customer data during 2021. |

| | | |
|---|---|---|
| | **customer data** | |