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CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 12 of the Law on Securities of the Republic of Lithuania and the Rules of Disclosure of the Bank of Lithuania, we, the undersigned Mindaugas Keizeris, Chief Executive Officer of AB Energijos skirstymo operatorius, Augustas Dragūnas, Director of Finance and Administration, and Dalia Motiejūnienė, Head of Corporate Accounting of UAB Ignitis grupės paslaugų centras acting under Order No IS-11-22 of 14 February 2022, hereby confirm that, to the best of our knowledge, AB Energijos skirstymo operatorius financial statements for the financial year 2021 are prepared according to International Accounting Standards adopted by the European Union, give a true and fair view of AB Energijos skirstymo operatorius assets, liabilities, financial position, profit or loss for the period and cash flows, the Annual Report for the financial year 2021 includes a fair review of the activities business development as well as the condition of AB Energijos skirstymo operatorius and with the description of the principle risk and uncertainties it faces.

AB Energijos skirstymo operatorius Chief Executive Officer	Mindaugas Keizeris
AB Energijos skirstymo operatorius Director of Finance and Administration	Augustas Dragūnas
UAB Ignitis grupės paslaugų centras Head of Corporate Accounting acting under Order No IS-11-22 of 14 February 2022	Dalia Motiejūnienė

AB „Energijos skirstymo operatorius"
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Bendrovės kodas 304151376
PVM mokėtojo kodas LT100009860612
Registrų tvarkytojas VĮ Registrų Centras
E. pristatymas 304151376

2021 AB Energijos skirstymo operatorius

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

www.eso.lt

AB Energijos skirstymo operatorius
Laisvės pr. 10, 04215 Vilnius, Lithuania
e-mail info@eso.lt
Legal entity code 304151376

Contents

The financial statements of the Company were prepared and signed on 28 February 2022 by the management of AB Energijos Skirstymo Operatorius:

Mindaugas Keizeris	**Augustas Dragūnas**	**Dalia Motiejūnienė**
Chief Executive Officer	Director of Finance and Administration	Head of Corporate Accounting of UAB Ignitis Grupės Paslaugų Centras, acting under Order No IS-11-22 of 14/02/2022

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Independent Auditor's Report

To the Shareholders of AB "Energijos skirstymo operatorius"

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AB "Energijos skirstymo operatorius" ("the Company"). The Company's financial statements comprise:

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

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

Basis for Opinion

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

Other Matter

The financial statements of AB "Energijos skirstymo operatorius" as at and for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 26 February 2021.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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.

Revaluation of Property, plant and equipment used in electricity distribution

We refer to the financial statements:

The carrying amount of property, plant and equipment used in electricity distribution as at 31 December 2021: EUR 1,314,911 thousand; related impairment losses recognized in the statement of profit (loss) in 2021: EUR 10,197 thousand; decrease in carrying amount recognised in the statement of other comprehensive income and revaluation reserve in the statement of equity in 2021: EUR 38,373 thousand

Significant accounting policies – Note 2.4 "Property, plant and equipment", Note 4 "Critical accounting estimates and judgments used in the preparation of the financial statements"; financial disclosures - Note 6 "Property, plant and equipment"

The key audit matter	How the matter was addressed in our audit
Property, plant and equipment (thereafter "PPE") allocated to electricity distribution cash generating unit („CGU") is accounted for at revalued amounts less subsequent accumulated depreciation and impairment losses. The Company has determined, that the fair value of the electricity distribution CGU as at 31 December 2021 would be impacted by the changes in regulated activity in electricity distribution for the new regulation period 2022-2026. The fair value of PPE is determined based on an independent valuation report. The independent appraiser applied revenue and and cost methods to measure property, plant and equipment at fair value.. Valuation of electricity distribution network assets was carried out in the following stages: (i) replacement cost of new assets (RCN) was estimated; (ii) physical and functional obsolescence of assets was determined; (iii) economic obsolescence of assets was assessed (using the income method). In addition, management tested the reasonableness of the overall valuation of PPE	Our audit procedures performed included: • Assessing compliance with applicable accounting standards; • Assessing professional qualifications, competence and objectivity of the independent appraiser; • Involving our internal valuation specialists who assisted us at: - Assessing the appropriateness of the methodology applied by the independent appraiser by comparing it to methodologies commonly used in valuations of similar assets, - Assessing the appropriateness of the input data and assumptions used in applying depreciated replacement cost method by comparing it to external data on current purchase prices of similar assets; • Challenging the key assumptions used in the discounted cash flow model by comparing sales volumes and profit margins to historical results and regulation data as well as comparing the forecasted growth

as determined by the independent appraiser by comparing it to amounts determined with a discounted cash flow model for the entire CGU which includes PPE. We identified revaluation of PPE as a focus area in our audit because of the significance of the amounts involved, the judgments required in selection of appropriate valuation methods and determination of fair values. Accordingly, we have identified this area as a key audit matter.	rates and the discount rate to the ones used in the industry and set by the regulator, • Considering sensitivity of the discounted cash flow model to changes in key assumptions to understand the impact of such changes on levels of headroom; the key assumptions included sales volumes, profit margins, forecasted growth rate and discount rate; • Evaluating the budgeting process (upon which forecasts are based) by comparing the actual results for the year with original forecasts and taking these observations into consideration into the sensitivity analysis performed; • Checking mathematical accuracy of the discounted cash flow model; • Considering adequacy of disclosure in the Company's financial statements in respect to the revaluation PPE.

Impairment of Property, plant and equipment used in gas distribution	
We refer to the financial statements: *The carrying amount of property, plant and equipment used in gas distribution as at 31 December 2021: EUR 334,828 thousand; related impairment losses recognized in the statement of profit (loss) in 2021: EUR 6,645 thousand.* *Significant accounting policies – Note 2.4 "Property, plant and equipment", Note 4 "Critical accounting estimates and judgments used in the preparation of the financial statements"; financial disclosures - Note 6 "Property, plant and equipment"*	
The key audit matter	How the matter was addressed in our audit
As described in Note 4 of the financial statements, in the current year, the Company identified impairment indicators in respect of its property, plant and equipment attributed to the gas distribution cash- generating unit („CGU"), due to revised planned investments which had influence to forecasted base of regulated assets of which return on assets is calculated. As at 31 December 2021, the Company tested property, plant and equipment for impairment, as part of the impairment test performed for the gas distribution CGU. The Company determined the CGU's recoverable amounts based on its value in use estimated under the discounted cash flow method. Determining the CGU's recoverable amount is	Our procedures in the area included, among other things, the following: • Evaluating, against the requirements of the relevant financial reporting standards, the Company's accounting policy for identification of impairment indicators, and measurement and recognition of any impairment losses in respect of property, plant and equipment; • Assessing the appropriateness of the impairment methodology applied by the Company against methodologies commonly used for similar assets and the requirements of relevant financial reporting standards. As part of the

a process which requires significant judgment and estimation, especially in respect of the amounts of future cash flows, and associated discount rates and growth rates, based on management's projections of future performance. The projected operating cash flows from the Company's activities are influenced primarily by assumptions concerning quantity of gas distributed, changes in the calculation of regulated tariffs as well as level of main related costs. Accordingly, this matter was considered by us to be associated with significant judgement and estimation and required our increased attention in the audit. As such, we determined it to be a key audit matter.	above, we identified the relevant methods, assumptions and sources of data, and assessed, whether such methods, assumptions, data and application are appropriate in the context of the said requirements; • Evaluating the quality of the Company's forecasting by comparing historical projections with actual outcomes. • Challenging the reasonableness of the Company's key assumptions and judgment used in the estimation of the recoverable amount, including: - Assisted by our own valuation specialists, challenging reasonableness of the key macroeconomic assumptions used, such as those in respect of discount rates, by reference to publicly available external sources; - Tracing the key assumptions used in the discounted cash flows calculation, such as those in respect of the future demand, revenue growth and operating costs, by reference to the budgets approved by the Management Board, our understanding of the Company's operations and trends, and publicly available industry data; • Testing the internal consistency, underlying formulas and mathematical accuracy of the discounted cash flow model. • Assessing susceptibility of the impairment model and the resulting impairment conclusions to management bias, by challenging the Company's analysis of the model's sensitivity to changes in key underlying assumptions. • Testing the allocation of impairment losses to the property, plant and equipment of gas distribution CGU. • Considering the adequacy of impairment-related disclosures in the Company's financial statements.

Allowances for impairment losses in trade receivables

We refer to the financial statements:

The carrying value of trade receivable in the statement of financial position as at 31 December 2021 amounts to EUR 86,748 thousand. The total impairment loss reversal recognized in the statement of profit or loss and other comprehensive income for the year ended 31 December 2021 amounts to EUR 259 thousand.

Significant accounting policies – Note 2.9 "Financial instruments", Note 4.8. "Expected credit losses of trade receivables", Note 10 "Trade and other receivables".

The key audit matter

Impairment allowances represent Management's best estimate of the expected credit losses within the trade receivables at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment over the amounts of any such impairment.

Trade receivables are assessed by the Company for impairment at each reporting date on a collective and individual basis. For those trade receivables, measured on collective basis, the Management measures the loss allowance at an amount equal to expected credit losses (ECLs) being a probability weighted estimate of credit losses. Credit losses are measured as the present value of expected cash shortfalls (i.e. the difference between the cash flows due to the Company and the cash flows expected to be received). The estimate takes into account, among other things, repayment history and past credit loss experience and an assessment of both the current and forecast general economic conditions at the reporting date.

Accordingly, the key areas of estimation uncertainty and judgement associated with recognition of impairment allowances for trade receivables are:

- Assumptions used to assess credit risk for a given exposure and the expected payment pattern from the customer;
- Timely identification of exposures with significant increase in credit risk or those credit impaired (defaulted).

Due to the magnitude of the amounts involved, together with the complexity of judgements and assumptions required in estimating expected credit losses, the area required our increased attention in the audit and was determined to be a key audit matter.

How the matter was addressed in our audit

Our audit procedures in the area included, among others:

- Assessing the appropriateness of the Company's impairment methodology against the relevant financial reporting requirements;
- Independently assessing the relevant forward-looking information and macroeconomic forecasts used in the ECL assessment by inspecting publicly available information, our knowledge of business and through discussions with Management;
- Assessing the accuracy and completeness of the Company's ECL estimates at 31 December 2021 including:
  - Assessing the key impairment model parameters, by reference to the Company's own historical credit loss experience, our understanding of the business and current economic trends and expectations;
  - Performing a retrospective assessment of the historical accuracy of the Management Board's impairment assumptions and estimates, including estimated loss rates, against actual outcomes;
- Evaluating whether the disclosures in the financial statements in respect of the expected credit losses for trade receivables satisfy the requirements of the relevant financial reporting standards.

Revenue recognition related to the estimation of overdeclaration /underdeclaration of electricity usage	
We refer to the financial statements: Revenue from electricity transmission recognized in the statement of profit or loss and other comprehensive income in 2021 amounts to EUR 439,459 thousand. Significant accounting policies – Note 2.18 "Revenue from contracts with customers", Note 4.9 "Estimation of over declaration of electricity usage by private customers and accounting for deferred income", Note 24 "Revenue from contracts with customers".	
The key audit matter	**How the matter was addressed in our audit**
The Company's electricity revenue depends on declarations of electricity consumed by private customers, which do not have automated meter readings. The Company has identified that private customers tend to overdeclare / undeclare the consumption of electricity before the last months of the tariff change. At each reporting date, the Company estimates the amount of the overdeclared / underdeclared consumption in order to calculate the actually earned revenue to be recognized in the statement of profit or loss and other comprehensive income for the year. The estimate takes into account, among other things, historical consumption by private customers and the Company's assessment of technological losses in the electricity grid at the reporting date. Due to the materiality of the recognized revenue and judgements of the management involved in revenue recognition above, the area required our increased attention in the audit and as such was determined to be a key audit matter.	Our audit procedures in the area included, among others: • Obtaining understanding of and evaluating the Company's revenue recognition process; • Assessing whether the revenue recognition accounting policy applied complies with the requirements of the relevant financial reporting framework; • For the estimation of revenue overdeclaration/underdeclaration of electricity usage: - Evaluating the design and implementation of key controls over the revenues recognition processes; - Assessing the consistency of the model applied in the estimate by comparing with the main assumptions used in prior year model; - Testing the internal consistency, underlying formulas and mathematical accuracy of the model; - Challenging the reasonableness of the Company's key assumptions and judgments used in estimating the overdeclared/underdeclared usage of electricity, by tracing main inputs to supporting evidence; - Assessing completeness and accuracy of estimated amount by performing independent analytical analysis of overdeclared consumption based on the key performance indicators, including historical revenue and technological grid losses information, changes in approved

	tariffs, and comparing result to actual amounts recognised; - Evaluating whether the disclosures in the financial statements in respect of the overdeclared/underdeclared usage of electricity satisfy the requirements of the relevant financial reporting standards.

Other Information

The other information comprises the information included in the 2021 Annual report, including the Corporate Social Responsibility Report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

- The information given in the annual management report for the financial year for which the financial statements are prepared is consistent with the financial statements

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that 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 Financial Statements

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 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.

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed on 7 September 2021 for the first time to audit the Company's financial statements. Our appointment to audit the Company's financial statements in accordance with the shareholder's decision has been made for a two-year period. The audit of the financial statements for the year ended 31 December 2021 was our first annual audit of the Company.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and AB "Ignitis grupė" Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided to the Company 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.

In addition to services provided to the Company in the course of audit and disclosed in the financial statements, we have provided translation of the financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Rokas Kasperavičius.

On behalf of KPMG Baltics, UAB

ROKAS KASPERAVIČIUS

Digitally signed by ROKAS KASPERAVIČIUS
Date: 2022.02.28 16:59:51 +02'00'

Rokas Kasperavičius
Partner
Certified Auditor

Klaipėda, the Republic of Lithuania
28 February 2022

The electronic auditor's signature applies only to the Independent Auditor's Report on pages 3 to 11 of this document.

Statement of Financial Position

As at 31 December 2021
All amounts are in EUR thousand unless otherwise stated

	Notes	As at 31/12/2021	As at 31/12/2020
ASSETS			
Non-current assets			
Intangible assets	5	46,446	42,967
Property, plant and equipment	6	1,649,739	1,610,169
Right-of-use assets	7	11,033	16,238
Prepayments for non-current assets		3	3
Investments in associates	8	3,891	3,722
Other financial assets		-	104
Other non-current receivables		255	200
Total non-current assets		**1,711,367**	**1,673,403**
Current assets			
Inventories	9	2,786	2,344
Trade and other receivables	10	86,748	74,896
Prepayments and deferred expenses		684	1,123
Other current assets	11	3,345	2,787
Cash and cash equivalents	12	14,524	8,965
		108,087	**90,115**
Long-term assets held for sale		1	5
Total current assets		**108,088**	**90,120**
TOTAL ASSETS		**1,819,455**	**1,763,523**
EQUITY AND LIABILITIES			
Equity			
Issued capital	13	259,443	259,443
Revaluation reserve	14	83,101	127,038
Legal reserve	14	25,944	25,944
Retained earnings		259,169	253,191
Total equity		**627,657**	**665,616**
Liabilities			
Non-current liabilities			
Long-term loans	15	649,830	657,732
Long-term lease liabilities	17	6,634	11,302
Deferred tax liabilities	18	18,028	17,007
Liabilities under connection contracts with customers	19	231,759	215,199
Grants and subsidies	20	27,168	21,318
Provisions	21	21,072	23,435
Total non-current liabilities		**954,491**	**945,993**
Current liabilities			
Loans	15	63,439	15,549
Lease liabilities	17	4,572	5,083
Trade and other payables	22	76,208	57,841
Accrued expenses and contractual obligations	23	85,479	64,525
Provisions	21	7,609	8,916
Total current liabilities		**237,307**	**151,914**
Total liabilities		**1,191,798**	**1,097,907**
TOTAL EQUITY AND LIABILITIES		**1,819,455**	**1,763,523**

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021
All amounts are in EUR thousand unless otherwise stated

	Notes	2021	2020 (restated)[1]
Revenue from contracts with customers	24	533,134	482,691
Other income	25	2,172	2,150
Total revenue and other income		**535,306**	**484,841**
Purchase of electricity, natural gas and other services		(255,655)	(194,476)
Depreciation and amortisation	5,6,7,20	(85,540)	(82,716)
Salaries and related expenses	27	(53,085)	(51,368)
Repair and maintenance expenses		(22,102)	(24,842)
Telecommunications and IT services		(11,213)	(9,717)
Impairment and write-off expenses	28	(10,117)	(11,722)
Revaluation of property, plant and equipment	6.1	(5,852)	-
Other expenses	30	(21,837)	(20,009)
Total expenses		**(465,401)**	**(394,850)**
Operating profit (loss)		**69,905**	**89,991**
Finance income	30	62	38
Finance costs	30	(13,526)	(12,096)
Finance activity, net		**(13,464)**	**(12,058)**
Share of profit of associates	8	366	139
Profit (loss) before tax		**56,807**	**78,072**
Benefit (expense) of income tax and deferred tax	18	(6,776)	(8,590)
Net profit (loss) for the year		**50,031**	**69,482**
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)			
Profit (loss) from revaluation of non-current assets		(38,373)	-
Effect of deferred tax		5,756	-
Change in actuarial assumptions	21	80	208
Items that will not be reclassified to profit or loss in subsequent periods, total		**(32,537)**	**208**
Total comprehensive income (loss) for the year		**17,494**	**69,690**

[1] Part of the amounts does not agree with the financial statements issued for the year ended 31 December 2020 due to reclassifications. See more information disclosed in Note 1.2.

Statement of Changes in Equity

For the year ended 31 December 2021
All amounts are in EUR thousand unless otherwise stated

	Notes	Issued capital	Revaluation reserve	Legal reserve	Retained earnings (loss)	In total
Balance as at 1 January 2020		**259,443**	**141,020**	**25,944**	**237,510**	**663,917**
Net profit (loss) for the year		-	-	-	69,482	**69,482**
Other comprehensive income (loss)						
Result of changes of other actuarial assumptions		-	-	-	208	**208**
Total other comprehensive income (loss) for the year		**-**	**-**	**-**	**208**	**208**
Total comprehensive income (loss) for the year		**-**	**-**	**-**	**69,690**	**69,690**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of tax)	14	-	(13,982)	-	13,982	**-**
Dividends	26	-	-	-	(67,991)	**(67,991)**
Balance as at 31 December 2020		**259,443**	**127,038**	**25,944**	**253,191**	**665,616**
Balance as at 1 January 2021		**259,443**	**127,038**	**25,944**	**253,191**	**665,616**
Net profit (loss) for the year		-	-	-	50,031	**50,031**
Other comprehensive income (loss)						
Result of changes of other actuarial assumptions		-	-	-	80	**80**
Revaluation of property, plant and equipment, net of tax		-	(32,617)	-	-	**(32,617)**
Total other comprehensive income (loss) for the year			**(32,617)**		**80**	**(32.537)**
Total comprehensive income (loss) for the year		**-**	**(32.617)**	**-**	**50.111**	**17.494**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of tax)	14	-	(11,320)	-	11,320	**-**
Dividends	26	-	-	-	(55,467)	**(55,467)**
Share-based payments		-	-	-	14	**14**
Balance as at 31 December 2021		**259,443**	**83,101**	**25,944**	**259,169**	**627,657**

Statement of Cash Flows

For the year ended 31 December 2021
All amounts are in EUR thousand unless otherwise stated

	Notes	2021	2020
Cash flows from operating activities			
Net profit (loss) for the period		50,031	69,482
Adjustments to reconcile net profit to cash flows:			
Share-based payment expenses		14	-
Income tax expenses (benefit)	18	6,776	8,590
Depreciation and amortisation expenses	5, 6, 7	86,793	83,761
Result of revaluation of property, plant and equipment	6, 20	5,852	-
Impairment/(reversal of impairment) of property, plant and equipment	6	6,095	6,967
Amortisation of grants	20	(1,253)	(1,045)
Share (of profit) of associates	8	(366)	(139)
Loss/(gain) on disposal/write-off of property, plant and equipment and assets held for sale		3,802	3,542
Finance income	30	(62)	(38)
Finance costs	30	13,526	12,096
Elimination of other non-cash activities		640	(325)
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(11,305)	(9,541)
(Increase)/decrease in inventories, prepayments, other current and non-current assets		(1,029)	(3,252)
Increase/(decrease) in trade and other payables, accrued costs and contractual obligations		56,302	18,016
Payables for property, plant and equipment		(2,644)	1,117
Net cash flows from operating activities		**213,172**	**189,231**
Cash flows from investing activities			
Acquisition of property, plant and equipment, and intangible assets		(184,641)	(141,009)
Proceeds from sale of property, plant and equipment and intangible assets		132	716
Grants received	20	11,448	7,211
Dividends received	8	197	194
Interest received	30	62	38
Net cash flows from investing activities		**(172,802)**	**(132,850)**
Cash flows from financing activities			
Loans received	15	-	200,000
Repayments of loans	15	(7,901)	(32,901)
Proceeds from cash-pool (net)	15	47,123	(138,356)
Dividends paid	26	(55,357)	(67,860)
Lease payments	17	(5,006)	(5,095)
Interest paid	16	(13,670)	(7,979)
Net cash flows from financing activities		**(34,811)**	**(52,191)**
Increase (decrease) in cash and cash equivalents		**5,559**	**4,190**
Cash and cash equivalents at the beginning of the year	12	8,965	4,775
Cash and cash equivalents at the end of the year	**12**	**14,524**	**8,965**

All amounts are in EUR thousand unless otherwise stated.

Explanatory notes to the Financial Statements

For the year ended 31 December 2021

1 General information

AB Energijos Skirstymo Operatorius (hereinafter “the Company”) is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities, the registrar whereof is State Enterprise Centre of Registers, on 11 December 2015. The Company started its activities with effect from 1 January 2016. The Company is headquartered at Laisvės pr. 10, LT-04215, Vilnius, Lithuania. Company code 304151376, VAT identification code LT100009860612. The Company has been founded for an indefinite period. The reporting period is one year ended on 31 December 2021.

The Company’s core lines of business include electricity and gas distribution, and guaranteed supply of electricity.

The shares of the Company have been listed on the Main List of Nasdaq Vilnius Stock Exchange since 11 January 2016. On 21 May 2020, AB Nasdaq Vilnius took the decision upon the request of the Company to delist all the shares of the Company from the Main List. 30 June 2020 was the last day of trading on the Nasdaq Vilnius AB Stock Exchange.

Shareholders of the Company:

	As at 31 December 2021		As at 31 December 2020	
	Number of shares held	Ownership interest (%)	Number of shares held	Ownership interest (%)
AB Ignitis Grupė	894,630,333	100	881,512,158	98.53
Other shareholders	-	-	13,118,175	1.47
Total	**894,630,333**	**100**	**894,630,333**	**100**

The parent company of the Company is AB Ignitis Grupė (company code 301844044, registered address Laisvės pr. 10, LT-04215 Vilnius, Lithuania), which as at 31 December 2021 holds 100% and as of 31 December 2020 – 98.53% of shares of the Company. On 5 October 2020, AB Ignitis Grupė increased its issued capital, and on 7 October 2020 it executed initial public offering (hereinafter “IPO”) of new shares. After AB Ignitis Grupė executed acquisition of its own shares, the structure of shareholders was as follows as at 31 December 2021: the Ministry of Finance of the Republic of Lithuania (73.08%), retail and institutional investors (25.25%) and own shares (1.67%). As at 31 December 2020, the Ministry of Finance of the Republic of Lithuania (73.08%) and retail and institutional investors (26.92%).

AB Ignitis Grupė is the ultimate parent company. The Group consists of AB Ignitis Grupė and all its subsidiaries (hereinafter - ‘the Group”).

During 2020, the main shareholder AB Ignitis Grupė has redeemed 3.55% of the Company’s shares from other shareholders. The remaining 1.47% of shares was subject to a mandatory buy-out. In execution of the judgment of Vilnius District Court of 2 April 2021, on 15 April the share account managers transferred funds for the shares owned by minority shareholders of the Company, who held them in personal security accounts. As of 15 April 2021, 100% of shares of the Company is owned by AB Ignitis Grupė. Funds to the shareholders, holding the Company’s shares in the issuer’s accounting, will be transferred upon submission of a request to SEB bankas.

All the shares of the Company with the nominal value of EUR 0.29 each are ordinary registered shares.

The Company’s investments into associates comprised the following:

Associate	Registered address of the company	Year of acquisition	31 December 2021	31 December 2020	Profile of activities
			The Company’s ownership interest (%)	The Company’s ownership interest (%)	
UAB Ignitis Grupės Paslaugų Centras	Laisvės pr. 10, LT-04215, Vilnius, Lithuania	2013	26.40	26.40	Information technology and telecommunication, organisation and performance of public procurements, accounting and personnel administration, customer service.

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

These financial statements were signed by the management of AB Energijos Skirstymo Operatorius on 28 February 2022. The shareholders of the Company have the right to approve or not to approve these financial statements and to demand the preparation of new financial statements.

All amounts are in EUR thousand unless otherwise stated.

1.1 Regulation of the Company's activities

The Company's activities are regulated by the Lithuanian Law on Energy, the Lithuanian Law on Electricity, the Lithuanian Law on Natural Gas and other regulatory legislation.

The Company carries out the following licensed activities:

- Electricity distribution
- Gas distribution.

The licenses are issued and licensed activities are controlled by the National Energy Regulatory Council (hereinafter - 'the Council', NERC).

The Council sets the price caps for the services of electricity distribution and natural gas distribution.

1.1.1 The setting of price caps in the electricity sector

The price caps of electricity distribution services are established in accordance with the Methodology for the Determination of the Price Caps of Electricity Transmission, Distribution and Public Supply Services (hereinafter - "the Methodology") approved by Resolution No O3-3 of 15 January 2015 of the Council.

The price caps of electricity distribution services are established for the regulatory period of 5 years (the 2022-2026 regulatory period is currently applicable to the electricity sector) and they can be adjusted not more than twice per year if substantial changes in one or several factors, based on which the price caps were determined, occur, including a substantial change in the scope of services, inflation, taxes and other objective factors (outside the control of the market participant).

1.1.2 The setting of price caps in the natural gas sector

The pricing of the natural gas distribution service is regulated by the Council in accordance with the Procedure for Determining Regulated Prices in Natural Gas Sector approved by Resolution No O3-367 of 13 September 2013 of the Council.

The price cap and/or revenue cap of natural gas distribution service is established for the regulatory period of 5 years (the 2019–2023 regulatory period is currently applicable to the natural gas sector) and it can be adjusted once per year if there is a change in the inflation level, prices of imported (transported into the country) natural gas, taxes, requirements of regulatory legislation, also when the investments agreed with the Council have been implemented by natural gas companies, when those companies do not reach or exceed the revenue cap or deviate from the indicators established by the description approved by Resolution No O3-90 of 11 April 2012 of the Council.

1.2 Restatement of comparative figures due to reclassifications

In preparation of these financial statements, in 2021 the Company made reclassifications of some of the items of the Statement of Profit or Loss and Other Comprehensive Income ('SPLOCI') and combining of lines of the items. The management is of the opinion that changes to SPLOCI are necessary in order to provide more reliable and relevant information to users of the financial statements.

Information about the reclassifications is presented below:

- Revenue of the comparative period (the year 2020) amounting to EUR 1,825 thousand, related to additional services and goods mostly connected with installation or repair, was reclassified from the item 'Other revenue' to the item 'Revenue from contracts with customers' of the Statement of Profit or Loss and Other Comprehensive Income, as in 2021 the Company's Management decided to identify the customer receiving these goods or services as a party, which entered into an agreement with the Company to receive goods or services, which are a product of the Company's operating activity. This reclassification does not have an impact on the indicators presented in the Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows of 2020.

- In 2021, the Company combined two lines of the item of SPLOCI into one line under the caption "Purchase of electricity, natural gas and other services", therefore the comparative figures were reorganized accordingly. This restatement does not have an effect on the impact on the indicators set out in the Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows of 2020. The following lines of the items of SPLOCI comparative period have been combined:

	2020
Purchase of electricity, natural gas and other services	(191,891)
(Costs of) purchases of natural gas and transmission services	(2,585)
Total	**(194,476)**

2 Summary of significant accounting policies

The summary of principal accounting policies applied in preparation of the Company's financial statements ('the financial statements') for the year ended 31 December 2021, are set out below:

2.1 Basis of preparation

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

The financial statements of the Company for the year ended 31 December 2021 have been prepared on a going concern basis applying measurements based on historical cost convention, except for certain property, plant and equipment which is measured at revalued amount.

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

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

2.2 New standards, amendments and interpretations

2.2.1 Changes in accounting policy and disclosures

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

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

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

The following are new standards and/or amendments to the standards that have been approved by International Accounting Standards Board (hereinafter – IASB) and endorsed in the European Union during the year ended as at 31 December 2021. The adoption of these standards, revisions and interpretations had no material impact on the financial statements:

Standards or amendments that came into force during 2021
COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
Interest rate benchmark reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

2.2.3 Standards issued but not yet effective and not early adopted

The Company has not adopted new International Financial Reporting Standards ('IFRS') and International Standards on Auditing ('ISAs'), their amendments and interpretations adopted by the International Accounting Standards Board ('IASB') the effective date whereof is later than 31 December 2021 and early adoption is permitted. New standards and/or amendments to the standards which were issued but are not yet effective:

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

The amendments prohibit entities from deducting from the cost of property, plant and equipment all proceeds from the sale of goods produced when the assets are delivered to the location and condition necessary for their use so that they can be used in the manner intended by management. Instead, the entity recognizes that revenue as gain or loss. The amendments apply retrospectively only to items of property, plant and equipment that were entered into service at the beginning of the earliest annual period or later presented to the entity when the amendments were first applied. The amendments are effective for annual periods beginning on or after 1 January 2022. The amendments are approved for application in the European Union.

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

Onerous Contracts – Cost of Fulfilling a Contract (amendments to IAS 37)

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

The Company does not have significant onerous contracts therefore the Company's management has decided that these amendments do not have a significant impact on the Company's financial statements.

All amounts are in EUR thousand unless otherwise stated.

Deferred tax related to assets and liabilities arising from Single Transaction (amendments to IAS 12)

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

Other standards

The following new standards or amendments to standards are not expected to have a material impact on the Company's financial statements:

Other new standards or amendments	IASB effective date	EU endorsement status
Annual Improvements to IFRS 2018-2020	1 January 2022	Endorsed
References to the Conceptual Framework for Financial Reporting (amendments to IFRS 3)	1 January 2022	Endorsed
Classification of Liabilities as Current and Non-Current (amendments to IAS 1)	1 January 2022	Not yet endorsed
IFRS 17 'Insurance Contracts' and amendments to IFRS 17 'Insurance Contracts'	1 January 2022	Endorsed
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2022	Not yet endorsed
Definition of Accounting Estimates (amendments to IAS 8)	1 January 2022	Not yet endorsed
First-time Adoption of IFRS 17 and IFRS 9 - Comparative Information (Amendments to IFRS 17)	1 January 2022	Not yet endorsed

2.3 Intangible assets

2.3.1 Computer software

Computer software is accounted for at acquisition cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is calculated using the straight-line method over the estimated useful lives of 3 years.

2.3.2 Servitudes

The category of the Company's intangible assets "Servitudes and protection zones" includes the Company's rights to use the land plots owned by third persons on the basis of servitudes. Servitudes comprise statutory and contractual servitudes.

- Statutory servitudes comprise the Company's rights to use the land plots owned by third persons in which electric networks were established up to 10 July 2004 on the basis of statutory servitudes. During the period from 10 July 2004 until 2018, according to the provisions of the Law on Electricity (hereinafter – the LE) in force at the time, it was provided that the establishment of new networks can only be agreed with the owners, thus during this period the owners were negotiated individually (notary contracts were concluded, agreements made with the consent of the owner etc.), therefore the LE does not provide for the obligation to reimburse the Company for servitude established during this period.
- Contractual servitudes comprise the Company's rights to use the land plots owned by third persons in which electric networks were established since 2018 on the basis of servitudes.

The useful life of an intangible asset is indefinite, therefore, these assets are not subject to amortisation. Useful life of intangible assets are indefinite since the right to use the land is granted for an indefinite period of time according to the conditions of agreements for compensation for servitudes as well as Clause 4.130 of Civil code of the Republic of Lithuania. It implies that, irrespective of the condition of the Company's property, plant and equipment, the right to use designated land plot is retained and (after the physical condition of the property is restored or a new property is developed), the land plot will continue to be used for indefinite time. Provision for non-current obligations is accounted for under IAS 37 to compensate for statutory provisions (see Note 2.15 'Provisions'). The estimation of the amount of the provision takes into account the expected time of settlement and the number of applicants. The provision is calculated at the discounted value.

The Company tests the intangible assets of servitudes for potential impairment, by comparing their recoverable value with the carrying value at least once per year or when there are signs of impairment. If the value of the asset changes, such change is accounted for by decreasing/increasing the value of the assets of servitudes.

2.3.3 Special conditions on land use (protection zones)

A group of the Company's intangible assets "Servitudes and protection zones" includes the Company's obligations to register and the right to use a third-party land on the basis of special conditions on land use. The accounting policies applied are analogous to those applied for 2.3.2 "Servitudes".

2.3.4 Other intangible assets

Intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment loss, if it is probable that future economic benefits that are attributable to the asset will flow to the Company. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3–4 years. Amortisation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be available for operating in the manner intended by management.

All amounts are in EUR thousand unless otherwise stated.

2.4 Property, plant and equipment

Property, plant and equipment is accounted for at revalued amount, except for gas distribution pipelines and their equipment, gas technological equipment, installations and other assets attributed to the gas segment that are accounted for under the cost method. A revalued amount is determined on the basis of periodic valuations (carried out with sufficient regularity so that the carrying amount does not differ materially from that which would be determined using fair value at the at the statement of financial position date) by external independent appraisers, less subsequent accumulated depreciation and impairment Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and the remaining amount is restated to the revalued amount of the assets.

Class of property, plant and equipment measured using the cost method are recorded at cost less accumulated depreciation and accumulated impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable acquisition taxes and any directly attributable costs of bringing the asset to its working condition and borrowing costs (Note 2.9.2.5).

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and subsequently added to the revaluation reserve in equity. Decreases in the carrying amount arising on the subsequent revaluation that offset previous increases of the same asset are recognised in other comprehensive income and debited against previously recognised revaluation reserve directly in equity. All other decreases are charged to profit or loss and other comprehensive income. Increases in the carrying amount that offset previous decreases that were recognised in profit or loss, are recognised in profit or loss. All other increases in the carrying amount arising on revaluations of property, plant and equipment are recognised in other comprehensive income and credited to revaluation reserve directly in equity. Each year the difference between depreciation based on the revalued amount of the asset charged to profit or loss, and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax.

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the revalued amount of asset to its liquidation value over the following estimated useful lives. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be available for operating in the manner intended by management.

The applied depreciation periods (in years) are as follows:

Groups of property, plant and equipment	Accounting method	Useful life (in years)
Buildings	Revaluation	15-60
Engineering constructions	*Revaluation*	*50*
35-110 kV transformer substation constructions	*Revaluation*	*35*
6-10 kV electricity distribution constructions	*Revaluation*	*35*
10/0.4 kV transformer constructions	*Revaluation*	*35*
Communication and operation system constructions	*Revaluation*	*15-25*
Electricity networks and their structures	*Revaluation*	5-50
35-110 kV transformer substation equipment (excl. constructions)	*Revaluation*	*30*
6-10 kV distribution equipment (excl. constructions)	*Revaluation*	*30*
10/0.4 kV capacity transformers	*Revaluation*	*30*
35 kV cables and lines	*Revaluation*	*40-45*
0.4-10 kV cables and lines	*Revaluation*	*15-40*
35-110 kV capacity transformers	*Revaluation*	*40*
Communication and operation system equipment (excl. constructions)	*Revaluation*	*5-45*
Hydrotechnical structures and equipment	*Revaluation*	*50-75*
Gas distribution pipelines, gas technological equipment and installations	Cost	13-55
Vehicles	Revaluation	5-10
Computer hardware and other communication equipment	Revaluation	3-10
Other property, plant and equipment	Cost	3-50

The assets' residual values and useful lives are reviewed on regular basis, and adjusted, if appropriate, under the procedure established by the Company.

When property, plant and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation and impairment are derecognised, and any related gains or losses are recorded in the statement of profit or loss or other comprehensive income. Gains or losses on disposal of property, plant and equipment are determined as the difference between proceeds and the carrying amount of assets disposed. When revalued assets are disposed of, the corresponding portion of revaluation reserve is transferred to retained earnings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised. All other repair and maintenance costs are recognised in the statement of profit or loss and other comprehensive income in the period when such costs are incurred.

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

Borrowing costs attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than 12 months) to get ready for intended use and the value of such assets exceeds EUR 100 thousand, are capitalised as part of the costs of those assets.

All amounts are in EUR thousand unless otherwise stated.

2.5 Right-of-use assets

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

2.5.1 Initial measurement of right-of-use assets

At the commencement date, the Company measures right-of-use assets at cost. The cost of right-of-use assets comprises: the amount of the initial measurement of the lease liability, any lease payments at or before the commencement date, less any lease incentives received; any initial direct costs incurred by the Company; and an estimate of the costs that the Company will incur in dismantling and disposing of the leased asset, maintaining its location or restoring the leased asset to the condition which is required under the lease terms, unless those costs are incurred in producing the inventories. The Company assumes a liability for these costs at the commencement date or by using the leased asset for a specified period. The Company recognizes these costs as part of the cost of right-of-use assets when an obligation for those costs is assumed.

2.5.2 Subsequent measurement of right-of-use assets

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

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

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

Group of right-of-use assets	Depreciation period (in years)
Land	2-99
Vehicles	3-5
Premises	2-10
Other right-of-use assets	3-38

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

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

2.6 Impairment of non-financial assets

At each reporting date the Company reviews the carrying amount of its property, plant and equipment, intangible assets and right-of-use assets to assess whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes estimate of the asset's recoverable amount to assess impairment, if any. When the recoverable amount of the asset cannot be estimated, the Company calculates the recoverable amount of the cash-generating asset group to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, the assets are allocated to individual cash-generating units, or otherwise they are allocated to smaller groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

2.7 Non-current assets held-for-sale

Non-current assets held-for-sale are stated at the lower of the carrying amount and fair value less costs of disposal if the carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.8 Investment in associates

Investments in associates over which the Company has significant influence are accounted for using the equity method, unless the investment is acquired and held solely for the purpose of selling in the near term (no later than 12 months after the acquisition) and management is actively seeking a buyer. Under the equity method, investments are initially recognised at cost, and the carrying amount is increased or decreased based on the investor's share of the post-acquisition changes in the net assets of the acquiree.

The Company's share of the profit or loss of the investee after the acquisition date is recognised in profit or loss, and changes in other comprehensive income after the acquisition date are recognised in other comprehensive income, with corresponding adjustments to the carrying amount of the investment. When the Company's share of losses in an associate equals to or exceeds its interest in the associate, including all unsecured receivables, the Company does not further recognise losses, unless it has assumed obligations or made payments on behalf of the associate.

At each reporting date the Company reviews investments in associates to assess whether there is objective evidence that investments in associates may be impaired. If any such indications exist, the Company calculates the amount of impairment, which is equal to the difference between the recoverable cost and the carrying amount of the associate, and recognises this amount under the line item of share of profit (loss) of associates in the statement of profit or loss and other comprehensive income.

2.9 Financial instruments

A financial instrument is any contract resulting in the creation of a financial asset in one entity and a financial obligation or ownership instrument in another.

2.9.1 Financial assets

The Company classifies its financial assets into the following 3 categories:

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

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

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

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets and characteristics of cash flows from these assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. Intentions of the Company's management in respect of individual instruments do not have an effect on the applied business model. The Company may apply more than one business model to manage its financial assets. Taking into consideration the business model applied in management of the group of financial assets, the accounting of the financial assets, except for those which are subsequently measured at FVOCI and FVPL, and which the Company does not have, is as follows:

2.9.1.1 Financial assets measured at amortised cost

Financials assets measured at amortised cost are subsequently accounted for using the effective interest rate (hereinafter – "EIR") less impairment losses. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses.

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

2.9.1.2 Effective interest rate method

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

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

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

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

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

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

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

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

The Company applies individual and collective approach for assessment of impairment of receivables.

In application of the collective approach for determination of expected credit losses of receivables, the Company applies a provision matrix to calculate the provision for losses in respect of trade receivables with different maturities and overdue payment periods. To measure ECL, trade receivables are grouped based on shared credit risk characteristics. The non-recoverability analysis is conducted for the past 3 years in order to determine the general default ratio.

The Company's management decides on an individual assessment taking into consideration the possibility to obtain information about the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgement on the recognition of lifetime ECL in respect of that particular borrower. In absence of reliable information sources regarding the borrower's credit history, its financial position as at the date of assessment, including forward-looking information, the Company assesses the debt applying the collective approach.

Recognition stages of expected credit losses on loans and cash and cash equivalents:

1. Upon granting of a loan or receiving cash or cash equivalents, the Company recognizes the ECL for the twelve-month period. Interest income from the loan (finance lease) or cash equivalents is calculated on the carrying amount of financial assets without adjusting it by the amount of ECL.
2. Upon establishing that the credit risk related to the borrower or bank, where cash and cash equivalents are held, has significantly increased (reflected by accounts receivable overdue for more than 30 days and significant negative information about changes affecting the borrower, etc.), the Company accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Interest income from the loan (finance lease) or cash equivalents is calculated on the carrying amount of financial assets without adjusting it by the amount of ECL.
3. Where the Company determines that a recovery of the debt becomes doubtful, when contractual payments are 90 days past due, and that the debt of this customer shall be classified as doubtful debts, the Company then classifies this loan as a financial asset that is impaired due to credit risk (doubtful loans and receivables). The loan interest income is calculated on the carrying value of the financial assets, reduced by the amount of ECL.

The lifetime expected credit losses of loans receivable and trade receivables are recognised in the statement of profit or loss and other comprehensive income.

2.9.1.4 Credit-impaired financial assets

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

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

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

2.9.1.5 Derecognition of financial assets

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

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

2.9.2 Financial liabilities and issued equity instruments

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

2.9.2.1 Initial recognition and measurement of financial liabilities

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

2.9.2.2 Subsequent measurement

For the purposes of subsequent measurement, financial liabilities fall into two categories:
- Financial liabilities at FVPL
- Financial liabilities accounted for at amortised cost.

2.9.2.3 Financial liabilities at FVPL

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

Financial liabilities are classified as held for trading if they are incurred principally for the purpose of repurchasing them in the near term.

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

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability at FVPL.

2.9.2.4 Financial liabilities measured at amortised cost

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

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

2.9.2.5 Presentation and borrowing costs

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

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

Borrowing costs directly attributable to the acquisition, construction or production of assets the value of which exceeds EUR 100 thousand and that necessarily take a substantial time (more than one year) to get ready for intended use or sale are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

2.9.2.6 Derecognition of financial liabilities

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

2.9.2.7 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable by the entity or the counterparty in the normal course of business and in the event of default, insolvency or bankruptcy.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is established using the FIFO method, except for natural gas the cost whereof is established using the weighted average (see further). The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Company from the tax authorities), transportation, handling and other costs directly attributable to the acquisition of inventories. Cost does not include borrowings costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling expenses.

The weighted average cost is calculated as the weighted average price of inventories at the beginning of the month and purchases per month.

2.11 Cash and cash equivalents

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

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits in bank, and other short-term highly liquid investments with maturities up to three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are included under current borrowings.

2.12 Lease liabilities

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

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

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the initial recognition, the Company shall measure the lease liability by: increasing the carrying amount to reflect interest on the lease liability; reducing the carrying amount to reflect the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

2.12.1 Short-term and low-value lease

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

2.12.2 The Company as an operating lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Lease payments are accounted for on a straight-line basis over the lease term and recognised as other revenue in SPLOCI based on its lease nature. Initial direct costs incurred in negotiating and arranging a lease are added to the carrying amount of the leased asset and recognised as rental costs over the lease term on the same basis as income received under the lease agreement. Contingent payments are recognised as revenue in the period in which they are earned.

2.13 Grants and subsidies

2.13.1 Grants related to assets

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

Upon the revaluation of non-current assets and in case impairment was recognised on revaluation, grants related to this non-current assets are written off in a respective proportion.

2.13.2 Grants related to income

Government and the EU grants received as a compensation for costs or unearned income for current or previous reporting period, and all grants other than those related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. These grants are presented in the statement of profit or loss and other comprehensive income, less related expenses.

2.14 Income tax and deferred income tax

2.14.1 Income tax

The current and previous year tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Income tax is determined using the tax rates and in accordance with laws on taxes which have been enacted or substantively enacted as at the date of the statement of financial position.

Income tax is calculated on profit before tax. Standard income tax rate applicable to companies in the Republic of Lithuania was 15% in 2021 and 2020.

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

2.14.2 Deferred income tax

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

Carrying amounts of deferred income tax assets are reviewed at the date of preparation of each set of financial statements and reduced if it is no longer probable that sufficient taxable profit will be available for the Company to realise all or part of deferred income tax assets. Deferred tax assets are reduced to an amount which is likely to reduce the taxable profit in future.

Deferred tax is calculated applying the tax rates which are expected to be applied when related deferred tax assets are to be realised or a deferred tax liability is to be settled.

Deferred tax assets and liabilities are offset only where there is a legally justified right to offset tax assets and tax liabilities of the reporting period, and where the deferred income tax is related to the same tax authority.

2.14.3 Current and deferred income tax for the reporting period

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

2.14.4 Acquisition of accrued tax losses

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

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

2.15 Provisions

Provisions are recognised when the Company has a legal obligation or irrevocable commitment as a result of the past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects that provision amount in part or in full will be compensated, e.g. under an insurance contract, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in profit or loss in SPLOCI, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. When discounting is applied, increase in the provisions reflecting the period of past time is accounted for as finance expense.

2.15.1 Provisions for servitudes

Expenses related to provisions for servitudes are recognized as non-current intangible assets taking into consideration the amounts of compensation.

Compensation payments to land owners are accounted for as a decrease in provisions, while remeasurement of provisions due to changes in underlying assumptions is recorded as a change in respective intangible asset (Note 2.3.2).

2.15.2 Provisions for registration of protection zones

Expenses related to provisions for registration of protection zones are recognized as non-current intangible assets taking into consideration the amounts of compensation.

Compensation payments to land owners are accounted for as a decreases in provisions, while remeasurement of provision due to changes in underlying assumptions is recorded as a change in respective intangible asset (Note 2.3.3).

2.16 Employee Benefits

2.16.1 Social security contributions

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

2.16.2 Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan and agreements signed with employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy that cannot be withdrawn.

2.16.3 Long-term employee benefits

Each employee of retirement age who terminates his/her employment with the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. If an employee belongs to trade union of the Company, he/she is also entitled to additional retirement benefit according in accordance with the agreement of the Company. A liability for such pension benefits is recognised in the statement of financial position and reflects the present value of these benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is estimated with reference to actuary valuations, applying the projected unit credit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for long-term government debentures, i.e. the term of which is no less than 5 years. According to the Company’s management, such discount ratio best reflects the value of future benefits. Actuarial gains or losses are recognized immediately in other comprehensive income.

2.17 Contingent assets and contingent liabilities

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

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

2.18 Revenue from contracts with customers

The Company in the contracts with customers identifies performance obligations (stated either explicitly or implied) to transfer either distinct goods or services or series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Promised goods or services represent separate performance obligation if the goods or services are distinct. A promised good or service is considered distinct if both of the following criteria are met:
(i) customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and
(ii) the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract).

The Company’s major legal performance obligations identified in the contracts with customers are as follows: electricity distribution and transfer, guaranteed electricity supply, connection of new customers.

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

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

2.18.1 Revenue from electricity transfer (distribution and transmission)

Revenue from electricity transfer (includes both transmission and distribution) of electricity to household customers is recognised over the time in accordance with invoices issued, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters. If declared or actual meter readings are not available, revenue from electricity distribution and transmission is recognised based on the average usage estimation method.

Revenue from electricity transfer (includes both transmission and distribution) to business customers is recognised over time based on the actual electricity supplied which is determined in accordance with readings of electricity meters. Invoices are issued for customers after the end of the month during which the performance obligation is fulfilled, i.e. in the beginning of the next month, thus assets of contracts are not recognized. Also, these contracts with customers do not provide for any advance payments before or during fulfillment of the obligation, however, in case of over-declaration by customers (Note 4.9), overpayments occur which are recognized as obligations of contracts. The contracts do not establish any significant payment terms.

In the circumstances when the distribution and transmission tariff in subsequent period is higher than in current period based on the historical evidence of the Company it has been identified that private customers tend to overdeclare the consumption of electricity in the last months of the year. Since Company's revenue from electricity distribution and transmission depends on declarations of electricity consumed by the customers, the Company's revenue increase due to overdeclaration of electricity consumed, and therefore the Company needs to estimate the declared amount of electricity consumed to evaluate the amount of deferred revenue. The Company's deferred income are disclosed in the line item "Accrued expenses and contract liabilities" in the statement of financial position (Note 24). Estimation is based on historical consumption by the customers as well as Company's assessment of technological losses in the electricity grid. All assumptions are reviewed at each reporting date.

Electricity transmission services are provided by and purchased from the electricity transmission system operator. The Company collects fees for electricity transmission services from household and business customers through the electricity tariff paid by the consumer and transfers them to the electricity transmission system operator. The Company's management has identified that the Company acts as a Principal in relation to electricity transmission services acquired from the electricity transmission system operator, and recognises revenue from electricity transmission (Note 4.4).

Revenue from electricity distribution and transmission is subject to regulation (Note 2.26).

2.18.2 Revenue from guaranteed electricity supply

The Company provides a guaranteed electricity supply service to household and non-household customers. Guaranteed electricity supply means ensuring electricity supply to consumers on a temporary basis for 6 months:

- who have not chosen the independent supplier within the set time;
- whose chosen independent supplier has failed to fulfil its obligations to supply electricity on agreed terms and conditions;
- whose chosen independent supplier has discontinued its operations
- whose chosen independent supplier has terminated the electricity purchase and sale agreement concluded with the consumer.

The guaranteed electricity supply tariff for the consumers who are ensured guaranteed electricity supply includes the distribution and transmission service price, PSO (Public service obligation) price and guaranteed supply price. Invoices are issued for customers after the end of the month during which the performance obligation is fulfilled, i.e. in the beginning of the next month; also, these contracts with customers do not provide for any advance payments before or during fulfillment of the obligation, therefore assets and obligations of contracts are not recognized. The contracts do not establish any significant payment terms.

Guaranteed supply price includes electricity price which is calculated by applying the coefficient of 1.25 to the average power exchange price for the previous month. Revenue from guaranteed supply is recognised over the time based on invoices issued, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters.

The Company collects PSO fees through the electricity tariff paid by the customers and transfers them to the PSO fund administrator UAB Baltpool. The Company's management identified that in respect of collecting ir transferring PSO fees the Company acts as agent, therefore, PSO fees are accounted for by netting revenue against expenses in the line item "Purchase of electricity and related services" in the statement of profit or loss and other comprehensive income (Note 4.6).

Revenue from guaranteed electricity supply is subject to regulation (Note 2.26).

2.18.3 Revenue from natural gas distribution

Revenue from non-household customers for the distribution of natural gas is recognised over time based on to the readings of measuring devices provided by users or, if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, as agreed with NERC (an accrual basis).

Revenue from household customers is recognised over time based on the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas distributed to them (an accrual basis). Revenue from household consumers does not form a significant part of revenue from natural gas distribution activities. Invoices are issued for customers after the end of the month during which the activity obligation is fulfilled, i.e. in the beginning of the next month; also, these contracts with customers do not provide for any advance payments before or during fulfillment of the obligation, therefore assets and obligations of contracts are not recognized. The contracts do not establish any significant payment terms.

2.18.4 Revenue from connection of new customers

Proceeds from new customers' connection fees obtained by the Company are recognised as income for the period in which the Company ensured the connection to electricity and gas distribution network. The Company signs separate agreements with customers for connection services. Company also signs a distribution agreement with business customers for electricity distribution or has an implied contract for electricity distribution service with private customers and gas distribution service with business and private customers. Connection fees do not represent a separate performance obligation from the sale of ongoing distribution of electricity or gas services as are highly interrelated. Having entered into a contract with a customer, the customer shall make an 100% advance payment which is accounted for by the Company as a contractual liability as prepayments received (Note 23). Subsequently, after connection works have been completed, the certificate of transfer and acceptance of works is signed and the invoice is issued, and then these payments received from customers are accounted for as deferred income (contractual liabilities, see Note 19), which are proportionally recognised as revenue over the estimated period of relationship with customers limited by the useful life of property, plant and equipment, being 27 years for electricity grid and 46–55 years on for gas grid.

Connection fees received from customers are accounted for as “Liabilities under connection contracts with customers” in the statement of financial position

2.19 Other revenue

Operating lease income (income from lease of technological and gas assets) is recognized in equal portions over the lease term.

2.20 Recognition of costs

Costs are recognized in SPLOCI in profit or loss on an accrual basis, when incurred.

2.21 Dividend distribution

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

2.22 Events after the reporting period

All events after the reporting period (adjusting events) are recorded in the financial statements if they relate to the reporting period and have a significant impact on the financial statements. All events that are significant but not adjusting events are disclosed in Note 34.

2.23 Related parties

AB Ignitis Grupė and its subsidiaries (hereinafter – “the Group”), associates, state owned enterprises and their subsidiaries (transactions with such companies are disclosed separately only when they are material), the Ministry of Finance of the Republic of Lithuania and the institutions assigned to the area of management of the Minister of Finance and the key management personnel and their close family members are recognized as related parties.

2.24 Fair value

The Company does not have financial instruments and non-financial assets measured at fair value. The fair value of financial instruments measured at amortized cost is disclosed by the Company in Note 33.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
• in the principal market for the asset or liability, or
• in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is determined using the assumptions used by market participants to determine the price of the asset or liability, assuming that market participants have the best economic interests.

The Company uses measurement methodologies that are appropriate in the circumstances and for which sufficient data is available to determine the fair value, using as much relevant observable data as possible and as little unobservable data as possible.

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

- Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value of assets where the lowest level inputs that are significant to the fair value measurement are directly or indirectly observable.
- Level 3: fair value of assets where the lowest level inputs that are significant to the fair value measurement are unobservable

For assets and liabilities re-recognized in the financial statements, the Company shall, by re-evaluating the allocation, determine whether the transferred amounts occurred between levels of the hierarchy (based on input of the lowest level that is significant to the determination of fair value in general) at the end of each reporting period.

2.25 Regulated activities

NERC regulates the Company’s level of profitability by approving the prices of services for the next year. The level of tariffs depends on the projected costs, volume of services for the next period (volumes of distributed electricity), the extent to which the previous period earnings are at variance with the regulated level etc.

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

The Company does not recognise regulatory assets or liabilities that would be used to adjust the current year profit in order to arrive at the regulated level of profit, if this difference is recovered / returned in the course of provision of services in future.

Tariffs for electricity distribution are regulated by NERC by establishing the price caps. NERC regulates the tariff for guaranteed electricity supply, which is calculated by applying the coefficient of 1.25 to the average power exchange price for the previous month In the Lithuanian price zone. Just as in the electricity segment, NERC regulates prices of natural gas transmission and distribution services by setting price caps.

All amounts are in EUR thousand unless otherwise stated.

3 Management of financing risks

The Company is exposed to a variety of financial risks in its operations: market risk (including foreign exchange risk, interest rate risk in relation to cash flows), credit risk and liquidity risk. By managing these risks, the Company seeks to mitigate the effects of factors that might have an adverse effect on the Company's financial performance.

3.1 Financing risk factors

3.1.1 Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk includes two types of risks: interest rate risk and currency risk.

3.1.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a position will fluctuate because of changes in foreign exchange rates.

The Company's purchase and sale transactions are mainly denominated in euros. The risk of exchange rate fluctuations is most characteristic of the Company's transactions of natural gas purchase from third parties. In order to reduce the risk of foreign exchange rate fluctuations, contracts for the purchase and supply of natural gas are generally concluded in the same currency.

3.1.1.2 Interest rate risk

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

The Company's revenue and cash flows are affected by fluctuations in market interest rates, since as at 31 December 2021 the Company had loans granted and received with variable and fixed interest rates. The Company has financial assets subject to floating interest rates that are measured at amortized cost and it is therefore exposed to the interest rate risk.

Debt commitments aim to have long-term liabilities with a fixed interest rate. If, for objective reasons, it is not possible to fix the interest rate and the assumed liability amounts to a significant amount, interest rate derivatives would be used for interest management. At least 50% The Company's long-term loan portfolio would consist of long-term fixed-rate loans. The use of any of the interest rate derivatives requires that the maturity date coincides with the maturity date of the debt obligation.

The risk of a negative change in the interest rate of investments is not actively hedged. Risk control measures are used only if there is a clear indication in the market that the interest rate may fall significantly to such an extent that the return on investment becomes negative.

A portion of the Company's loans is subject to a variable interest rate, which is linked to EURIBOR and creates interest rate risk, and another portion is subject to a fixed interest rate. As at 31 December 2021, loans with fixed interest amounted to EUR 663,411 thousand (as at 31 December 2020: EUR 616,288 thousand) and loans with variable interest amounted to EUR 41,443 thousand (as at 31 December 2020: EUR 49,345 thousand) (Note 15.)

The Company has not entered into any derivative financial instruments to manage the interest rate risk.

The interest rate risk is assessed taking into consideration the Company's sensitivity to changes in interest rates. This assessment is presented in the table below.

	Increase/decrease, percentage points	Increase/(decrease) in profit
2021	0.30/(0.30)	(13)/13
2020	0.30/(0.30)	(16)/16

3.1.2 Credit risk

Credit risk is the risk of a counterparty's default under a financial instrument or contract with a customer and, as a result, that counterparty incurs financial loss.

The Company's credit risk relates to both the Company's principal activities (trade and other receivables) and financing activities (cash and cash equivalents).

In the electricity segment, trade and other receivables are generated from many customers however one customer (public supplier) comprise a significant portion of revenue and receivables exposing the Company to concentration risk. Credit risk or the risk of counterparties' default is controlled by the application of monitoring procedures.

The Company does not guarantee obligations of other parties. Due to specific nature of the Company's operations, no collateral is required from customers, except for agreements on electricity transmission services provided by independent suppliers (Note 11).

The priority objective of the Company's treasury management is to ensure the security of funds and, in line with this objective, to maximise the return on investments. A counterparty's credit risk is managed by concluding transactions only with reputable financial institutions (or subsidiaries of such institutions) with a long-term foreign currency credit rating of not less than A- by Fitch Ratings (or its equivalent by other international credit rating agencies).

All amounts are in EUR thousand unless otherwise stated.

Maximum credit risk as at 31 December 2021 is equal to the carrying amount of the financial assets:

	Notes	31 December 2021	31 December 2020
Financial assets recognized at amortized cost			
Long-term receivables		255	200
Trade and other receivables	10	86,748	74,896
Cash and cash equivalents	12	14,524	8,965
Total:		**101,527**	**84,061**

3.1.3 Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity (total current assets / total amounts payable within one year and total liabilities) and quick ((total current assets – inventories) / total amounts payable within one year and total liabilities) ratios as at 31 December 2021 were 0.46 and 0.44, respectively (0.59 and 0.58 as at 31 December 2020).

The current level of a debt enables the Company to optimise the capital structure by financing its operations through long-term borrowing solutions, such as long-term loans or bonds transfer agreements. As disclosed in Note 15, for the purpose of the management of the short-term cash flow needs, the Company had EUR 22,877 thousand unused financing facilities under the agreement regarding the short-term lending to related parties platform (as at 31 December 2020: EUR 80,000 thousand).

The financial statements of the Company are prepared on a going concern basis. Despite the fact that the Company's current liabilities as at 31 December 2021 exceeded current assets by EUR 129,219 thousand (31 December 2020: EUR 61,794 thousand), the Company's management is confident that this circumstance will not have a material impact on the Company's ability to continue as a going concern. See more information disclosed in Note 3.3.

The following table presents information about the Company's financial liabilities by groups:

	Notes	31 December 2021	31 December 2020
Payables measured at amortized cost			
Loans	15	713,269	673,281
Lease liabilities	17	11,206	16,385
Trade payables	22	70,076	50,097
Other current amounts payable and liabilities	22	3,502	3,360
Total:		**798,053**	**743,123**

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

	2021				In total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Lease liabilities	1,174	3,521	5,547	2,978	13,220
Loans	6,068	65,520	96,478	656,507	824,574
Trade and other payables	73,578	-	-	-	73,578
As at 31 December 2021	**80,820**	**69,041**	**102,025**	**659,485**	**911,372**

	2020				In total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Lease liabilities	1,310	3,931	10,028	3,340	18,609
Loans	1,975	22,047	96,090	680,505	800,618
Trade and other payables	53,457	-	-	-	53,457
As at 31 December 2020	**56,742**	**25,978**	**106,118**	**683,845**	**872,683**

3.2 Capital risk management

For the purpose of the Company's capital management, the management uses equity presented in the statement of financial position.

Pursuant to the Lithuanian Law on Companies, the authorised share capital of a public company must be not less than EUR 28,97 thousand and the shareholders' equity should not be lower than 50% of the company's authorised share capital. As at 31 December 2021, the Company complied with these requirements.

The Company forms the capital structure by assessing the internal factors of the main activity, planned investments and development and taking into account the Company's business strategies, external existing and expected factors of markets, regulation, domestic economic environment significant to the operation.

On 15 December 2020 the Board of AB Ignitis Grupė approved the amended dividend policy for companies controlled by AB Ignitis Grupė. Provisions of the policy are adhered to when adopting decisions regarding distribution of dividends of subsidiaries (including subsidiaries of subsequent ranks). Based on the newly approved dividend policy for controlled companies, a subsidiary under the control of AB Ignitis Grupė shall distribute dividends for the financial year or a period shorter than a financial year, using at least 80% of the net profit received by the subsidiary for the financial period for which the dividends are proposed to be paid out. Subsidiaries may be subject to exemptions regarding payment of dividends provided that certain conditions are met.

All amounts are in EUR thousand unless otherwise stated.

When financing its business activities, the Company follows the provisions of the financing strategies of AB Ignitis Grupė (hereinafter "the Group") group companies for 2020–2030 as approved by minutes No. PR_2020_32 of the meeting of the Board of AB Ignitis Grupė dated 1 June 2020. In the ordinary course of business, D (net debt, Note 16) to EBITDA ratio must not exceed 5; the ratio of funds from operations (FFO) to net debt in the last twelve months may not be less than 23%. If the Company's performance or shareholders' decision results in the debt-to-EBITDA ratio higher than 5 and/or the FFO-to-debt ratio lower than 23%, the tolerance thresholds of debt-to-EBITDA and 12M FFO-to-debt ratio must be restored within 12 months following the breach reducing the level of the financial debt and restoring EBITDA and/or FFO.

As at 31 December 2021 and 2020, the Company complied with these requirements.

Additional information about the Company's capital is presented below:

	Notes	31 December 2021	31 December 2020
Net debt	16	709,951	680,701
Equity		627,657	665,616
Capital and net debt		**1,336,280**	**1,346,317**
Ratio (%)		**53**	**51**

3.3 Going concern

The Company's financial statements have been prepared on a going concern basis. Irrespective of the fact that as at 31 December 2021 the Company's current liabilities exceeded its current assets by EUR 129,219 thousand (as at 31 December 2020, EUR 61,794 thousand), the Company's management believes that this circumstance will not have a material impact on the Company's ability to continue as a going concern. Negative difference between current assets and current liabilities is common for infrastructure managers, developing and renewing its assets, as a significant portion of short-term payables is related to investments in non-current assets. Since the deferment term is generally provided for payments for completed works, until the invoice is paid a situation occurs where the completed works, related to managed non-current assets, are accounted for as non-current assets, and payables – as current liabilities.

A difference between current assets and liabilities as at 31 December 2021, as compared with 31 December 2020, increased due to the increased investment volumes in 2021 and seasonal nature of works, when major works of grid reconstructions were finished after the end of the warm season of the year, i.e. in the end of the year.

It must be noted that the Company's stable cash flows from the main regulated activities, which amounted to EUR 213,172 thousand in 2021 (in 2020: EUR 189,231 thousand) will allow to ensure liquidity in the future, and the current level of debt has not reached the maximum level. Sustainable and enabling regulatory environment and the current level of indebtedness will ensure the necessary funding for the business continuity of the Company and the implementation of investment projects in the future. As disclosed in Note 3.1.3, as at 31 December 2021 for the short-term management of cash flow needs the Company had EUR 22,877 thousand of unused financing facility under the short-term lending platform agreement, and it also negotiated the increase in the short-term financing limit by EUR 40 million and the terms of long-term financing measures, on which the Company plans to make decisions by the end of Q1 of 2022.

4 Significant accounting estimates and judgments used in preparing the financial statements

Estimates and judgments are continually reviewed and assessed on the basis of historical experience and other factors, including probability of future events that is believed to be reasonable under certain circumstances.

The preparation of the financial statements in accordance with the International Financial Reporting Standards, as adopted by the EU, requires from management to make judgements and estimates that affected the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. Future changes in estimates of assumptions and judgments may have a significant impact on the financial statements of the Company.

This note describes only the significant accounting estimates and judgments used in the preparation of the financial statements. Other used accounting estimates and judgments are set out in the other notes to these financial statements.

4.1 COVID-19 pandemic

Management has assessed the following areas that could be affected by the uncertainty caused by the COVID-19 pandemic:

1. Going concern;
2. Fair value, impairment, liquidation value and useful life of property, plant and equipment;
3. Assessment of expected credit losses;
4. Net realizable value of inventories;
5. Classification of financial instruments as long-term and short-term;
6. Lease contracts.

In assessment of the possible impact of the main COVID-19 factors on the Company's performance, the Company's management has not identified significant threats.

4.2 Accounting estimate of the need for revaluation and value of property, plant and equipment

The Company accounts for the property, plant and equipment of the electricity business segment (Electricity CGU) at a revalued amount. Property, plant and equipment generating cash of the gas business segment (Gas CGU) is stated at acquisition cost, i.e. gas distribution pipelines and their equipment, technological gas equipment and structures and other related assets are recorded at cost.

At least once a year the Company assesses whether there is any indication that the carrying amount of property, plant and equipment recorded at acquisition cost could be impaired and whether the carrying amount of property, plant and equipment recorded at the revalued amount does not differ materially from their fair value. The Company performs the impairment test and revaluation of assets, if such indications are found.

As at the position of 31 December 2021, the valuation result of the Company's property, plant and equipment was booked. The fair value of the assets was determined on the basis of the report on valuation of property, plant and equipment, prepared by an independent appraiser UAB Ernst & Young Baltic and the fair value of assets as at 30 September 2021 was established. Revenue and cost measurement methods were used to measure property, plant and equipment at fair value. See Note 6 for more details.

Having performed the valuation of the property, plant and equipment of the electricity segment, the revaluation of EUR 48.6 million reducing the value of assets was accounted for. The revaluation of EUR 38.4 million was accounted for in comprehensive income and revaluation reserve, which reduced the value of assets, including deferred income tax, and the revaluation of EUR 10.2 million was accounted for in profit (loss), which reduces the value of assets, including deferred income tax. Also, grants of EUR 4.4 million, related to non-current assets that have been revalued at the time of valuation, thereby reducing the value of assets, were written off. See Note 6 for more details.

As at 31 December 2021, an assessment was made whether there were any indications that the carrying amount of Gas CGU might be decreased, and it was found that the amount of planned investments in assets of the gas sector and their funding assumptions set out in the renewed Company's 10-year investment plan changed, due to this the forecast base of regulated assets decreased of which return on assets is calculated.

After performing the impairment test of the gas segment, the Company determined and accounted for impairment of assets of EUR 6.6 million, before deferred income tax, in statement of profit or loss. See Note 6 for more details.

4.3 Provisions for statutory servitudes and special conditions on land use (protection zones)

4.3.1 Provision for statutory land servitudes

On 1 November 2017, amendments to the Law on Electricity of the Republic of Lithuania came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Electricity Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensations for damages related with the establishment of statutory servitudes (which came into effect on 10 July 2004). The methodology on the payment of servitudes came into force as of 31 July 2018. Under this methodology, an estimated gross amount of payments for servitudes was assessed and accounted for in 2018. This estimate includes a significant assumption on the number of land owners who will request the Company for compensation, since the law prescribed the Company's obligation to compensate those land owners which request the Company for it.

The Constitutional Court issued a ruling on 8 July 2020 stating that statutory servitudes payment methodology, which was based on the principles of determining the coefficient and the value of a land plot, are in conflict with the Constitution and laws of the Republic of Lithuania (due to the applied 0.1 coefficient and the principle of determining a value of the land plot, where as in the meantime different principles and different coefficient was applied to the servitude by contract). This means that the Company will not be able to examine requests and apply the methodology where the methodology applied was deemed to conflict with Constitution, until the new methodology is set and approved. The ruling is only valid for the future and there is no need to recalculate previously paid compensations. The Company has assessed the following changes and has recalculated the provision for statutory servitude benefits using new benefit coefficient assumptions until the new methodology is set and approved by the resolution of the Government of Lithuania:

All amounts are in EUR thousand unless otherwise stated.

a) the land plot on which electrical installations were installed before 10 March 1990, a coefficient of 0.1 as specified in the methodology shall apply. Such installations account for 88.93% of all installations installed before 10 July 2004. Therefore, a coefficient of 0.1 is applied to 89% of the plot when calculating the total value of the payment. Assumption was made, that land with electricity distribution equipment installed before 10 March 1990, was acquired with an already installed network, so the ownership of the land was acquired with already established restrictions to the usage of the land, therefore the value and availability of this land has not changed and the servitudes payment coefficient of 0.1 should be used;

b) the land plot on which electrical installations have been installed after 11 March 1990 and until 10 July 2004, a coefficient of 0.5 shall apply (the same amount apply to the servitudes determined by contract). Such installations account for 11.07% of all installations installed before 10 July 2004. Therefore, a coefficient of 0.5 is applied to calculate the total value of the payment for 11 percent of the plot.

When preparing financial statements for the year ended on 31 December 2021, the Company also reviewed other assumptions used in the calculation of this provision, specifically the number of applicants, the period over which all benefits will be paid, and the discount rate:

- for the purpose of the calculation of the provision, the discount rate was applied with reference to the lending rate of similar liabilities and was equal to 0.160% (31 December 2020 – 0.219%).
- the number of potential applicants was estimated taking into account the available historical information of two years. In calculating the total amount of compensations, the percentage of customers who are unlikely to apply for compensations was set to 65% (the percentage of 65% used as at 31 December 2020) determined based on the management estimates and the number of clients who actually applied during the period from 2018 to 2019, with an average annual rate of only around 3% (historical data for 2020-2021 has not been included in the calculations due to suspension of methodology application, as it might distort the overall average).
- the period during which customers will apply for compensation has been set at 10 years starting in 2022, as the application of the methodology has been suspended (the updated methodology is expected to be approved in 2022). An additional 1-year deadline for the payment of compensation from the date of submission of the application was applied (the methodology of servitude related compensations provides two years for the payment from the date of submission of the application, but in fact the Company pays within one year).

After assessing the changed circumstances, the Company decided to adjust provision on 31 December 2021 by reducing its amount from EUR 14,638 thousand to EUR 14,376 thousand (Note 21). For the purpose of intangible assets accounting, this provision decreased from EUR 14,590 thousand to Eur 14,346 thousand (Note 5.4).

It should be noted that the value of the provision may vary depending on the number of applicants. Sensitivity analysis is provided below:

As at 31 December 2021	Number of applicants, %							
	25%	35%	45%	55%	65%	75%	85%	95%
Increase (decrease) of provisions for servitude compensations	-4,447	-	+1,718	+6,026	+10,125	+14,224	+18,323	+23,781

4.3.2 Provision for servitudes of real estate

On 8 July 2020, the Constitutional Court issued a ruling stating that servitudes compensation methodology, which was based on the principles of determining the coefficient and the value of a land plot, are in conflict with the Constitution and laws of the Republic of Lithuania not only for the land plots, but also for real estate (due to the applied 0.1 coefficient, where as in the meantime different principles and different coefficient was applied to the servitude by contract). This means that the Company will not be able to examine requests and apply the methodology where the methodology applied was deemed to be in conflict with Constitution, until the new resolution is approved, issued by the Government of the Republic of Lithuania (dated 25 July 2018, resolution No 725 on approval methodology for determining the maximum amount of one-time compensations to be paid for the use of land and other real estate servitudes for the benefit of network operators established by a law or a contract (wording of 22 January 2020; TAR, No 2103 30/01/2020) (hereinafter “the Methodology”) provisions.

As the application of the Methodology is suspended and it is not clear how it will be applied in the future and what coefficient will be applied, as no real estate servitude compensation has been paid prior to the Constitutional Court decision, it is not possible for the Company to reliably estimate the amount of provision for real estate servitudes due to:

a) as no compensations have been paid before the decision of Constitutional Court, it is not possible to estimate how many persons would apply for a compensation of a real estate servitudes;
b) it is not clear what coefficient should be applied to statutory servitudes of real estate until the Methodology is updated;
c) the clear information to be used to estimate the potential value of these property items is not available.

Accordingly, with the requirements of IAS 37, the said obligation does not qualify for provision recognition and is therefore not recognised in the financial statements as at 31 December 2021. Furthermore, the Company does not have sufficient information to accurately estimate financial effect or possibility of any reimbursement of this obligation, therefore, no additional quantitative information is provided.

4.3.3 Provision for special conditions on land use (protection zones)

The Lithuanian Republic Law on Special Conditions on Land Use was approved on 6 June 2019 introducing obligation for the Company to register special protection conditions (protection zones) of a land owned or near the Company’s infrastructure in the state real estate registry and pay compensations to land owners for the land covered by the protection zones. This Law defines the procedure and principles for registration of these special land areas and requires to pay compensations for the use of special land areas under the procedure approved by the Government of the Republic of Lithuania.

The amendment to the Real Estate Cadastre Regulations necessary for the implementation of the Law on Special Land Use Conditions of the Republic of Lithuania entered into force on 12 February 2020, which details the procedure for changing tags and cadastral provisions for development and for existing networks. This amendment provides for an alternative process for registering protection zones (avoiding the change of cadastral data and the hiring of land surveyors). In accordance with the Law on Special Land Use Conditions of the Republic of

Lithuania, the Government had an order to adopt an amendment to this legal act, however, having revised the provisions of the real estate register, which come into effect on 1 January 2022, the provisions on how protection zones should be registered as of 1 January 2023, have not been established.

With the start of tag registration in 2021, the process was reviewed and the cost of communication and contact centre was reduced to take into account the reduction in the need for communication and the actual requests from landowners. Also, after estimating the projected registration volumes of markings in 2021, the need for the provision of projected markings (in territories and plots) for the following years has been updated accordingly.

Having assessed the projected expenses of registration of protection zone tags for 2021 and changes in the procedure and reduced expenses as a result thereof, the Company decided to adjust a provision for protection registration expenses for 2021-2024, accordingly reducing and forming the amount of the provision for 2022-2024 from EUR 15,070 thousand to EUR 10,687 thousand (Note 21) in the statement of financial position as at 31 December 2021. For the purpose of accounting of intangible assets, this provision also decreased from EUR 15,070 thousand to EUR 10,687 thousand (Note 5.4).

4.3.4 Provision for compensations for the Special Land Use Conditions (protection zones)

The Ministry of Environment of the Republic of Lithuania has prepared a methodology for the calculation and payment of Compensation for the application of special land use conditions in the territories specified in the Law on Special Land Use Conditions of the Republic of Lithuania, established in the public interest, which entered into force in 8 April 2020 (hereinafter "the Methodology"). In the light of the letter of The Ministry of Energy of the Republic of Lithuania issued on 18 June 2020, which explains that the provisions of the Methodology apply to both the existing network and the newly built network. In accordance with the provisions of the Methodology, compensation for protection zones would be paid upon registration of protection zones, and the amount of compensation is of an evaluative nature, taking into account the main purpose of the plot, the scope of restrictions, the specific losses incurred and / or incurred by the plot owners based on supporting documents. In view of these Methodological requirements and the data available to the Company, the Company cannot reliably estimate future compensation for registered Special Land Use Conditions (Protected Areas), therefore, this liability does not qualify for recognition under IAS 37 and is therefore not recognised in the financial statements as at 31 December 2021. In addition, the management is not able to provide a quantitative assessment of a contingent liability without having all the necessary information.

4.4 Determining whether the Company, providing electricity transmission services, acts as a Principal or an Agent

In providing electricity transfer services, including both transmission and distribution, to end users (Note 2.18.1), the Company acquires electricity transmission services from transmission grid operator. Having analysed related contracts with the electricity transmission grid operator and contracts with customers, also evaluated applicable regulatory framework, seeking to conclude whether the Company is acting as a Principal or as an Agent in relation to electricity transmission services, has considered arguments provided further:

a. In accordance with the legislation, the electricity transfer service comprises of (i) electricity transmission over high voltage grid and (ii) distribution over low and mid-voltage grid services. Electricity distribution services are provided by the Company. Transmission services are provided by transmission system operator.

b. The Company controls transmission services before transferring it to the end customer on the following grounds:
   - The Company is primarily responsible against the end users for electricity transfer service towards end customers;
   - The Company bears a risk of loss in case of outage of electricity, regardless of whether there was transmission or distribution grid failure.
   - The Company has discretion in establishing the final distribution price and transmission component is not re-charged on a pass-through principle.

On the basis of the above considerations, the Company's management has identified that the Company acts as a Principal in relation to electricity transmission services acquired from the electricity transmission network operator.

4.5 Determining whether servitudes established by law or transaction is a lease

Having conducted an analysis on whether servitudes established by law or transaction are subject to IFRS 16 "Leases", the Company has concluded that they are not, as time limits do not apply to servitudes established by law or transaction and the Company can use them for an unlimited period of time.

4.6 Determining whether the Company collecting PSO fees and the security component of LNGT, acts as the Principal or an Agent

The Company collects PSO fees through the guarantee electricity tariff paid by the customers and transfers them to the PSO fund administrator UAB Baltpool. PSO funds are used to support and promote local production from renewable energy sources, to secure reserves of the electricity system at designated power plants, which is necessary for ensuring the state's energy security and to ensure other services related to public interest. The list of services supported by the PSO is determined by the Government of the Republic of Lithuania

The Management took an important decision and concluded that the Company, when collecting PSO fees and the security components of LNGT from customers, acts as an agent for the reasons stated below:

- the Company is not responsible for PSO and LNGT projects/initiatives, accordingly it is not responsible that collected PSO fees and security components of LNGT were used for their intended purpose;
- the Company is not exposed to any inventory risk;
- the Company has no legal power to establish pricing of these components.

4.7 Lease - Determining the lease term of contracts and estimating the incremental borrowing rate

4.7.1 Determining the lease term of contracts with renewal and termination options
The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Company included the renewal period as part of the lease term for leases of shorter non-cancellable period (i.e., one to three, three to five, five to seven years, etc.). The Company usually exercises its option to renew for these leases. Lease of the state-owned land is not subject to an extension clause, after which the lessee has a pre-emptive right to extend the lease. The periods covered by termination options are included as part of the lease term only when they are reasonably certain to be exercised.

4.7.2 Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (hereinafter “IBR”) to measure lease liabilities (Note 17). The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

4.8 Expected credit losses of trade receivables

The Company uses a provision matrix to calculate expected credit losses for trade receivables. The Company accounts for expected credit losses (hereinafter “ECL”) assessing amounts receivable on an individual basis or on a collective basis applying provision matrixes adopted by the Group companies in respect of their clients.

4.8.1 Collective assessment of ECL applying provision matrix

For short-term trade receivables without a significant financing component the Company applies a simplified approach required by IFRS 9 and measures the loss allowance at expected lifetime credit losses from initial recognition of the receivables. The Company applies a provision matrix to calculate the provision for losses in respect of trade receivables with different maturities and overdue payment periods. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics, i.e. receivables from AB Ignitis Grupė group companies, other business clients and natural persons. The non-recoverability analysis is conducted for the past 3 years in order to determine the general default ratio.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future. The information about the ECL on the Company’s trade receivables is disclosed in Note 28.

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

4.9 Estimation of over declaration of electricity usage by private customers and accounting for deferred income

In the circumstances when the tariff in subsequent period is higher than in current period according to the historical evidence of the Company it has been identified that private customers tend to over declare the consumption of electricity in the last months of the year. Since the Company electricity distribution revenue depends on declarations of electricity consumed by the customers, over declaration increases the Company’s revenue and therefore the Company needs to estimate the amount of the overdeclared consumption to evaluate the amount of deferred income. Estimation is based on historical consumption by the customers as well as the Company’s assessment of technological losses in the electricity grid. All assumptions are reviewed at each reporting date.

All amounts are in EUR thousand unless otherwise stated.

5 Intangible assets

Movements on the Company's intangible assets accounts were as follows:

	Patents and licenses	Computer software	Other intangible assets	Servitudes and protection zones	Projects in progress	Total
As at 31 December 2019						
Acquisition cost	213	19,482	244	38,303	3,595	**61,837**
Accumulated amortisation	(213)	(16,530)	(240)	-	-	**(16,983)**
Accumulated impairment	-	-	-	-	(35)	**(35)**
Carrying amount as at 1 January 2020	**-**	**2,952**	**4**	**38,303**	**3,560**	**44,819**
Additions	-	-	-	1,169	4,588	**5,757**
Reclassifications between categories	-	4,064	37	-	(4,101)	**-**
Amortisation	-	(1,816)	(12)	-	-	**(1,828)**
Decrease after transfer of an in-kind contribution (Note 8)	-	(943)	-	-	-	**(943)**
Recalculation of provisions for servitudes and protection zones (Note 4.3)	-	-	-	(4,838)	-	**(4,838)**
Carrying amount as at 31 December 2020	**-**	**4,257**	**29**	**34,634**	**4,047**	**42,967**
As at 31 December 2020						
Acquisition cost	213	16,333	282	34,634	4,047	**55,509**
Accumulated amortisation	(213)	(12,076)	(253)	-	-	**(12,542)**
Carrying amount as at 1 January 2021	**-**	**4,257**	**29**	**34,634**	**4,047**	**42,967**
Additions	4	7	-	3,560	6,482	**10,053**
Write-offs	-	(4)	-	-	-	**(4)**
Reclassifications between categories	-	3,347	6	-	(3,353)	**-**
Reclassified (to) from non-current intangible assets	-	-	-	-	49	**49**
Amortisation	(1)	(1,981)	(10)	-	-	**(1,992)**
Recalculation of provisions for servitudes and protection zones (Note 4.3)	-	-	-	(4,627)	-	**(4,627)**
Carrying amount as at 31 December 2021	**3**	**5,626**	**25**	**33,567**	**7,225**	**46,446**
As at 31 December 2021						
Acquisition cost	216	19,678	288	33,567	7,225	**60,974**
Accumulated amortisation	(213)	(14,052)	(263)	-	-	**(14,528)**
Carrying amount as at 31 December 2021	**3**	**5,626**	**25**	**33,567**	**7,225**	**46,446**

5.1 Acquisition commitments

As at 31 December 2021 and 2020, the Company did not have significant acquisition commitments of intangible assets which have to be fulfilled during the subsequent years.

5.2 Pledged assets

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

5.3 Servitudes and protection zones

The movement of intangible assets "Servitudes and protection zones" during 2021 year is presented below:

Servitudes and protection zones	31 December 2020	Change	31 December 2021
Statutory land servitudes – provision (Note 4.3.1)	14,590	(244)	14,346
Special conditions on land use (protection zones) – provision (Note 4.3.2)	15,070	(4,383)	10,687
Statutory and contractual servitudes – acquisition cost	4,716	842	5,558
Special conditions on land use (protection zones) – acquisition cost	258	2,718	2,976
Servitudes and protection zones, total:	**34,634**	**(1,067)**	**33,567**

All amounts are in EUR thousand unless otherwise stated.

6 Property, plant and equipment

Movements on the Company's property, plant and equipment accounts were as follows:

	Land	Buildings	Electricity grid and their structures	Gas distribution pipelines, gas technological equipment and installations	Vehicles	Computer hardware and other communication equipment	Other property, plant and equipment	Construction-in-progress	Total
As at 31 December 2019									
Acquisition cost or revalued amount	79	29,783	1,234,294	436,635	3,255	7,080	11,811	39,645	**1,762,582**
Accumulated depreciation	-	(4,427)	(55,351)	(117,067)	(877)	(1,780)	(1,713)	-	**(181,215)**
Accumulated impairment	-	-	-	(13,860)	-	-	-	(3,985)	**(17,845)**
Carrying amount as at 1 January 2020	**79**	**25,356**	**1,178,943**	**305,708**	**2,378**	**5,300**	**10,098**	**35,660**	**1,563,522**
Additions	-	6	454		13	232	650	133,377	**134,732**
Disposals	-	(92)	(66)	(6)	(35)	-	-	-	**(199)**
Write-offs	-	(3)	(3,741)	(243)	-	(3)	(34)	(35)	**(4,059)**
Reclassifications between categories	-	1,838	87,358	25,087	2	5,100	2,290	(121,675)	**-**
Reclassification (to) from assets held for sale	-	-	(5)	-	-	-	-	-	**(5)**
Impairment	-	-	-	(6,327)	-	-	-	(696)	**(7,023)**
Reversal of impairment of construction in progress		-	-	-	-	-	-	56	**56**
Depreciation	-	(4,603)	(58,483)	(9,483)	(799)	(1,638)	(1,849)	-	**(76,855)**
Carrying amount as at 31 December 2020	**79**	**22,502**	**1,204,460**	**314,736**	**1,559**	**8,991**	**11,155**	**46,687**	**1,610,169**
As at 31 December 2020									
Acquisition cost or revalued amount	79	31,481	1,317,799	460,907	3,148	12,394	14,704	47,327	**1,887,839**
Accumulated depreciation	-	(8,979)	(113,339)	(127,152)	(1,589)	(3,403)	(3,549)	-	**(258,011)**
Accumulated impairment	-	-	-	(19,019)	-	-	-	(640)	**(19,659)**
Carrying amount as at 1 January 2021	**79**	**22,502**	**1,204,460**	**314,736**	**1,559**	**8,991**	**11,155**	**46,687**	**1,610,169**
Additions	-	2	517	-	921	379	295	175,865	**177,979**
Disposals	-	(1)	(38)	(36)	-	(1)	-	-	**(76)**
Write-offs	-	(2)	(3,626)	(174)	-	(4)	(35)	(9)	**(3,850)**
Revaluation (Note 6.1)	-	22,167	(69,406)	-	140	(15,85)	114	-	**(48,570)**
Impairment (Note 6.2)	-	-	-	(6,645)	-	-	-	-	**(6,645)**
Reclassifications between categories	-	1,239	94,450	17,593	3	1,264	4,558	(119,107)	**-**
Reclassification from/(to) intangible assets	-	-	-	-	-	-	-	(49)	**(49)**
Reversal of impairment of construction in progress		-	-	-	-	-	-	550	**550**
Depreciation	-	(5,041)	(59,941)	(9,756)	(706)	(2,251)	(2,074)	-	**(79,769)**
Carrying amount as at 31 December 2021	**79**	**40,866**	**1,166,416**	**315,718**	**1,917**	**6,793**	**14,013**	**103,937**	**1,649,739**
As at 31 December 2021									
Acquisition cost or revalued amount	79	40,915	1,166,416	420,803	2,717	6,936	19,224	103,937	**1,761,027**
Accumulated depreciation	-	(49)	-	(80,695)	(800)	(143)	(5,211)	-	**(86,898)**
Accumulated impairment	-	-	-	(24,390)	-	-	-	-	**(24,390)**
Carrying amount	**79**	**40,866**	**1,166,416**	**315,718**	**1,917**	**6,793**	**14,013**	**103,937**	**1,649,739**

In 2021, the Company’s interest capitalised as part of property, plant and equipment amounted to EUR 839 thousand; the average interest rate was established at 1.51% (2020: interest capitalised amounted to EUR 385 thousand; the average interest rate was established at 1.18%).

All amounts are in EUR thousand unless otherwise stated.

6.1 Electricity Business Segment cash generating unit (CGU)

The carrying amount of the Electricity Business Segment CGU (incl. construction in progress and asset units in the aforementioned asset groups) was EUR 1,315 million at 31 December 2021 (31 December 2020: EUR 1,280 million).

In 2021, NERC approved new version of Methodology for Determining the Caps of Electricity Transmission, Distribution and Public Supply Services and the Public Price (hereinafter – "the Methodology") for the new regulatory period (2022-2026). The main effects of updating the Methodology are as follows

a) Additional component of the tariff on the basis whereof the amount of EUR 28 million will be included yearly in ESO regulated revenue of the period of 2022-2026;
b) The base of ESO regulated assets was recalculated, which, compared to 2021, decreased by EUR 317 million (from EUR 1,414 million to EUR 1,097 million);
c) The difference between depreciation and return on investment for 2018–2021, according to the Company's preliminary estimate, amounting to EUR 160 million, will have to be reimbursed (to major extent of 96%) to consumers through the distribution tariff in the period of 2032-2036.

Given that significant changes in regulated activity took place in the electricity segment, the management decided to carry out the revaluation of Electricity Business Segment CGU.

Based on the valuation report of independent appraiser UAB Ernst & Young Baltic, the Company has determined that the fair value of Electricity CGU amounts to EUR 1,314.9 million. The fair value of Electricity CGU determined during the valuation is lower by EUR 48.6 million than the carrying amount of property, plant and equipment as at 31 December 2021, which amounted to EUR 1,363.5 million.

The valuation of assets was performed in the following steps: (i) the recoverable value of new assets was determined, (ii) physical and functional depreciation of assets was determined, (iii) verification of economic depreciation of assets was carried out (allocating gross fair value to individual assets), (iv) fair value of the whole property, plant and equipment of the electricity business was determined using the revenue method.

The main assumptions of the revenue model of the electricity business segment CGU are as follows:

- Discount rate (after-tax) was 3.78% (4.45%, pre-tax) (31 December 2020: 4.33 % (after-tax) (5.09% pre-tax)).
- WACC (rate of return set by NERC) in 2021 – 5.34%, 2022–2026 – 4.16% from 2027 – 4.45% (approximates the pre-tax discount rate) (on 31 December 2020, respectively: 2021 – 5.34% (established by NERC), 2022–2029 – 4.34% ((the average between the rate of return on investments of 3.59% that was newly set by the NERC for the gas sector for regulated period 2019 and the rate of pre-tax return on investments of 5.09% that is estimated in the long term from 2027 for the electricity sector).
- An additional tariff component is established for funding of investments, on the basis whereof the amount of EUR 28 million will be included yearly in the Company's regulated income of the period of 2022-2026 and subsequent periods; according to the management's assessment, even though there is a possibility that after the forecast period (2022-2036) an additional component (EUR 28 million yearly throughout the forecast period) will remain, however, assumed at a conservative level it is not included in the measurement of a continuous value.
- Long-term forecast for investments of the electricity segment is applied and their funding according to the updated 10-year investment plan of the Company.
- According to the measurement model, the calculated return adjustment for 2018-2020 (EUR 116 million) and the forecast for 2021 amounting to EUR 44 million, formed due to the main network elements depreciation and investment return level optimized and not optimized by the long run average increase costs ("LRAIC") model and the actual depreciation and investment return level, will reduce the Company's revenue – by EUR 6.5 million in 2022-2026 and EUR 153.5 million in 2032-2036, and, in addition, the interest will be charged on the outstanding portion on a yearly basis.
- The fair value of assets was determined using the revenue model when forecasting cash flows until 2036, taking into consideration the projected adjustments of investment return due to LRAIC asset depreciation and expected repayment term of return differences in 2018-2021 (in the end of 2020, the period of 40 years was calculated, according to the depreciation term of non-current assets of the principal assets – electrical power lines.

Information about gains and losses of revaluation of assets of the electricity business, incurred during 2021 is presented below:

	Recognized in other comprehensive income and revaluation reserve	Recognized through profit or loss	Total revaluation result
Increase (decrease) in the carrying amount	(38,373)	(10,197)	(48,570)
Restatement write-off of grants (Note 20)	-	4,345	4,345
Total	**(38,373)**	**(5,852)**	**(44,225)**

Sensitivity analysis. The Company has carried out the analysis of sensitivity of determining the fair value to changes in unobservable inputs, based on the following scenarios:

1. Sensitivity to change in return on investment rate (WACC) (from the regulatory period beginning from 2027) and discount rate, that is, a probable change in fair value (in EUR million) due to change in these assumptions is presented in the table below:

			WACC (pre-tax), %						
			3.56%	**4.01%**	**4.16%***	**4.45%**	**4.76%**	**4.90%**	**5.34%**
		Δ	*-20%*	*-10%*	*-7%*	*0%*	*7%*	*10%*	*20%*
Discount rate (pre-tax) %	**3.56%**	-20%	55	116	136	175	217	236	296
	4.01%	-10%	(32)	27	46	84	124	142	200
	4.45%	0%	(112)	(55)	(36)	-	39	56	112
	4.90%	10%	(190)	(135)	(117)	(82)	(45)	(28)	25
	5.34%	20%	(261)	(209)	(191)	(158)	(121)	(105)	(54)

*For 2022, the Company's electricity distribution segment is subject to WACC approved by NERC.

2. If the Council adopted a decision not to allocate EUR 28 million on a yearly basis for funding investments of the additional component:

   a) after the end of the regulatory period of 2022-2026, from the regulatory period as of 2027. The Company's revenue would decrease by EUR 280 million in the forecast period (2027-2036), and the fair value of Electricity Business CGU would decrease by EUR 195 million;
   b) after the end of regulatory periods 2022-2026 and 2027-2031, from the regulatory period as of 2032. The Company's revenue would decrease by EUR 140 million in the forecast period (2032-2036), and the fair value of Electricity Business CGU would decrease by EUR 90 million.

Had the Electricity Business CGU not been revalued, the carrying amounts of the Company's Electricity Business CGU as at 31 December 2021 and 2020 would have been as follows:

	Land	Buildings	Structures and machinery	Vehicles	Computer hardware and communication equipment	Other property, plant and equipment	Construction in progress	In total
31 December 2020	109	25,379	1,294,598	1,558	10,865	11,153	47,327	**1,390,989**
31 December 2021	109	22,029	1,320,052	1,776	9,461	13,898	103,938	**1,471,263**

6.2 Gas Business Segment cash generating unit (CGU)

The carrying amount of the Gas Business Segment CGU was EUR 258.8 million at 31 December 2021 (Gas Business Segment comprises of property, plant and equipment (incl. construction in progress and other tangible assets) – EUR 334.8 million, excluding grants EUR 7.3 million and part of deferred revenue from new users connections of EUR 68.6 million and including the difference between the right-of-use assets and liabilities – EUR 0.03 million) (31 December 2020: EUR 262.5 million (Gas Business Segment CGU comprises of property, plant and equipment (incl. construction in progress) – EUR 330 million, excluding grants EUR 6.6 million and part of deferred revenue from new users connections EUR 60.9 million and including the difference between the right-of-use assets and liabilities – EUR 0.03 million)).

The following key assumptions were used by the Company in making impairment test :

- Discount rate – 3.81% after-tax (4.48% pre-tax) as at 31 December 2021 (as at 31 December 2020: 4.33% (5.09% pre-tax)).
- WACC (rate of return set by the regulator): 2022–-2023 – 3.98% (established by NERC for 2022), from 2024 – 4.48% (equal to pre-tax discount rate) (31 December 2020 respectively: 2021–2023 – 3.90% (established by NERC for 2021), equal to pre-tax return on investments in the gas sector projected in the long term from 2024 – 5.09%);
- The long-term investment forecast of the Gas Business Segment and its financing in accordance with the Company's updated 10-year investment plan is applied;
- Cash flows for future periods were included using terminal value, which was calculated by discounting the regulated asset base (RAB) value at the end of the last forecasted period.

Having performed the test on impairment of Gas CGU as at 31 December 2021 and assessed all the above-mentioned changes, the Company identified that the impairment of assets of Gas Business Segment amounted to EUR 6.645 million as at 31 December 2021.

All amounts are in EUR thousand unless otherwise stated.

Sensitivity analysis. The Company has carried out the analysis of sensitivity of determining the recoverable value to changes in unobservable inputs, based on the following scenarios:

For the purpose of analysis of sensitivity of Rate of Return on Investments (WACC) (from a new regulatory period, i.e. from 2024) and discount rate to changes, the possible decrease or increase in impairment of the assets recorded (EUR' million) due to the change in the following assumptions is presented in the table below:

			WACC (pre-tax), %						
			3.14%	**3.58%**	**3.98%****	**4.48%**	**4.97%**	**5.38%**	**5.82%**
		Δ	*-30%*	*-20%*	*-11%*	*0%*	*11%*	*20%*	*30%*
Discount rate (pre-tax) %	**3.58%**	-20%	(8)	5	16	29	43	54	66
	4.04%	-10%	(22)	(10)	1	14	27	38	50
	4.48%	0%	(35)	(23)	(13)	-	13	23	35
	4.93%	10%	(47)	(36)	(26)	(13)	(1)	9	20
	5.38%	20%	(59)	(48)	(38)	(26)	(14)	(4)	6

** For 2022, the Company's Gas Business Segment is subject to the WACC, approved by the NERC.

6.3 Acquisitions and disposals of property, plant and equipment

Acquisitions of property, plant and equipment during 2021 include the following major acquisitions to the construction in progress:

- acquisitions related to the development of the electricity distribution network (cable lines, modular transformers, meters etc.)
- acquisitions related to the development of the gas distribution network (plastic distribution pipelines etc.).

Liabilities of the Company's capital investments in 2021 and 2020 are described in Note 31.1.

During 2021, the Company disposed the property, plant and equipment with a carrying amount of EUR 76 thousand for consideration of EUR 140 thousand (in 2020: EUR 199 thousand and EUR 716 thousand, respectively). The net result was recognised in item 'Other income' of SPLOCI.

6.4 Fair value hierarchy of property, plant and equipment

In the opinion of the Company's management, the carrying amount of substantially all assets stated at revalued amount as at 31 December 2021 did not differ significantly from their fair value. Total fair value of the Company's revalued property, plant and equipment is attributed to Level 3 of the hierarchy (refer to Note 2.25 for the description of the fair value hierarchy levels).

6.5 Pledged property, plant and equipment

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

All amounts are in EUR thousand unless otherwise stated.

7 Right-of-use assets

7.1 The Company's right-of-use assets

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

	Land	Buildings	Vehicles	Other property, plant and equipment	Total
As at 31 December 2019					
Acquisition cost	1,309	11,443	11,716	292	**24,760**
Accumulated depreciation	(32)	(1,822)	(2,389)	(87)	**(4,330)**
Carrying amount as at 1 January 2020	**1,277**	**9,621**	**9,327**	**205**	**20,430**
Additions	317	1,357	-	341	**2,015**
Write-offs and disposals	(151)	(535)	(183)	(260)	**(1,129)**
Depreciation	(37)	(2,256)	(2,628)	(157)	**(5,078)**
Carrying amount as at 31 December 2020	**1,406**	**8,187**	**6,516**	**129**	**16,238**
As at 31 December 2020					
Acquisition cost	1,475	12,265	11,533	373	**25,646**
Accumulated amortization	(69)	(4,078)	(5,017)	(244)	**(9,408)**
Carrying amount as at 1 January 2021	**1,406**	**8,187**	**6,516**	**129**	**16,238**
Additions	-	148	191	141	**480**
Write-offs and disposals	(27)	(575)	(1)	(50)	**(653)**
Depreciation	(46)	(2,217)	(2,684)	(85)	**(5,032)**
Carrying amount as at 31 December 2021	**1,333**	**5,543**	**4,022**	**135**	**11,033**
As at 31 December 2021					
Acquisition cost	1,448	10,979	11,439	229	**24,095**
Accumulated amortization	(115)	(5,436)	(7,417)	(93)	**(13,062)**
Carrying amount	**1,333**	**5,543**	**4,022**	**135**	**11,033**

The Company's lease agreements regarding vehicles provide for the right to change the scope of services within the maximum amount and price of services specified in the agreement. The Company is not either obligated to purchase maximum number of vehicles or any part of it. The Company has the right to terminate the agreement with at least 6-month prior notice to the lessor without incurring any additional financial obligations, and in the case of lease of office premises and infrastructure – with at least 14-day prior notice without incurring additional financial obligations. A lease of land can be terminated prematurely without additional financial obligations.

7.2 Expenses related to lease agreements recognised in SPLOCI

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

	2021	2020
Depreciation charge	5,032	5,078
Interest charges	160	198
Expenses related to short-term leases (other expenses)	165	206
Write-off of assets and liabilities	-	10
Lease expenses, total:	**5,357**	**5,492**

8 Investments in associates

Movement on the Company's account of investments in associates during the reporting period was as follows:

	2021	2020
Carrying amount as at 1 January	**3,722**	**2,628**
Increase in issued capital	-	1,149
Dividends received	(197)	(194)
Share of profit/(loss) on investments in associates	366	139
Carrying amount as at 31 December	**3,891**	**3,722**

In 2020, the Company increased its investment in the associate by a contribution in kind made up of intangible assets. Contribution in-kind was estimated by independent appraisers at the value of EUR 1,149 thousand, the carrying amount of the asset disposed was at EUR 943 thousand (Note 5).

The summarized financial information for the associates for the year 2021 (unaudited data) and the year 2020 (audited data) are presented below:

Condensed	UAB Ignitis Grupės Paslaugų Centras	
statement of financial position	2021	2020
Non-current assets	16,459	12,123
Total non-current assets	**16,459**	**12,123**
Cash and cash Equivalents	1,464	942
Other current assets	8,651	8,763
Total current assets	**10,115**	**9,705**
Other non-current liabilities	(574)	(1,291)
Total non-current liabilities	**(574)**	**(1,291)**
Current borrowings	(8,840)	(213)
Other current liabilities	(3,158)	(6,523)
Total current liabilities	**(11,998)**	**(6,736)**
Net assets	**14,002**	**13,801**

All amounts are in EUR thousand unless otherwise stated.

9 Inventories

The Company's inventories comprised as follows:

	31 December 2021	31 December 2020
Raw materials and spare parts	1,723	1,916
Natural gas	663	114
Fuel	48	34
Other	408	310
Less: write-down to the net realizable value	(56)	(30)
Total:	**2,786**	**2,344**

In 2021, natural gas amounting to EUR 5,589 thousand was used for technical purposes (in 2020: EUR 1,626 thousand), natural gas amounting to EUR 249 thousand was written-off due to third party damage (in 2020: EUR 26 thousand).

Change in the account of inventory write-down to net realisable value is recognised in item "Other expenses" in SPLOCI. Allowance for inventories is calculated only for ageing, obsolete and unusable inventories.

10 Trade and other receivables

The Company's trade and other receivables comprised:

	31 December 2021	31 December 2020
Trade receivables for electricity	47,726	38,881
Trade and other receivables from related parties (Note 32)	32,637	36,156
Trade receivables for distribution of natural gas	1,535	1,414
Other trade receivables	631	222
Current portion of mortgage loans	54	56
Other receivables	6,407	633
Less: impairment of trade receivables	(2,242)	(2,466)
Total:	**86,748**	**74,896**

All amounts are in EUR thousand unless otherwise stated.

10.1 Impairment of amounts receivable (lifetime expected credit losses)

Trade receivables are not subject to interest, the general term of settlement is 25-35 days.

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company uses the loss coefficient matrix. The loss ratio matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to forward looking information. The loss ratios are updated during the preparation of the annual financial statements with respect to the impact of forward looking information where forward looking information is indicative of any exacerbation of economic conditions during upcoming years or of customer types. A different loss coefficient matrix is used with regard to household consumers and non-household consumers.

The Company's trade receivables as at 31 December 2021 and 2020 for the assessment whereof the collective estimate is applied using the loss coefficient matrix are presented below:

2021							Days past due								
	Not past due	0-30	31-60	61-90	91-120	121-150	151-180	181-210	211-240	241-270	271-300	301-330	331-360	Past due over 360	Total
Loss ratio*	0.04%	1.21%	5.01%	7.53%	9.06%	10.29%	10.65%	10.74%	10.74%	10.74%	10.75%	10.75%	10.75%	57.39%	
Natural persons	403	87	46	36	31	28	25	22	20	27	27	39	9	82	
Impairment	0.16	1.05	2.29	2.69	2.82	2.92	2.69	2.41	2.19	2.85	2.87	4.15	0.95	46.89	**77**
Loss ratio*	0.05%	1.41%	3.96%	6.23%	8.13%	9.52%	10.40%	11.00%	11.37%	11.83%	12.20%	12.53%	12.73%	57.45%	
Legal persons	38.059	785	225	105	90	86	68	68	68	62	74	63	37	1.300	
Impairment	19.03	11.07	8.90	6.56	7.30	8.17	7.09	7.53	7.74	7.38	9.08	7.91	4.69	746.85	**859**
Loss ratio*	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Municipal or state-funded enterprises, institutions and organizations	2.289	24	2	1	2	-	-	-	-	-	-	-	-	12	
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Loss ratio*	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Clients who went/will go bankrupt or liquidated	59	8	10	4	6	5	4	8	21	47	36	18	30	1.049	
Impairment	59.07	7.94	9.74	3.94	5.81	5.16	4.44	7.53	21.24	47.39	36.44	18.34	29.74	1.049	**1.306**
Total:	**78**	**20**	**21**	**13**	**16**	**16**	**14**	**18**	**31**	**58**	**48**	**31**	**35**	**1.843**	**2.242**

2020							Days past due								
	Not past due	0-30	31-60	61-90	91-120	121-150	151-180	181-210	211-240	241-270	271-300	301-330	331-360	Past due over 360	Total
Loss ratio*	0.08%	1.74%	7.55%	12.16%	14.83%	17.52%	18.14%	18.27%	18.27%	18.27%	18.27%	18.27%	18.27%	67.12%	
Natural persons	174	25	14	7	5	3	2	4	4	4	1	3	2	80	
Impairment	0.14	0.43	1.07	0.87	0.76	0.45	0.42	0.76	0.82	0.77	0.20	0.58	0.44	53.77	**61**
Loss ratio*	0.05%	1.99%	5.42%	8.76%	11.55%	13.71%	15.12%	16.19%	16.82%	17.59%	18.25%	18.83%	19.20%	67.12%	
Legal persons	37.741	976	315	153	84	70	70	65	76	89	84	48	35	1.025	
Impairment	18.87	19.42	17.05	13.43	9.69	9.62	10.51	10.54	12.86	15.57	15.36	9.02	6.77	688.06	**857**
Loss ratio*	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Municipal or state-funded enterprises, institutions and organizations	1.709	8	2	11	6	1	-	-	-	-	-	1	-	11	
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Loss ratio*	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Clients who went/will go bankrupt or liquidated	71	45	7	5	5	10	11	11	9	60	22	37	29	1.225	
Impairment	70.74	45.2	7.04	5.05	5.22	10.11	10.62	11.18	8.78	60.09	22.39	36.66	29.41	1.225.33	**1.548**
Total:	**90**	**65**	**25**	**19**	**16**	**20**	**22**	**23**	**22**	**76**	**38**	**46**	**37**	**1.967**	**2.466**

* The average loss ratio applied to the different groups of users

All amounts are in EUR thousand unless otherwise stated.

Movements in the Company's impairment allowance account for trade and other receivables in 2021 and 2020 were as follows:

	2021	2020
Carrying amount as at 1 January	**2,466**	**2,707**
Impairment of the year	259	299
Write-off of doubtful receivables	(483)	(540)
Carrying amount as at 31 December	**2,242**	**2,466**

Impairment of receivables was recognised in the line item "Impairment and write-off expenses" in SPLOCI.

Fair value of trade and other receivables approximates their carrying amounts as at 31 December 2021 and 2020.

11 Other current assets

Other current assets comprised the following items:

	31 December 2021	31 December 2020
Guarantees from independent electricity suppliers	3,345	2,787
Total:	**3,345**	**2,787**

As at 31 December 2021 and 2020, other current assets comprised funds received from independent electricity suppliers. Amendments to the Law on Electricity related to the liberalisation of the country's electricity market were adopted by the Parliament of the Republic of Lithuania on 7 May 2020. In line with this amendment, the independent electricity suppliers willing to participate in the electricity market are required to provide guarantees. The amount of the guarantee depends on the market share gained. One of the possible forms of providing guarantees is the transfer of funds to the Company's account.

12 Cash and cash equivalents

The Company's cash and cash equivalents comprised:

	31 December 2021	31 December 2020
Cash in bank accounts	14,524	8,965
Total:	**14,524**	**8,965**

Fair value of cash and cash equivalents approximates to their carrying amount as at 31 December 2021 and 2020.

As at 31 December 2021 and 2020, the Company did not have pledged or otherwise restricted owned funds in banks.

13 Issued capital

As at 31 December 2021 and 2020, the issued capital of the Company amounted to EUR 259,442,797 and it was divided into 894,630,333 ordinary registered shares with a par value of EUR 0.29 each. All issued shares were fully paid.

14 Reserves

14.1 Legal reserve

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

As at 31 December 2021 and 2020 the Company's legal reserve was fully formed.

14.2 Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. This reserve cannot be used to cover losses.

Movements in the Company's revaluation reserve as at 31 December 2021 and 2020 were as follows:

	Revaluation reserve	Deferred income tax	Net of deferred income tax
Carrying amount as at 1 January 2020	**165,905**	**(24,885)**	**141,020**
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(16,449)	2,467	(13,982)
Carrying amount as at 31 December 2020	**149,456**	**(22,418)**	**127,038**
Carrying amount as at 1 January 2021	**149,456**	**(22,418)**	**127,038**
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(13,317)	1,997	(11,320)
Profit or loss due to revaluation of property, plant and equipment during the year	(38,373)	5,756	(32,617)
Carrying amount as at 31 December 2021	**97,766**	**(14,665)**	**83,101**

All amounts are in EUR thousand unless otherwise stated.

15 Loans

The Company's borrowings comprised:

	Notes	31 December 2021	31 December 2020
Non-current loans			
Loans from related parties	32	649,830	657,732
		649,830	**657,732**
Current loans			
Loans from related parties	32	63,439	15,549
		63,439	**15,549**
Total loans:		**713,269**	**673,281**

As at 31 December 2021, the loans consisted mainly of proportional transfer agreements for Green Bonds with the parent company AB Ignitis Grupė for the transfer of a portion of the Green Bonds issue to the Company.

Borrower (creditor) and type of loan	Date of loan agreement	Non-current portion	Current portion (incl. interest)	In total
Transfer of a portion of AB Ignitis Grupė Green Bonds issue to the Company	3 July 2018	250,000	3,042	**253,042**
Transfer of a portion of AB Ignitis Grupė bonds issue to the Company	30 June 2020.	200,000	3,223	**203,223**
Transfer of a portion of AB Ignitis Grupė Green Bonds issue to the Company	14 July 2017	166,288	2,090	**168,378**
AB Ignitis Grupė refinanced loan initially granted by SEB bank	8 November 2017	33,542	7,943	**41,485**
Cashpool of the Group of Companies of AB Ignitis Grupė	18 May 2016	-	47,141	**47,141**
Total:		**649,830**	**63,439**	**713,269**

Non-current borrowings by maturity:

	31 December 2021	31 December 2020
From 1 to 2 years	7,901	7,901
From 2 to 5 years	191,929	31,606
After 5 years	450,000	618,225
In total:	**649,830**	**657,732**

The Company has the following undrawn committed credit facilities from related parties expiring within or after one year:

	2021	2020
Credit facilities	22,877	80,000

All amounts are in EUR thousand unless otherwise stated.

16 Net debt

Net debt is a non-IFRS liquidity metric used to determine the value of debt against highly liquid assets owned by the Company. Management is monitoring net debt metric as a part of risk-management strategy.

Net debt balances:

	31 December 2021	31 December 2020
Non-current borrowings payable after one year	649,830	657,732
Current borrowings payable within one financial year (including accrued interest)	63,439	15,549
Lease liabilities	11,206	16,385
Cash and cash equivalents	(14,524)	(8,965)
Net debt	**709,951**	**680,701**

Reconciliation of net debt balances and cash flows from financing activities:

	Assets	Lease liabilities		Borrowings		
	Cash	Non-current	Current	Non-current	Current	In total
Net debt at 1 January 2020	**(4,775)**	**15,555**	**5,029**	**465,633**	**176,268**	**657,710**
Cash changes						
(Increase) in cash and cash equivalents	(4,190)	-	-	-	-	**(4,190)**
Proceeds from borrowings	-	-	-	200,000	-	**200,000**
Repayments of borrowings	-	-	-	-	(32,901)	**(32,901)**
Loans from related parties, net	-	-	-	-	-	**(138,356)**
Lease payments - principal portion	-	-	(5,096)	-	-	**(5,096)**
Interest paid	-	-	(197)	-	(7,853)	**(8,050)**
Non-cash changes						
Interest charge	-	-	198	-	12,577	**12,775**
Lease contracts concluded	-	896	-	-	-	**896**
Reclassifications between items	-	(5,149)	5,149	(7,901)	7,901	**-**
VAT on interest payable	-	-	-	-	(2,087)	**(2,087)**
Net debt at 31 December 2020	**(8,965)**	**11,302**	**5,083**	**657,732**	**15,549**	**680,701**
Net debt at 1 January 2021	**(8,965)**	**11,302**	**5,083**	**657,732**	**15,549**	**680,701**
Cash changes						
(Increase) in cash and cash equivalents	(5,559)	-	-	-	-	**(5,559)**
Proceeds from borrowings	-	-	-	-	-	**-**
Repayments of borrowings	-	-	-	-	(7,901)	**(7,901)**
Loans from related parties, net	-	-	-	-	47,123	**(47,123)**
Lease payments	-	-	(5,006)	-	-	**(5,006)**
Interest paid	-	-	(160)	-	(13,510)	**(13,670)**
Non-cash changes						
Interest charge	-	-	160	-	14,168	**14,328**
Lease contracts concluded	-	257	223	-	-	**480**
Lease liabilities written-off	-	(105)	(548)	-		**(653)**
Reclassifications between items	-	(4,820)	4,820	(7,902)	7,902	**-**
VAT on interest payable	-	-	-	-	108	**(108)**
Net debt at 31 December 2021	**(14,524)**	**6,634**	**4,572**	**649,830**	**63,439**	**709,951**

All amounts are in EUR thousand unless otherwise stated.

17 Lease liabilities

The Company' minimum payments under leases are as follows:

	31 December 2021	31 December 2020
Minimum payments		
Within the first year	4,694	5,241
From two to five years	5,548	10,028
More than five years	2,978	3,340
In total	**13,220**	**18,609**
Future finance costs		
Within the first year	(122)	(158)
From two to five years	(276)	(341)
More than five years	(1,616)	(1,725)
In total	**(2,014)**	**(2,224)**
Carrying amount	**11,206**	**16,385**

Major Company's lease liabilities are related to long-term lease of buildings and vehicles.

The Company's lease liabilities related to buildings amounted to EUR 5,600 thousand as at 31 December 2021 (31 December 2020: EUR 8,237 thousand). As at 31 December 2021 and 2020, interest rates of lease of buildings were from 0.61 to 1.83%. The lease agreements valid as at 31 December 2021 expire during the period of 2022-2027.

The Company's lease liabilities related to vehicles amounted to EUR 4,062 thousand as at 31 December 2021 (31 December 2020: EUR 6,560 thousand). As at 31 December 2021 and 2020, interest rates of lease of vehicles were from 0.61 to 1.16%. The lease agreements on vehicles valid as at 31 December 2021 expire during the period of 2023.

18 Income tax

The Company's income tax expense for the year comprises income tax and deferred income tax of the reporting period. The Company's income tax expense comprises:

	2021	2020
Deferred income tax expenses (benefit)	6,776	8,590
In total:	**6,776**	**8,590**

The Company had sufficient amount of unused investment relief to cover all taxable profit as at 31 December 2021. The Company had unused investment relief of EUR 22.4 million, which can be utilised until 31 December 2023 (as at 31 December 2020, the Company had EUR 64.4 million unused accrued relief).

Income tax expense disclosed in the statement of profit or loss and other comprehensive income relating to the result of the year may be reconciled to income tax expense that would arise using an enacted income tax rate of 15% applicable to profit before income tax:

	2021	2021	2020	2020
Profit before tax		56,807		78,072
Income tax expenses (benefit) at tax rate of 15	15.00%	8,521	15.00%	11,711
Expenses not deductible for tax purposes	0.067%	380	0.27%	214
Income not subject to tax	-	-	(0.76)%	(594)
Income tax relief for the investment project	(3.74)%	(2,125)	(3.51)%	(2,741)
In total	**11.93%**	**6,776**	**11.00%**	**8,590**

Deferred income tax

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

	As at 31 December 2019	Recognized in profit or loss	As at 31 December 2020	Recognized in profit or loss	Recognized in other comprehensive income	As at 31 December 2021
Deferred tax asset						
Proceeds from connection of new users	14,165	(674)	13,491	(720)	-	12,771
Write-down of inventories and impairment of receivables	422	(40)	382	(33)	-	349
Accrued expenses	888	392	1,280	488	-	1,768
Electricity overdeclaration	1,194	(475)	719	1,196	-	1,915
Balance of Right of use assets	23	(1)	22	4	-	26
Unused income tax relief for the investment project	15,271	(5,615)	9,656	(6,294)	-	3,362
Deferred tax asset, net	**31,963**	**(6,413)**	**25,550**	**(5,359)**	-	**20,191**
Deferred tax liability						
Differences in tax and financial values of property, plant and equipment	(36,505)	(2,535)	(39,040)	(1,012)	5,756	(34,296)
Income tax relief for the investment project	(1,244)	273	(971)	206	-	(765)
Write-off of grants	(2,631)	85	(2,546)	(610)	-	(3,156)
Deferred tax liability, net	**(40,380)**	**(2,177)**	**(42,557)**	**(1,417)**	**5,756**	**(38,218)**
Net value of deferred income tax	**(8,417)**	**(8,590)**	**(17,007)**	**(6,776)**	**5,756**	**(18,028)**

All amounts are in EUR thousand unless otherwise stated.

19 Liabilities under connection contracts with customers

Liabilities under connection contracts with customers:

	31 December 2021	31 December 2020
At the beginning of the year	**225,620**	**215,082**
Received during the year	28,198	20,664
Recognised as income in the statement of profit or loss and other comprehensive income (Note 24)	(10,812)	(10,126)
At the end of the year	**243,006**	**225,620**

	31 December 2021	31 December 2020
Non-current portion		
Liabilities under connection contracts with customers	231,535	214,963
Liabilities under contracts on public service obligation (PSO) services	224	236
Total non-current liability under contracts with customers:	**231,759**	**215,199**
Current portion (Note 23)	11,247	10,421
Total liabilities under connection contracts:	**243,006**	**225,620**

20 Grants and subsidies

The balance of grants comprises grants to finance acquisition of property plant and equipment and assets acquired free of charge. Movements on the account of grants were as follows:

Balance at 31 December 2019	**15,156**
Grants received	7,211
Amortisation charge	(1,045)
Write-off grants	(4)
Balance at 31 December 2020	**21,318**
Grants received	11,448
Amortisation charge	(1,253)
Grants reversed and written off	(4,345)
Balance at 31 December 2021	**27,168**

Amortisation of grants is accounted for under depreciation and amortisation in SPLOCI and reduces depreciation expenses of related property, plant and equipment. Grants written off are reported within revaluation/impairment of assets and reduce these expenses.

21 Provisions

The Company's provisions were as follows:

	31 December 2021	31 December 2020
Non-current	21,072	23,435
Current	7,609	8,916
Total	**28,681**	**32,351**

Movement of the Company's provisions was as follows:

	Provisions for compensations for servitudes	Provisions for registration of protection zones	Provisions for employee benefits	In total
Balance as at 1 January 2020	**26,911**	**8,328**	**2,575**	**37,814**
Increase during the year	-	-	-	**-**
Discounting effect	50	-	-	**50**
Utilised during the year	(258)	-	(14)	**(272)**
Result of change in assumptions	(12,065)	6,742	82	**(5,241)**
Balance as at 31 December 2020	**14,638**	**15,070**	**2,643**	**32,351**
Balance as at 1 January 2021	**14,638**	**15,070**	**2,643**	**32,351**
Increase during the year	-	-	1,055	**1,055**
Discounting effect	(18)	-	-	**(18)**
Utilised during the year	-	-	-	**-**
Result of change in assumptions	(244)	(4,383)	(80)	**(4,707)**
Balance as at 31 December 2021	**14,376**	**10,687**	**3,618**	**28,681**

The main assumptions applied for evaluation of the Company's obligations to non-current employee benefits are as follows:

	2021	2020
Discount rate	0.04 %	0.20 %
Annual employee turnover rate	7.8%	7.9%
Annual salary increase	5%	3%
Average time until retirement (years)	19	19

All amounts are in EUR thousand unless otherwise stated.

22 Trade and other payables

The Company's trade payables were as follows:

	31 December 2021	31 December 2020
Payables to related companies (Note 32)	52,380	25,565
Trade payables	17,696	24,532
Total trade payables:	**70,076**	**50,097**
Payroll-related liabilities	2,335	1,427
Taxes (other than income tax)	295	2,957
Other current liabilities	3,502	3,360
Total trade payables:	**6,132**	**7,744**
Carrying amount	**76,208**	**57,841**

Other payables amounting to EUR 2,630 thousand as at 31 December 2021 (31 December 2020: EUR 4,384 thousand) were non-financial instruments.

Trade payables

The above financial liabilities have the following conditions:
- Trade payables are non-interest bearing and are normally settled within the term of 30–45 days.
- Other payables are non-interest bearing and have an average settlement term of six months.

23 Accrued expenses and contractual obligations

	31 December 2021	31 December 2020
Prepayments for new connection contracts with customers and other contracts with customers and other contracts	49,953	29,510
Accrued expenses	24,279	24,594
Current portion of contract liabilities under connection contracts with customers (Note 19)	11,247	10,421
Total:	**85,479**	**64,525**

Contract liabilities under new connection contracts with customers and other contracts comprised the following:

	31 December 2021	31 December 2020
Prepayments for connection of new customers	28,594	16,370
Prepayments for other services under contracts with customers	12,679	9,441
Prepayments under other contracts	4,673	-
Overdeclared electricity and effect of overdeclaration	4,007	3,699
Total:	**49,953**	**29,510**

A breakdown of prepayments for connection of new customers was as follows:

	31 December 2021	31 December 2020
Connection to the electricity network	25,059	11,464
Connection to the gas network	3,535	4,906
Total:	**28,594**	**16,370**

All amounts are in EUR thousand unless otherwise stated.

24 Revenue from contracts with customers

24.1 Disaggregated revenue information

The Company's revenue from contracts with customers comprised the following:

	2021	2020 (restated) [1]
Revenue from electricity transmission	439,459	410,818
Revenue from gas transmission	45,473	36,359
Revenue from guaranteed electricity supply	30,271	17,930
Revenue from connection of new customers (Note 19)	10,812	10,126
Income from equipment transfer	4,043	5,633
Issuance of technical conditions	1,539	-
Other revenue from contracts with customers	1,537	1,825
In total:	**533,134**	**482,691**

[1]Part of the amounts does not agree with the financial statements issued for the year ended 31 December 2020 due to reclassifications. See more information disclosed in Note 1.2.

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

	2021	2020 (restated) [1]
Performance obligations settled at a specific point in time	7,119	7,458
Performance obligations settled over time	526,015	475,233
Total:	**533,134**	**482,691**

[1]Part of the amounts does not agree with the financial statements issued for the year ended 31 December 2020 due to reclassifications. See more information disclosed in Note 1.2.

24.2 Contract balances

Balances arising from the Company's contracts with customers as at the end of the period are as follows:

	31 December 2021	31 December 2020
Trade receivables	**80,533**	**74,406**
Contract liabilities	**275,607**	**245,689**
Prepayments for connection of new customers (Note 23)	28,594	16,370
Prepayments for other services under contracts with customers (Note 23)	12,679	6,549
Overdeclared electricity and effect of overdeclaration (Note 23)	4,007	3,699
Liabilities under connection contracts with new customers (Note 19)	243,006	225,620

As at 31 December 2021 and 2020, the Company did not have contract assets.

Recognised expected credit losses of trade receivables are disclosed in Note 10.

24.3 Transaction price allocation to remaining performance obligations

All the Company's performance obligations entitle the Company to receive from the customer such amount that corresponds directly to the value of the Company's performance completed to date, therefore, the Company applies the practical expedient in paragraph 121 of IFRS 15 and chooses not to disclose the allocation of transaction price to the remaining performance obligations.

24.4 Rights to returned goods and refund liabilities

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

24.5 Performance obligations

The performance obligation is satisfied upon delivery of the service and payment is generally due within 30 days from delivery. For more information on fulfilment of performance obligations, issuing invoices see Note 2.18.

All amounts are in EUR thousand unless otherwise stated.

24.6 Information about breakdown of revenue by activities:

2021	Electricity supply and distribution	Gas distribution	In total
Revenue from electricity transmission	439,459	-	**439,459**
Revenue from gas transmission	-	45,473	**45,473**
Revenue from guaranteed electricity supply	30,271	-	**30,271**
Revenue from connection of new customers	9,429	1,383	**10,812**
Income from equipment transfer	4,043	-	**4,043**
Issuance of technical conditions	1,539	-	**1,539**
Other revenue from contracts with customers	472	1,065	**1,537**
In total:	**485,213**	**47,921**	**533,134**
Moment of revenue recognition:			
Performance obligations settled at a specific point in time	6,054	1,065	**7,119**
Performance obligations settled over time	479,159	46,856	**526,015**
In total:	**485,213**	**47,921**	**533,134**

2020	Electricity supply and distribution (restated)[1]	Gas distribution (restated)[1]	In total (restated)1
Revenue from electricity transmission	410,818	-	**410,818**
Revenue from gas transmission	-	36,359	**36,359**
Revenue from guaranteed electricity supply	17,930	-	**17,930**
Revenue from connection of new customers	8,883	1,243	**10,126**
Income from equipment transfer	5,633	-	**5,633**
Issuance of technical conditions	-	-	**-**
Other revenue from contracts with customers	570	1,255	**1,825**
In total:	**443,834**	**38,857**	**482,691**
Moment of revenue recognition:			
Performance obligations settled at a specific point in time	6,203	1,255	**7,458**
Performance obligations settled over time	437,631	37,602	**475,233**
In total:	**443,834**	**38,857**	**482,691**

[1]Part of the amounts does not agree with the financial statements issued for the year ended 31 December 2020 due to reclassifications. See more information disclosed in Note 1.2.

25 Other revenue

The Company's other revenue received during the year is presented below:

	2021	2020 (restated) [1]
Revenue from past due obligations	1,558	703
Rent income	370	485
Gain (loss) from disposal of non-current assets	56	517
Other revenue	188	446
In total:	**2,172**	**2,150**

[1]Part of the amounts does not agree with the financial statements issued for the year ended 31 December 2020 due to reclassifications. See more information disclosed in Note 1.2.

26 Dividends

Approved dividends per share:

	2021	2020
Declared dividends (EUR'000)	55,467	67,991
Weighted average number of shares (EUR'000)*	894,630	894,630
Approved dividends per share (EUR)	**0.062**	**0.076**

*The weighted average number of ordinary shares during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the weighted average number of ordinary shares repurchased or issued during the period, multiplied by the time weighted ratio. The time-weighting factor is the number of days that the specific shares are outstanding as a proportion of the total number of days in the period.

The ordinary General Meeting of Shareholders of AB Energijos Skirstymo Operatorius was held on 30 March 2021 where it was decided to approve the profit appropriation for the year 2020 and to allocate EUR 0.062 per share in dividends, in total EUR 55,467 thousand in dividends.

27 Salaries and related expenses

	2021	2020
Wages and salaries	50,171	48,903
Social security contributions	1,222	1,028
Result of change in assumptions of benefits to employees	1,016	212
Termination benefits	399	531
Change in vacation accrual	277	694
In total:	**53,085**	**51,368**

28 Impairment and write-off expenses

	2021	2020
Impairment of property, plant and equipment (Note 6)	6,645	6,327
Write-off of property, plant and equipment (Note 6)	3,850	4,059
Impairment of receivables (Note 10)	259	299
Change in write-down of inventories (Note 9)	26	-
Change in impairment of other financial assets	(131)	379
Impairment of construction in progress and (reversal of impairment) (Note 6)	(550)	640
Other write-offs	18	18
In total:	**10,117**	**11,722**

29 Other expenses

	2021	2020
Maintenance company's expenses	4,971	4,649
Taxes (other than income tax)	3,270	2,092
Customer service	3,018	2,392
Transport	2,932	3,240
Rent and utilities	2,463	1,956
Consultation services	1,235	1,187
Payments under the collective agreement and other additional benefits	674	732
Personnel development, business trips	522	481
Insurance, medical services	380	195
Compensation for damages	277	193
Other expenses	2.095	2.892
In total:	**21,837**	**20,009**

All amounts are in EUR thousand unless otherwise stated.

30 Financing activities

	2021	2020
Finance income		
Interest income on loans granted	62	38
Total:	**62**	**38**
Finance expenses		
Loan interest expenses	(13,324)	(12,188)
Interest and discount expenses on lease liabilities	(160)	(198)
Other (costs)/reversal of costs	(42)	290
Total:	**(13,526)**	**(12,096)**

31 Contingent liabilities

31.1 Capital expenditure commitments

In 2021, the Company's capital expenditure commitments assumed under the signed contracts as at the date of the financial statements but not accounted for in the financial statements amounted to EUR 62 million (31 December 2020: EUR 24 million).

31.2 Tariff adjustments due to profit earned in the previous periods, exceeding the permitted return on investments established by the Commission (2021)

31.2.1 Electricity business segment

Based on its Resolution No O3E-1309 of 15 October 2021 "On recalculating the price caps for electricity distribution services provided by AB Energijos Skirstymo Operatorius through medium and low voltage networks for the year 2022-2026", the Council set the price cap for the electricity distribution service for 2022 based on its Certificate No O5E-1226 of 15 October 2020 "On recalculating the price caps for electricity distribution services provided by AB Energijos Skirstymo Operatorius through medium and low voltage networks for the year 2022-2026".

When setting the limits of electricity distribution prices for 2022, the return on investment for 2018 -2020 year was assessed and the amount of return on investment exceeded the set allowable amount by EUR 167,500 thousand, whereof:

1) EUR 116,058 thousand the difference between the level of depreciation and return on investment of the optimized and non-optimized key network elements of the limited adjustments to the long-run average incremental cost (hereinafter LRAIC) model and the actual level of depreciation and return on investment;
2) EUR 51,442 thousand the difference between the forecasts for operating expenses, technological losses and other costs compared to the costs actually incurred.

The assessment of the return on investment for 2021 will be performed in 2022, when setting the price limits for electricity distribution in 2023.

31.2.2 Gas business segment

By the resolution No.O3E-1390 of 29 October 2021 "On adjustment of the price caps for gas distribution services provided by AB Energijos Skirstymo Operatorius for the year 2022" the Council set the upper limit of the natural gas distribution price for the 2022 on the basis of Certificate No.O5E-1280 of 26 October 2021 "On adjustment of the price caps for gas distribution services provided by AB Energijos Skirstymo Operatorius for the year 2022".

The amount of the return on investment not repaid as at the end of 2021, exceeding the set allowable amount, was EUR 12,703 thousand for the year 2014-2018.

When setting the price limits for distribution of gas for 2022, the additional assessment of the return on investment for 2019-2020 was carried out, and the established amount of return on investments, exceeding the permissible amount, was EUR 3,899 thousand.

The assessment of return on investments for the year 2021 will be carried out in 2023 when establishing prices for gas distribution for 2024.

31.3 Litigations

31.3.1 Litigation with Vilniaus energija UAB

The plaintiff Vilniaus energija UAB has filed a claim with Vilnius Regional Court regarding the award of EUR 9,284 thousand from AB Energijos Skirstymo Operatorius. The plaintiff claims to have incurred EUR 9,284 thousand losses due to the fact that AB Energijos Skirstymo Operatorius during the year 2014 purchased only the electricity produced by the Plaintiff's cogeneration plants in the technical minimum regime. On 17 March 2017, the Plaintiff updated the subject-matter of the claim and requested the court to award damages in the amount of EUR 10,712 thousand.

By judgment of 28 January 2020, Vilnius Regional Court partially upheld the claim of Vilniaus energija UAB and:
1) acknowledged that Vilniaus energija UAB was discriminated against in relation to other cogeneration plants;
2) awarded Vilniaus energija UAB from the Company EUR 1,725 thousand in damages incurred in year 2014 and EUR 535 thousand in damages incurred in year 2015 (in total EUR 2,260 thousand);
3) ordered the payment of procedural interest at the rate of 6% per annum on the amount of damages ordered from the date on which the case was brought before the court on 24 May 2014 until the date on which the judgment is fully complied with.

The part of the claim, in which Vilniaus energija UAB sought a declaration that the balancing energy supplier Ignitis gamyba AB had discriminated against it and an order the Company to pay EUR 4,615 thousand for the damage suffered in year 2014 and EUR 3,837 thousand for the damage suffered in year 2015 was dismissed.

27 February 2020 the Company filed an appeal against the part of the decision of Vilnius Regional Court of 28 January 2020, which satisfied the claim of Vilniaus energija UAB: the Company did not agree with the conclusion of Vilnius Regional Court that it discriminated against Vilniaus energija UAB in purchasing eligible electricity. In the absence of a violation of competition law in its actions, the Company is not obliged to compensate Vilniaus energija UAB for the losses it allegedly incurred.

By a ruling of 11 June 2020, the Lithuanian Court of Appeal reversed the decision of the Vilnius Regional Court of 28 January 2020 and completely rejected the claim of Vilniaus energija UAB.

By its ruling of 22 September 2020, the Supreme Court of Lithuania accepted the cassation appeal of Vilniaus energija UAB. The Company's response to the cassation appeal of Vilniaus energija UAB was filed on 21 October 2020.

By its ruling of 25 May 2021, the Supreme Court of Lithuania annulled the part of the ruling of the Lithuanian Court of Appeal of 11 June 2020, which rejected the claim of Vilniaus energija UAB to declare that Vilniaus energija UAB had been discriminated against in relation to other cogeneration plants, and remitted the part of the case concerning the damages of EUR 1,725 thousand incurred in 2014 and EUR 535 incurred in 2015, back to the Lithuanian Court of Appeal for a new hearing. The other part of the claim brought by Vilnius energija UAB against the Company was finally rejected.

On 28 September 2021 the Lithuanian Court of Appeal appointed an expert examination, and the case was suspended.

The Company's management expects the claims of Vilniaus energija UAB will be rejected as unfounded.

31.3.2 Litigation with Šiaulių energija AB

Šiaulių energija AB filed a claim against Energijos Skirstymo Operatorius AB for indemnification of losses incurred due to a failure in Litgrid AB networks on 25 March 2019, which caused a short circuit and overvoltage in the Company's networks and the electrical equipment of the Šiaulių energija AB power plant connected to them. This claim seeks joint and several damages from ESO and Litgrid AB in the amount of EUR 1,272 thousand.

Due to this incident, an investigation was carried out by the NERC, during which the Company's liability for failure of the plaintiff's electrical equipment was not established. The Company's management does not agree with the claim, as it did not violate the contract or other legal acts and is of the opinion that Šiaulių energija AB is responsible for the losses incurred during the accident.

On 6 April 2021 Vilnius Regional Court ruled to dismiss the claim of AB Šiaulių energija against the Company. The plaintiff Šiaulių energija AB and the defendant Litgrid AB filed appeals against the decision of Vilnius Regional Court of 6 April 2021. A hearing of the court of the appellate instance has not been scheduled yet.

The Company's management believes that the judgment of Vilnius Regional Court will be upheld, therefore the provision for this case has not been made.

All amounts are in EUR thousand unless otherwise stated.

32 Related party transactions

As at 31 December 2021 and 2020, the ultimate parent party was AB Ignitis Grupė. The concept of a related party includes transactions and balances with Group companies, associates, state-owned enterprises and their subsidiaries (transactions with these entities are disclosed only if they are material), the Ministry of Finance of the Republic of Lithuania and entities under control of minister of finance, also key management personnel and their close family members.

32.1 Purchase and sale of goods and services:

The Company's transactions with related parties between January and December 2021 and the balances as at 31 December 2021 arising on these transactions are presented below:

Related parties	Loans	Payables	Right-of-use assets	Accrued expenses	Receivables	Prepayments and deferred expenses	Purchases	Sales	Loan interest expenses
Parent company AB Ignitis Grupė	694,873	222	40	5	-	-	1,539	-	14,093
Associates	-	5,297	-	175	-	-	19,910	-	-
Group companies of AB Ignitis Grupė	18,396	3,630	3,895	10,876	31,839	-	53,259	224,034	2
EPSO-G group companies	-	43,231	-	193	798	219	274,264	27,185	-
Total:	**713,269**	**52,380**	**3,935**	**11,249**	**32,637**	**219**	**348,972**	**251,219**	**14,095**

The Company purchased the following goods and services from other group companies: leases of assets, information technology and telecommunication services, organization and execution of tenders, accounting and personnel administration services, also construction, reconstruction and maintenance of electric equipment. The main share of purchases from UAB Ignitis Grupė group companies belongs to purchase of electricity. Companies of UAB EPSO-G group provide electricity and gas transmission services, public service offerings (PSO), and carry out contractual works.

Aiming to reduce costs incurred for the funding of its working capital, on 18 May 2016 the Company signed with UAB Ignitis Grupė the Group account (cashpool) agreement of an unlimited validity, under which the Company may obtain current loans from other companies of the Group. The internal lending limit established from 25 May 2021 is EUR 70,000 thousand. The latter limit is valid until 24 May 2022. The interest rate of 0.94% is determined for the one year period and coincides with interest rates of commercial banks.

As at 31 December 2021, the Company did not received any borrowings from cash pool account. In the table presented for 2021, the balance of cash pool is disclosed under borrowings – EUR 28,727 thousand was borrowed from parent company and EUR 18,396 thousand was borrowed from other group companies of UAB Ignitis Grupė. As at 31 December 2020, the Company had no borrowings from the cash pool.

The Company's transactions with related parties conducted during the period from January to December 2020 and balances arising on these transactions as at 31 December 2020 were as follows:

Related parties	Loans	Payables	Right-of-use assets	Accrued expenses	Receivables	Prepayments and deferred expenses	Purchases	Sales	Loan interest expenses
Parent company AB Ignitis Grupė	673,281	87	40	1	-	-	1,092	-	12,404
Associates	-	4,638	-	354	-	-	17,910	-	2
Group companies of AB Ignitis Grupė	-	1,443	6,569	2,554	32,118	426	22,692	222,940	165
EPSO-G group companies	-	19,397	-	11,353	4,038	342	189,422	630	-
Total:	**673,281**	**25,565**	**6,609**	**14,262**	**36,156**	**768**	**231,116**	**223,570**	**12,571**

32.2 Terms of transactions with related parties

Payment terms set range from 30 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. As at 31 December 2021, the Company had EUR 200 thousand of guarantees paid to AB Litgrid under the electricity balancing service agreement. These guarantees were reported in the line item other non-current receivables in the statement of financial position. During the year ended as at 31 December 2021, the Company did not have bad debt allowance for expected credit losses, receivables from related parties.

32.3 Compensation to key management personnel

	2021	2020
Wages and salaries and other short-term benefits to key management personnel	**644**	**608**
Whereof:		
Short-term employee benefits	630	608
Share-based payment expenses	14	-
Number of key management personnel	10	10

In 2021 only the Chief Executive Officer of the Company, members of Board and Supervisory board are assigned to the Company's key management personnel. Consequently, disclosure for comparative period was adjusted.

All amounts are in EUR thousand unless otherwise stated.

33 Fair values of financial instruments

The Company does not have financial instruments measured at fair value. The Company discloses the financial liabilities related to loans received. As at 31 December 2021 and 2020, the Company did not have loans received, therefore the financial assets are not disclosed.

The Company discloses the fair value of financial liabilities, related to debt obligations to the Group companies under loan agreements, which is calculated by discounting future cash flows referring to the interest rate observed in the market. As at 31 December 2021, the cash flows discounted using the weighted average discount rate were at 2.76% (as at 31 December 2020: 2.56%). Loans from the Group companies are attributed to Level 2 of fair value hierarchy.

The fair value of the Company's financial liabilities related to debt obligations under loan agreements, concluded with the parent company AB Ignitis Grupė, is calculated by discounting cash flows based on the interest rate, established as a market interest rate increased by the interest rate swaps in Euro for the terms which are similar to the period left until redemption of bonds issued by AB Ignitis Grupė. As at 31 December 2021, cash flows are discounted using the average discount rate of 2.90% (as at 31 December 2020: 2.186%). Loans under proportional transfer agreements for Green Bonds, concluded with the parent company AB Ignitis Grupė, are attributed to Level 2 of fair value hierarchy.

The table below shows distribution of the fair value of the Company's financial instrument as at 31 December 2021 and 2020 by hierarchy levels:

	Notes	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
As at 31 December 2021						
Financial instruments for which fair value is disclosed:						
Liabilities						
Debt obligations to the Group companies	15	**88,626**	-	85,771	-	**85,771**
Debt obligations under proportional transfer agreements for Green Bonds	15	**624,643**	-	596,129	-	**596,129**
As at 31 December 2020						
Financial instruments for which fair value is disclosed:						
Liabilities						
Debt obligations to the Group companies	15	**49,457**	-	45,963	-	**45,963**
Debt obligations under proportional transfer agreements for Green Bonds	15	**623,824**	-	622,398	-	**622,398**

34 Events after the reporting period

On 14 January 2022, the Company's borrowing limit was increased from EUR 70,000 thousand to EUR 110,000 thousand, using the cashpool of the companies of AB Ignitis Grupė.

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

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2021

AB ENERGIJOS SKIRSTYMO OPERATORIUS ANNUAL REPORT

ANNUAL REPORT FOR A FINANCIAL YEAR ENDED 31 DECEMBER 2021

eso

CONTENTS

Reporting period covered by the Annual Report

The Annual Report provides information to shareholders, creditors, and other stakeholders of AB Energijos Skirstymo Operatorius (hereinafter “ESO”, “the Company”) about the Company’s operations during 2021.

Legal basis for preparation of the Annual Report

The Annual Report of the Company has been prepared by the Company’s Administration in accordance with the Lithuanian Law on Securities, the Law on Companies, the effective version of the Rules on the Disclosure of Information and the Guidelines on the Disclosure of Information approved by the Board of the Bank of Lithuania, as well as the Description of the Guidelines for Ensuring the Transparency of Activities of the State-owned Enterprises approved by the Government of the Republic of Lithuania and other legal acts.

Individuals responsible for the information contained in the Annual Report

Position	Full name	E-mail
CEO	Mindaugas Keizeris	investuotojams@eso.lt
Director of Finance and Administration	Augustas Dragūnas	investuotojams@eso.lt
Director of Finance Department	Artūras Paipolas	investuotojams@eso.lt

Information on the availability of the report and the documents used in preparing the report, and on means of mass media in which the company’s public reports are published

- The report is also available on the website of the Company at www.eso.lt.
- All public announcements, which are required to be published by ESO according to the effective legal acts of the Republic of Lithuania, are published on the Company’s website www.eso.lt.

KEY OPERATING AND FINANCIAL INDICATORS OF THE COMPANY

Table 1. **Key operating and financial indicators**

Key operating indicators of ESO[1]							
Operating indicators			**2021**	**2020**	**Change +/-**	**%**	**2019[2]**
Distributed electricity via medium and low voltage networks		*TWh*	10,37	9,55	0,82	8,59	9,55
Guaranteed supply of electricity[2]		*TWh*	0,34	0,43	-0,09	-20,93	0,47
Volume of natural gas distributed		*TWh*	8,49	7,06	1,43	20,25	6,97
Supply quality indicators of the network							
Electricity	SAIDI (with force majeure)*	minutes	201,95	207,67	-5,72	-2,8	91,8
	SAIFI (with force majeure)*	times	1,45	1,34	0,11	8,2	1,31
Gas	SAIDI (with force majeure)	minutes	0,47	1,61**	-1,14	-70,8	1,25
	SAIFI (with force majeure)	times	0,006	0,010**	-0,004	-40,0	0,01
Key financial indicators of ESO[3]							
Operating indicators			**2021**	**2020**	**Change +/-**	**%**	**2019**
Revenue from contracts with customers		EUR'000	533.134	482.691	50.443	10,5	413.144
Other revenue		EUR'000	2.172	2.150	22	1,0	5.706
Costs for the purchase of electricity, gas and related services[2]		EUR'000	255.655	194.476	61.179	31,5	186.098
Operating expenses		EUR'000	108.237	105.936	2.301	2,2	98.182
EBITDA		EUR'000	171.414	184.429	-13.015	-7,1	134.570
EBITDA margin		%	32,0	38,2			32,1
Adjusted EBITDA[4]		EUR'000	148.051	140.295	7.756	5,5	180.488
Net profit (loss)		EUR'000	50.031	69.482	-19.451	-28,0	27.943
			31/12/2021	**31/12/2020**	**Change +/-**	**%**	**2019**
Total assets		EUR'000	1.819.455	1.763.523	55.932	3,2	1.706.606
Equity		EUR'000	627.657	665.616	-37.959	-5,7	663.917
Borrowings		EUR'000	724.475	689.666	34.809	5,0	662.485
Borrowings, net		EUR'000	709.951	680.701	29.250	4,3	657.710
Return on equity (ROE)		%	7,74	10,45			5,31
Return on assets (ROA)		%	2,79	4,00			2,05
Turnover of assets[5]		times	0,29	0,27			0,24
Equity ratio		%	34,5	37,74			38,9
Borrowings, net / 12-month EBITDA		times	4,14	3,69			3,59
Borrowings, net / 12-month adjusted EBITDA		times	4,79	3,42			3,81
Borrowings, net / Equity		%	113,11	102,27			99,07
Free cash flow		EUR'000	40.370	56.381	-16.011	-28,4	6.804

** A record-breaking wet snowfall of 21-25 January 2021 and storms on 3-4 May, 23-26 June and 29 November – 3 December resulted in 112.90 minutes of SAIDI indicator 56 percent of the value of the SAIDI indicator for the whole reporting period) and 0.26 times of SAIFI (18 percent of the value of the SAIFI indicator for the whole reporting period), respectively.*
*** As a result of the fire on 25 November 2020, 732 customers were disconnected from the Company's natural gas distribution system in Alytus district. The fire resulted in 0.59 minutes of the SAIDI indicator and 0.0012 times of SAIFI in 2020.*

[1] This Report includes certain historical financial measures of the statements of financial position, profit or loss and other comprehensive income and cash flows, which are not defined or specified under IFRS ("Alternative Performance Measures"). The Company considers that these measures are relevant and reliable in assessing the Company's financial performance and position, however such measures are not a substitute for financial measures under IFRS and should be read in conjunction with Company's published financial statements.
[2] Comparative indicators for 2019 were not recalculated.
[3] Description of ESO's indicators is available at: http://www.eso.lt/en/for-investors/alternative-performance-measures.html
[4] The Company adjusted the EBITDA by the difference between actual profit earned during the reporting and earlier periods and the allowable return on investments for the respective periods established by the National Energy Regulatory Council (hereinafter "the NERC") and eliminated the impact of other atypical, one-time factors that are not directly attributable to the current period. The difference resulted from the operational efficiency improved by the Company, as well as other factors. More information about adjusted EBITDA is provided in the section "EBITDA".
[5] Revenue from contracts with customers was used to calculate the ratio.

KEY INDICATORS OF THE COMPANY'S NETWORK

ESO owns 126,813 thousand km of power lines (66.9 percent are overhead power lines and 33.1 percent are electric cables) and 9,718 thousand km of gas pipelines.

Figure 1. **Electricity distribution network managed by ESO**

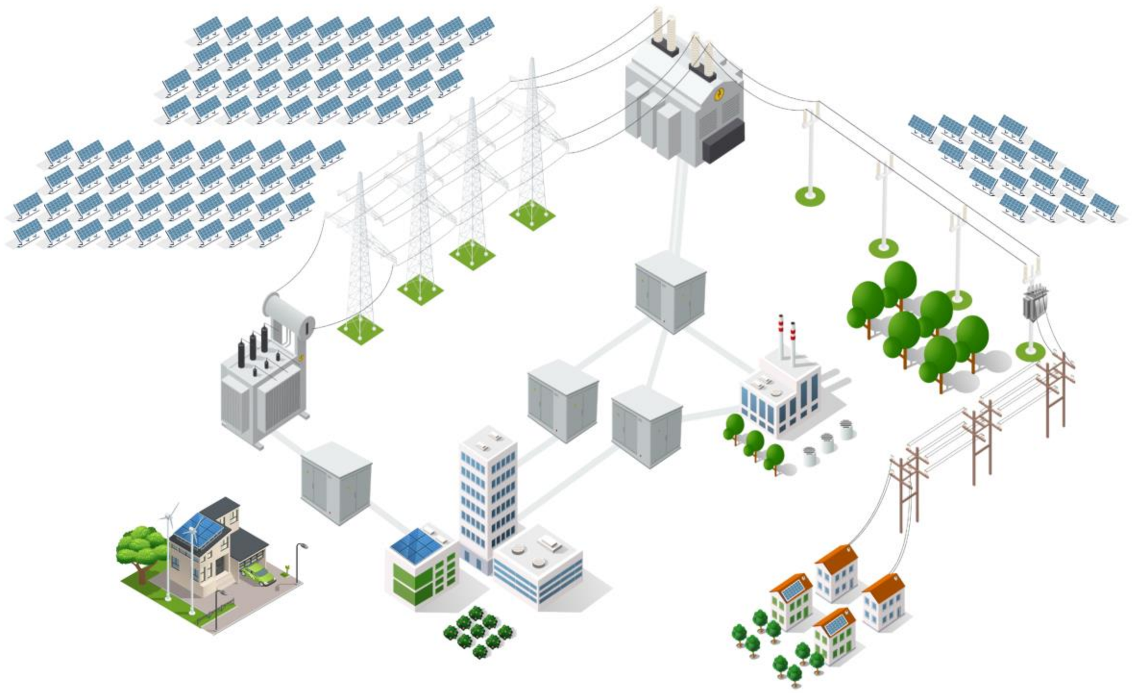
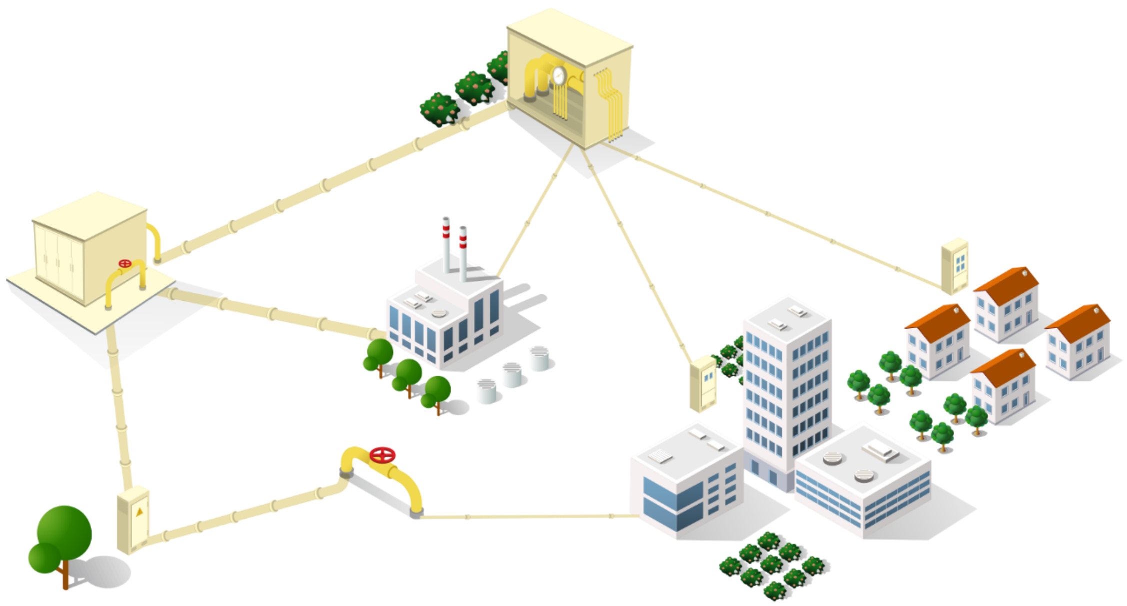


Figure 2. **Gas distribution network managed by ESO**



ESO ensures resilient and effective electricity distribution services throughout entire Lithuania, enabling transformation of the energy sector. ESO continually invests and modernises its strategic assets used in the activities of electricity and natural gas distribution by increasing resilience, safety and efficiency of the network in the entire country. The Company's activity is regulated fully - the National Energy Regulatory Council has issued natural gas and electricity supply licences. Regulation is implemented by establishing price caps for services rendered by ESO, which are measured for the regulatory period of 5 years (currently, the regulatory period of 2022-2026 is applied to the electricity sector; whereas, the regulatory period of 2019-2023 is applied to the natural gas sector).

ESO is developing digitisation solutions of the distribution network aiming at developing one of the most advanced smart networks throughout the region. ESO also contributes to development of energy innovations and renewable energy production, and to promotion and efficiency increase of the local energy market.

Table 2. **Key electricity and gas distribution indicators of ESO in 2021 and annual change**

	Electricity	Gas
Volume of electricity distributed (TWh)	10.37 (+8,6%)	8.49 (+20,4%)
Network length (km)	126,813 (+0,6%)	9,718 (+0,7%)
Customers served (million)	1.8 (+2%)	0.6 (+1%)
New customer connections and power increase (thousand)	50.3 (+23%)	8.1 (+4%)
SAIDI[6] (minutes)	202 (-3%)	0.47 (-71%)
SAIFI[7] (times)	1.45 (+6%)	0.006 (-39%)
Regulated Asset Base (RAB) at the beginning of 2022 (EUR million)	1,097 (+12,6%)	248 (0,0%)

[6] The indicator of total average duration of unplanned system interruptions (SAIDI) (including all causes) is a reliability indicator, reflecting average duration of failures per customer, measured in minutes per year, including force majeure and other disconnections caused by natural disasters, the effects of third parties, etc.
[7] The indicator of total average number of unplanned sustained service interruptions (SAIFI) (including all causes) is a reliability indicator, reflecting an average number of sustained interruptions per year, including force majeure and other disconnections caused by natural disasters, the effects of third parties, etc.

CEO's FOREWORD

Dear All,

The year of 2021, since January, has taught us about the growing challenges posed by nature and that preparing for them requires integrated and sustainable solutions to avoid any heavier financial burden on the customers. In January, the largest wet snowfall in a few decades occurred, which was followed by smaller, but significant events of a natural magnitude -in May, June, November, and December. We learn new lessons from every difficult situation or event and thus improve our response to natural disasters. Even in the event of natural occurrences, the vast majority of customers have their electricity restored with the help of the automated solutions installed on their power lines, i.e. in less than 3 minutes. Natural disasters did not stop in 2022, when in January alone strong winds hit Lithuania four times, reaching the limits of catastrophic gusts in some cases. As a result of all actions, failures were eliminated almost twice as fast as in January 2021. We are learning from every storm as well as maintaining and improving the mobilisation and response readiness of ESO and contractors.

The company, having estimated the liquidation process of the effects of the snowfall, the main causes of power outages and the responses to natural disasters, updated and discussed with responsible institutions and has been implementing complex measures to ensure smooth and efficient processes in preparedness to respond, troubleshooting and informing of customers during an emergency. The measures are focused on maximum reliability for as many customers as possible at the most optimal cost. We are continuing with the implementation of automated network solutions, revision of network reconstruction criteria by adaptive ranking by the number of previous interruptions and in combination with the crucial aspect of forest clearing management.

During the summer, the newly amended regulation on the maintenance and management of trees in the protection zones of electricity grids will now allow the Company, with the permission of forest owners, to manage hazardous trees in the protection zones of electricity grids that are taller than the distance from the tree to the overhead lines. The first pilot projects for the management of dangerous trees near airlines suggest good practical results, especially with the launch of systematic actions with forest enterprises. Inspection of overhead power lines using LiDAR (Light Detection and Ranging) technology has been successfully tested: in 2021, more than 2 thousand kilometres of all medium-voltage overhead power lines were inspected using smart equipment, and about 8 thousand km or a fifth thereof will be inspected in total over two years. In 2021, pursuant to the cooperation agreement the Company used and is planning to continue using Border Guard helicopters for more efficient fault detection when possible. This solution, when technically possible, allows the inspection of 100 and more kilometres of overhead lines in a few hours and is extremely efficient in the fault finding process..

After intensive discussions during the last quarter of 2021, which took place already after the end of the reporting period, the regulator adopted relevant decisions to ESO's operations, concerning the long-term regulatory model for electricity distribution activities, which, in its principles and substance foresees sustainable prerequisites for the operation of the business and the implementation of investment projects, while maintaining a sustainable debt level. Based on the updated regulatory principles, the revenue levels from distribution operations and the prices for distribution services for the customers during 2022 have been set.

Work continues in other areas: a very important step taken towards the practical implementation of the smart accounting infrastructure project. First, a list of final tenderers was drawn up and, following the successful verification of practical compliance by the supplier who submitted the best tender, in May the contract was awarded to the French supplier. While in parallel, other work related to the installation of the meters and the implementation of the programme is being carried out. Contractors have been selected to install about one third of the metering devices across the country, and metrological laboratory verification and other services have been procured. Thanks to smart meters, customers will be able to review their consumption data remotely, analyse it, and change consumption habits in an easier and clearer way. The Company will be able to identify and eliminate faults in a faster and more accurate way, manage the network and investments more efficiently, as well as empower market players to provide new services.

Market liberalisation measures are being implemented further: as Lithuania shifts away from the monopoly conditions of electricity supply to household consumers, the second stage of choosing an independent electricity supplier will be completed in the middle of 2022, and the deadline for liberalisation of the electricity market in Lithuania remains unchanged (the deadline is the year 2023). The aim of the liberalisation is withdrawal from the monopoly services of electricity supply, and the creation of conditions for independent electricity suppliers to become active. At the time of publication of the report, more than 325 thousand customers in the second phase had already chosen their independent supplier, i.e. around 43 percent of customers in this phase.

In 2021, ESO revenues amounted to EUR 533.1 million, an increase of 10.5 percent from the respective period in 2020. Compared to the previous reporting period, the Company's revenue was positively affected by a 8.6 percent growth in the amount of electricity transmitted and the growth of 20.25 percent in the amount of natural gas distributed due to lower average air temperatures. In 2021, revenues from electricity transmission accounted for 82.4 percent of total revenues. Revenues from natural gas distribution made up 8.5 percent of total revenues.

In 2021, ESO investment in the renewal of the electricity distribution network and its reliability amounted to EUR 90.65 million, rocketing up by 84.8 percent than in 2020. In 2021, ESO invested EUR 63.19 million in its distribution network development (connection of new customers and increase of capacity), which shows an increase by 16.5 percent compared to the same period in 2020.

In 2021, ESO connected 50 thousand new customers to the electricity distribution network or increased their capacity, which is 22.5 percent more than in the respective period in 2020, where 41 thousand customers were connected. This is due to lower connection costs for new customers and an increase in the number of capacity additions as well as a significant increase in the number of producing consumers In 2021, the capacity was increased to 23.4 thousand customers, whereas in 2020 there were 18.2 thousand of such customers. The biggest growth was in the number of connections and capacity upgrades for residential customers. The allowable capacity of new customer connections in 2021 amounted to 515.8 thousand kW, 33.5 percent more than the 386.2 thousand kW in the same period of 2020.

In 2021, ESO invested EUR 14.79 million in the construction of gas systems, which is by 31 percent less than in 2020 when the investments amounted to EUR 21.44 million. Investments in the reconstruction of gas systems amounted to EUR 10.22 million, which shows an increase of 6.2 percent than in 2020. In 2021, ESO constructed 136 kilometres of gas distribution pipelines, whereas in 2020 – 206.1 kilometres of gas pipelines. In 2021, the Company connected 8,127 new customers to the natural gas distribution network, an increase of 4.4 percent compared to 7,785 customers in the same period in 2020.

The average duration of unplanned electricity system interruptions (hereinafter referred to as SAIDI) with the impact of force majeure was 201.95 minutes per customer in January-December 2021, a decrease of 5.72 minutes compared to the same period in 2020 (SAIDI in 2020 was 207.67 minutes). The effect of natural phenomena alone in 2021 amounted to 113 minutes. The average number of unplanned sustained service interruptions per customer (hereinafter referred to as SAIFI) under the influence of force majeure in January-December 2021 was 1.45, an increase of 0.11 times compared to 1.34 times in 2020. The effect of natural phenomena alone in 2021 was 0.26 times.

In 2021, the average duration of unplanned gas outages with force majeure per customer was 0.47 minutes, a decrease of 1.14 minutes compared to January-December 2020 (SAIDI was 1.61 minutes in January-December 2020). The average number of unplanned long interruptions per customer under the influence of force majeure was 0.006 times in January-December 2021 (0.01 times in January-December 2020).

Yours sincerely,
Mindaugas Keizeris,
ESO Board Chairman and CEO

MOST SIGNIFICANT COMPANY'S EVENTS DURING THE REPORTING PERIOD

The National Energy Regulatory Council approves the tariff for the preparation of connection conditions issued for the connection of consumers to electricity grids
On 28 January 2021, the National Energy Regulatory Council approved the tariff for the preparation of connection conditions issued for the connection of consumers to electricity grids. A one-time fee of EUR 31.75 including VAT is required to apply for connection to the electricity grid. The new procedure aims to ensure that the connection of a new customer is not paid by the remaining electricity consumers. The change also aims to improve the quality of connection preparation services.

ESO suggests expanding clearances of paths in forests to deal with natural disasters
One of the biggest blizzards in Lithuania in the last few decades led to many complicated power supply disruptions, which left several hundred thousand consumers without electricity. The main reason for this is that due to heavy snowfall, trees or broken branches fall down and cut off power lines. Therefore, ESO has suggested to the Ministries of the Environment and Energy to remove the trees close to the power lines that are higher than the distance to the power lines. ESO estimates that the tree removal could cost EUR 50-60 million, while the replacement of all lines by underground ones would cost EUR 2.5 billion.

Information on the progress of the case regarding transfer of ESO shares
Civil case No e2YT-4395-981/2021 was initiated in Vilnius City District Court following the claim of the applicant AB Ignitis grupė regarding the establishment of a fact of legal significance. The Court decided to serve the procedural documents on the interested parties and announce the place and time of the written court proceedings to the participants of the proceedings by public announcement: submit the procedure documents to ESO shareholders and their successors who did not sell their shares in the mandatory redemption and inform them about the written court proceedings by the list of AB Ignitis grupė in alphabetical order.

A rank of tenders submitted for the procurement of smart accounting infrastructure of ESO
On 9 February 2021, the Company's subsidiary Energijos Skirstymo Operatorius in the public procurement of smart accounting infrastructure had the tenders ranked, and Sagemcom Energy & Telecom SAS was selected as the most economically advantageous tenderer.

Transformer procurement was won by the supplier who offered the goods of a Bulgarian manufacturer
Following the decision not to purchase transformers of Belarusian origin, Energijos Skirstymo Operatorius evaluated the bid of SLO Lithuania UAB in the tender for the purchase of transformers and decided to declare this supplier the winner. The company offers goods made in Bulgaria and meets the requirements of the purchase conditions. On 15 February 2021, after announcing the ranking of the bidders of the procurement, UAB Ekobana, which imports transformers from a Belarusian manufacturer, was selected as a winner as it offered a lower price. However, it was decided not to award a contract to this supplier after assessing the additional information provided.

NERC approves ESO investment projects of 2020 in electricity and natural gas sectors
On 4 March 2021, the National Energy Regulatory Council approved the investment projects of the electricity and natural gas sectors submitted by the company Energijos Skirstymo Operatorius in 2020 in the list of jointly coordinated investment, the total value of which amounts to EUR 39.5 million in the electricity sector and EUR 8.3 million in the natural gas sector. Most of the investments in the energy sector target the renewal and / or modernization of the 35-6 kV electricity network and the 0.4 kV electricity network, communication and control systems and software, and the gas list investments are intended for the renewal or modernization of existing assets.

Regarding the end of ESO participation in the limited partnership Energetinio efektyvumo finansavimo platforma
Energijos Skirstymo Operatorius and UAB Viešųjų Investicijų Plėtros Agentūra (Public Investment Development Agency - VIPA) agreed on the withdrawal of ESO from the limited partnership Energetinio efektyvumo finansavimo platforma. In view of the changed legal framework limiting ESO ability to achieve its energy efficiency targets through its participation in the limited partnership, as well as the fact that ESO plans to achieve its energy savings target by other means, it was agreed that ESO would leave the partnership. With the approval of VIPA obtained on 29 September 2020, ESO participation in the limited partnership was terminated by agreement of the parties. According to the withdrawal agreement, the last day of ESO participation as a limited partner was 31 March 2021, and the final settlement between the parties must take place by 31 October 2021.

Court dismisses the action to determine the price of ESO shares
On 31 March 2021, Vilnius Regional Court dismissed V.P. Vaitaitis' claim regarding the determination of the correct share price of Energijos Skirstymo Operatorius AB. It means that the price of EUR 0.880 per ESO share paid by AB Ignitis grupė under agreement from the Bank of Lithuania during the mandatory redemption of ESO shares was not found to be wrong.

Court authorizes transfer of ESO shares to AB Ignitis grupė
On 2 April 2021, the Vilnius City District Court satisfied the claim of AB Ignitis grupė regarding the establishment of a fact of legal significance and ruled that all the shares not sold during the mandatory redemption of shares of its subsidiary Energijos Skirstymo Operatorius are the property of AB Ignitis grupė. The Court obligated the share account administrators to make entries on the transfer of ownership to AB Ignitis grupė.

Ownership of all ESO shares transferred to AB Ignitis grupė
Following the ruling of Vilnius City District Court of 2 April 2021, securities account administrators on April 15 transferred funds to the minority shareholders of the company Energijos Skirstymo Operatorius holding the shares in personal securities accounts for their shares. Shareholders holding ESO shares in the issuer's accounts will receive their funds upon submission an application to SEB Bank. On April 15, securities account administrators made entries in the share accounts on the transfer of ownership of the remaining ESO shares to the Company, and as of that day the 100 percent ESO holding belongs to AB Ignitis grupė. Vilnius City District Court stated on 30 April 2021 that the appeals have been submitted by the stakeholders (shareholders). Ignitis Group and ESO have lodged defence to the appeals on 14 May 2021 rebutting the appeals. The case was referred to the appellate court.

New purchase of transformers announced
On 15 April 2021, Energijos Skirstymo Operatorius reported that a new public procurement is being initiated to purchase several types of transformers. Previous procurement procedures were terminated because the tender of the best bidder missed one of the supporting documents.

Procurement of smart accounting infrastructure of ESO, subsidiary of AB Ignitis grupė, ends in a decision to enter a contract with a supplier
AB Ignitis grupė reports that on 14 April 2021 the supplier Sagemcom Energy & Telecom SAS was selected to enter into a contract in the public procurement of the smart accounting infrastructure of its subsidiary Energijos Skirstymo Operatorius after the verification of practical compliance. On 9 February 2021, the Company announced the ranking of bids submitted in the procurement of smart accounting infrastructure. The bids were evaluated on the basis of cost-effectiveness criteria. After the ranking of the submitted tenders, the supplier demonstrated the entire solution of the smart accounting infrastructure in accordance with the requirements of the technical specification.

Appeal by a shareholder against the transfer of ownership of ESO shares to AB Ignitis grupė
On 3 May 2021, AB Ignitis grupė received information from the Vilnius City District Court that in civil case No e2YT-4395-981/2021 concerning the transfer of ownership of shares in the company Energijos Skirstymo Operatorius to AB Ignitis grupė, an appeal has been registered from the shareholder against the decision of the Vilnius City District Court of 2 April 2021, which recognized the ownership of AB Ignitis grupė over all the shares of ESO that were not sold during the mandatory share buyback. The parties to the proceedings may, within 20 days of the date of dispatch of copies of the appeal from the court of first instance (i.e. from 30 April 2021), submit written statements of defence to the appeal, setting out their views on the merits of the arguments raised in the appeal. Information about the case shall be published on the website www.teismai.lt in the public service of proceedings section. The involved parties may review the case material at the Vilnius City District Court.

ESO is going to install over a million smart meters: a leader of smart meter solutions in Europe has been selected as the supplier
Energijos Skirstymo Operatorius and French company Sagemcom Energy and Telecom SAS have concluded a procurement agreement for smart metering infrastructure, which will ensure the acquisition and implementation of about 1.2 million new generation smart electricity meters as well as system data management and communication solutions. Smart meters will transmit the information about energy consumption via a secure connection, and residents will never have to write down the meter readings again, they will be able to see accurate consumption details, receive new services from market participants as well as consume energy more efficiently. The contract value of the largest smart metering project in the Baltic states amounts to EUR 75 million.

ESO assists municipalities in assessing locations for electric vehicle charging stations
In order to reduce the impact of the transport sector on climate change and air pollution, all sixty municipalities in Lithuania have to draw up plans for the installation of charging points for electric vehicles on their territory over the next decade. These plans are being drawn up in consultation with the distribution network operator, to whose network the charging stations will be connected. To facilitate the smooth preparation and coordination of the plans, Energijos Skirstymo Operatorius has prepared customized maps of transformer substations for municipalities, which will allow them to more easily assess the possible locations of EV charging stations, taking into account the capacity of the network.

8,000 km of overhead lines to be inspected using smart equipment over a couple of years
Last year, Energijos Skirstymo Operatorius tested an innovative solution for inspecting part of its overhead power lines using LiDAR (Light Detection and Ranging) technology. The test had been successful ant the smart equipment is going to be used to inspect around 8,000 km, or one fifth of all medium-voltage overhead lines, totalling around 40,000 km during the two years. All overhead lines must be inspected periodically to ensure the reliability of the power grid.

ESO plans to use Border Guard helicopters to detect network faults more efficiently
Energijos Skirstymo Operatorius and State Border Guard Service (VSAT) have signed a cooperation agreement on the use of helicopters of the VSAT Aviation Squadron during natural disasters and emergency situations. At the request of the company, VSAT specialists from the air would assist in promptly identifying the faults and the extent of the damage to the overhead lines. It will help to speed up targeted actions aimed at restoring electricity to the customer as fast as possible.

ESO starts registering protection zones for electricity grids and gas distribution pipelines
As of 29 June 2021, Energijos Skirstymo Operatorius started registering protection zones for electricity networks and gas distribution pipelines. The Law on Special Land Use Conditions of the Republic of Lithuania obliges all managers of the country's engineering infrastructure, including ESO, to establish protection zones for the protection of the engineering networks they operate by 31 December 2022. Once the law is implemented, each owner or user will be informed if his/her real estate is located within the established protection zones. All infrastructure managers are required to register the protection zones applicable to their network. In total, there are more than 60 different infrastructure managers in Lithuania. These include operators of electricity, gas, heat, water and telecommunications networks, as well as railways, roads and other critical infrastructure.

Speeding up the liberalisation process, informing citizens personally of their obligation to choose
On 15 July 2021, a law entered into force that accelerates the process of market deregulation by opening up contact and electricity consumption data for all remaining consumers at the same time. Residents, regardless of the phase of liberalisation they are in, are personally informed of their right and obligation to choose an independent supplier by the deadline. The simultaneous opening of consumer data from the previous liberalisation phases will also give the population of the country more time to assess the services offered by different independent suppliers by comparing prices and conditions of offers, and thus to make an informed and responsible choice.

Cleaning up dangerous trees will ensure a more reliable electricity supply for the country's population
During natural disasters, more than two thirds of all power outages are caused by trees. Amendments to the Rules for the Protection of Electricity Grids and the Rules for Safety in the Operation of Electrical Installations, which came into force on 20 July 2021, will allow ESO to manage hazardous trees in the protection zones of electricity grids that are taller than the distance from the tree to the overhead power line network. This will ensure safer and more reliable electricity transmission to the Lithuanian population.

Due to the level of return on investment set for 2022
On 30 July 2021, the State Energy Regulatory Board published updated data for the calculation of the weighted average cost of capital (WACC) for the electricity and natural gas sectors. According to the VERT, the WACC will be 4.16 percent for the electricity and 3.98 percent for the natural gas segments, effective from 1 January 2022.

ESO adjusts smart meter installation schedule to ensure cyber security
In order to meet the highest cybersecurity requirements and to minimise potential risks, ESO has updated the timetable for the implementation of the smart metering programme in Lithuania as of 27 August 2021. The schedule is being amended following an initial analysis of the solution with the winning supplier Sagemcom Energy & Telecom SAS, which assessed that in order to ensure the management of cybersecurity risks and the reliability of the solution in the long term, a physical and software security infrastructure must be in place and tested prior to the roll-out of smart meters. The deployment of this infrastructure will ensure the highest level of cybersecurity and the confidentiality, integrity and authorised access of information. It was previously planned that the deployment of smart meters and the physical and software security infrastructure would take place in parallel, i.e. at the same time as the deployment of smart meters.

ESO modernises gas network management
ESO has successfully modernised the information systems of its gas network, implementing a next generation Geographic Information Systems (GIS) solution, adopting global best practices and adapting management tools to international quality standards, and realising the vision of "Digital Twins". The new system will provide a geographical view of the most detailed parts of the engineering gas network infrastructure, monitoring network efficiency and assessing planned network changes. The new system will increase the integrity of the installations, thereby reducing the likelihood of data input errors. It will also be possible to display selected network data or qualitative indicators in interactive and easily configurable maps for both professionals and the general public.

Smart metering preparations are gaining momentum
In 2022, the Lithuanian energy sector will undergo a digital transformation, with smart electricity meters reaching customers. Preparations for this change are well underway, with a contract signed with a meter supplier, who is carrying out preparatory actions for the production process, and other work related to the implementation of the meters and the programme being carried out in parallel. Contractors have been selected to install about one third of the metering devices across the country, and metrological laboratory verification and other services have been procured. The successful contractors will be responsible for installing meters in individual regions of Lithuania and will install a total of about 340,000 smart metering devices over three years, while ESO will install about 800,000 smart meters on its own. In Kaunas and Vilnius regions, the meters will be installed by Laustata MB, while in Klaipėda, Panevėžys, Šiauliai, Utena and Alytus regions, the meters will be installed by a group of suppliers operating on the basis of a joint venture: UAB City Service Engineering and UAB Mano Būsto priežiūra.

Electricity distribution price service revenue level for 2022 confirmed, sustainable regulation is ensured
On 15 October 2021, the National Energy Regulatory Council, in accordance with the new version of the Methodology for determining the price caps for electricity transmission, distribution and public supply services, adopted a resolution on the price ceiling for the electricity distribution service of ESO for the upcoming regulatory period. The NERC Resolution sets the Company's permissible level of revenue for the electricity distribution service for 2022 at EUR 239.7 million, which is by 8.1 percent lower than the level of revenue set for 2021 (EUR 260.7 million). The decrease in the income level has been affected by the updated weighted average costs of capital and updated long-run average incremental costs (LRAIC) accounting model which in turn determined a lower return on investment, depreciation as well as typical adjustment to the return on investments for previous year. A significant part of the negative effects was offset by the new additional tariff component designed to ensure the financial sustainability of ESO in order to implement the investments according to the ESOs' 10-year investment plan. On 20 October 2021, the Company's parent company, AB Ignitis grupė, presented the changes to the updated Regulatory Methodology and their impact on AB Ignitis grupė and the Company's operations. After the update of the Methodology, the adjusted EBITDA forecast of AB Ignitis grupė for 2021 (EUR 300-310 million) and target for 2024 (EUR 350-390 million), the dividend policy and the investment plan as set out in the Strategic Plan 2021-2024 is continuously ensured.

The level of revenue from the natural gas distribution price service in 2022 has been confirmed
On 28 October 2021, the National Energy Regulatory Council adopted a resolution on the revenue ceiling for the natural gas distribution activity of the ESO for 2022. According to the VERT Resolution, the Company's revenue cap for the natural gas distribution service for 2022 amounts to EUR 44.6 million and is 12.5 percent higher compared to the revenue cap for 2021 (EUR 39.7 million). The main reasons for the increase in the level of revenues are higher natural gas technology costs due to an increase in the purchase price of natural gas (260 percent increase in the purchase price compared to 2021) and an increase in operating costs reflecting market trends.

Selection for the positions of members of ESO's Independent Supervisory Board launched
On 16 November 2021, AB Ignitis grupė announced the selection of two independent members for the Supervisory Board of its subsidiary Energijos Skirstymo Operatorius. The selected candidates, subject to a decision on their election, will take up their positions at the end of their current term of office on 29 of March 2022.

The National Energy Regulatory Board has announced the prices for the electricity transmission service for 2022
On 16 November 2021, The National Energy Regulatory Council has published the new prices for the electricity distribution services, approved by the decision of the Board of the ESO on 4 November, which will apply from the 1 January 2022. In 2022, the prices for the distribution services (excluding the cost of the services of Public Interest), compared to the prices for the year 2021, will decrease by around 23 percent on average, for the business customers receiving electricity from medium voltage networks and by around 15 percent for the business customers receiving electricity from low voltage networks, and for private customers the price will decrease by around 12 percent on average accordingly.

The National Energy Regulatory Council approved natural gas distribution prices for 2022
On 19 November 2021, The National Energy Regulatory Council has approved the natural gas distribution prices set by the Board of the ESO on 11 November 2020, which will apply from 1 January 2022. The natural gas distribution prices, depending on the consumer price group, increased by between 6.7 percent and 15.3 percent, compared to prices in 2021. The average natural gas distribution price in 2022 will increase by 8.9 percent compared to 2021. The natural gas distribution price is one of the components of the final gas price.

Changes to electricity and gas connection tariffs
On 30 November, the National Energy Regulatory Council approved new tariffs for the connection of consumers to the electricity distribution networks and the natural gas system of the company Energijos Skirstymo Operatorius, which will come into force on 1 January 2022. Compared to the current rates, the fee for installing or increasing 1 kW of permissible use power will change from 2022. The price increases for Group I customers with an installed capacity below 50 kW, and decreases for Groups II and III customers, by 13.68 percent and 27.51 percent respectively. These groups include customers whose connected electrical installations have an authorised capacity of less than 100 kW or between 100 and 500 kW respectively. The maximum reimbursable design cost for a self-funded design decreases by 9-22 percent for Group II and III customers. For other consumers, the maximum reimbursable design cost decreases by 39-60 percent.

Updated ESO 10-year investment plan
On 7 December 2021, the Supervisory Board of ESO approved an updated 10-year investment plan for the Network Segment for 2021-2030. The planned investments in an amount of EUR 1.9 billion will be dedicated to improve the reliability, resilience and smartness of the electricity and gas distribution network during the period 2021–2030. Continuity of essential network activities is maintained and there are no major changes compared to the previous Investment Plan 2020-2029. The planned investments will continue to focus on two main areas - improving network reliability and efficiency, as well as market enablement and customer experience.

Significant subsequent events

Enhanced liability for distribution network infringements

Damage to electricity cables or distribution pipelines can not only cause injury, but also disrupt the power supply to many consumers. The currently applied level of administrative liability has not acted preventively and has not encouraged caution and diligence in the protection of electricity grid or gas distribution pipeline. In view of the increasing number of infringements and the amount of damage caused by them, the liability for distribution network infringements has been strengthened, with a fivefold increase in fines.

Commenced selection of shareholder representatives, employee representatives and civil representatives for the Supervisory Board of ESO

In January 2022, AB Ignitis grupė announced the selection of four members (two shareholder representatives, one civil servant and one employee representative) to the Supervisory Board of its subsidiary Energijos Skirstymo Operatorius. The selected candidates, once the decision on their election has been taken, will take up their positions at the end of the term of office of the current Supervisory Board on 29 March 2022.

Increased ESO borrowing limit using the unified intercompany borrowing platform of AB Ignitis grupė

On 14 January 2022, the Supervisory Board of ESO approved the increase of the borrowing limit of ESO from EUR 70 million to EUR 110 million using the unified intercompany borrowing platform of AB Ignitis grupė for the period from the entry into force of the decision until 24 May 2022.

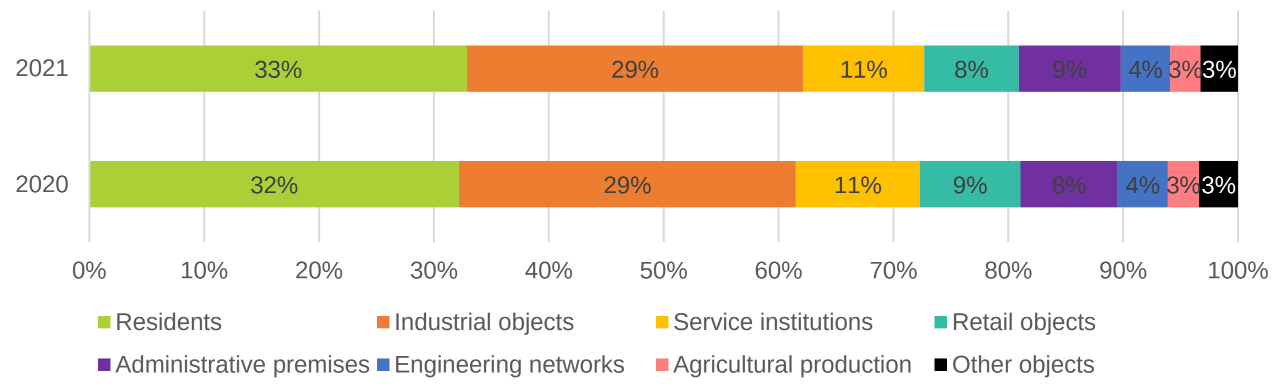
ANALYSIS OF THE OPERATING AND FINANCIAL INDICATORS

Electricity distribution

ESO owns and operates 126.813 thousand kilometres of electricity lines: of which 67 percent were overhead electricity lines, and 33 percent – electricity cables. In 2021, the Company distributed to customers 10.37 billion kWh of electricity (2020: 9.55 billion kWh). Guaranteed supply of electricity made up 3.3 percent of this amount (4.5 percent in 2020). The remaining customers of the Company were provided only with the distribution service. The cost of distribution in technological facilities incurred by the Company during 2021 amounted to 571.03 million kWh or 5.51 percent of the amount of electricity received. During the same period in 2020, these costs totalled 5.81 percent (588.86 million kWh).

The electricity distributed by ESO during 2021 was consumed by residents at around 32.9 percent. Industrial sites and service institutions consumed 29.3 percent and 10.5 percent, respectively, of electricity distributed. There were no significant changes in the structure of electricity distribution volume by entities as compared to the data of 2020.

Figure 3. **Electricity distribution volume by objects**



Electricity supply quality indices (SAIDI, SAIFI)

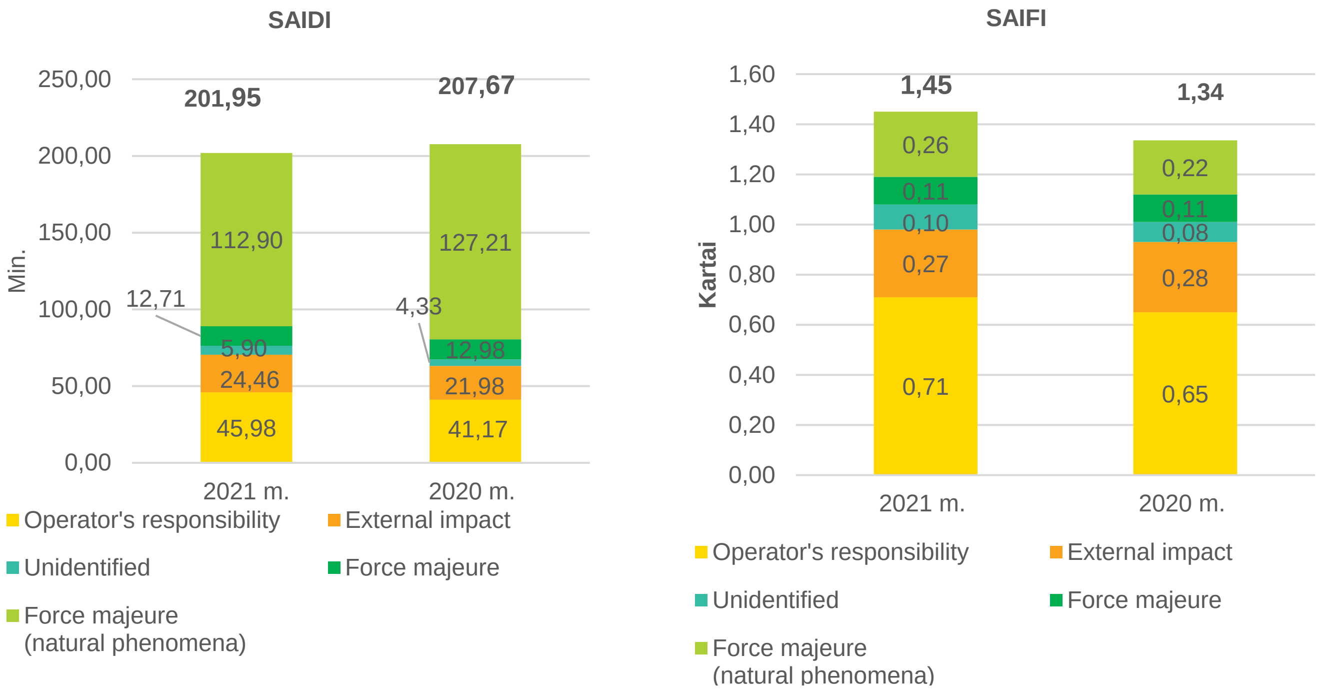
The average duration of unplanned power outages (SAIDI) affected by force majeure during 2021 was 201.95 minutes per customer, a decrease of 5.72 minutes compared to the same period in 2020 (2020: SAIDI of 207.67 minutes). The average number of unplanned long interruptions per customer under the influence of force majeure in 2021 was 1.45 times, 0.11 times higher than in 2020 when it was 1.34 times.

Such a change in the indicators was significantly influenced by the record-breaking wet snowfall of 21-25 January 2021 and storms on 3-4 May, 23-26 June and 29 November – 3 December. The natural phenomena resulted in 112.90 minutes of SAIDI indicator (56 percent of the value of the SAIDI indicator for the whole reporting period) and 0.26 times of SAIFI (18 percent of the value of the SAIFI indicator for the whole reporting period), respectively.

If the influence of the natural phenomena on electricity distribution indicators had not been taken into consideration, deterioration in electricity supply reliability indicators would have been recorded for the year 2021 compared with the same period in 2020: SAIDI index would reach 89.05 minutes and, if compared to the same period in 2020 (80.46 minutes), would increase by 8.59 minutes, while SAIFI index would reach 1.19 times, and if compared to the same period in 2020 (1.12 times), it would decrease by 0.07 times.

The duration of interruptions due to reasons attributable to the operator's responsibility in 2021 amounted to 45.98 minutes, as compared to the same period in 2020; it increased by 4.81 min., whilst in 2020 it was 41.17 minutes.

Figure 4. **Electricity supply reliability indicators**



Natural gas distribution

The company operates 9.718 thousand km of distribution pipelines. In 2021, the pipeline network increased by 157 km; whereas, in 2020, the increase was 215 km. In 2021, ESO transported 8.49 billion kilowatt hours (kWh) of natural gas through distribution pipelines, an increase of about 20.3 percent than in the same period of 2020.

The amounts of gas distribution increased in 2021 mainly because of the lower average air temperatures compared to the same period in 2020.

Natural gas supply quality indices (SAIDI, SAIFI)

In 2021, the average duration of unplanned natural gas supply interruptions (SAIDI) under the influence of *force majeure* per customer was 0.47 minutes, a decrease of 1.14 minutes compared to 2020 (SAIDI of 1.61 minutes in 2020). The average number of unplanned long interruptions per customer (SAIFI) under the influence of *force majeure* was 0.006 times in 2021 (0.01 in 2020). The main reason for the improvement in natural gas supply reliability indicators is the fire on 25 November 2020 in the Company's natural gas distribution system in Alytus district, caused by evaporation and transfer into the system triggered by the activities of those who organised and carried out the work, as a result of which 732 customers were disconnected from the system. The fire resulted in 0.59 minutes of SAIDI index and 0.0012 times of SAIFI index in 2020.

Revenue

Table 3. **Revenue structure by ESO's activity area, %**

	2021	2020
Revenue from electricity distribution	82.4	85.1
Revenue from gas distribution	8.5	7.5
Revenue from guaranteed electricity supply	5.7	3.7
Revenue from connection of new customers	2.0	2.1
Other revenue	1.4	1.6

The Company's revenues were positively impacted by a 8.6 percent increase in the volume of electricity transmitted and an increase of 20 percent in the volume of natural gas distributed due to lower average air temperature compared to the previous reporting period.

The main source of revenues of ESO is electricity transmission.

During 2021, electricity transmission revenue comprised 82.4 percent of the Company's total revenue. Revenue from natural gas distribution made up 8.5 percent of the Company's total revenue, whereas revenue from guaranteed supply comprised 5.7 percent. The increase of the latter one within the structure was caused by the market deregulation.

Expenses

The cost of purchasing electricity, natural gas or related services amounted to EUR 163.3 million in 2021. Compared to the same period in 2020, the increase is 32.5 percent. This is mainly due to the increase in the purchase price of electricity transmission. During the reporting period, the cost of purchasing electricity, natural gas or related services, as well as depreciation and amortisation expenses, amounted to EUR 341.2 million, or 73.3 percent all costs incurred by ESO.

Operating expenses in 2021 amounted to EUR 108.2 million, an increase of 2.2 percent from the same period in 2020. Repair and maintenance costs decreased by 11.0 percent as part of works, initially planned for 2021, were carried forward to 2022. Expenses related to rent and utilities increased by 26 percent as a result of the increase in service prices.

Table 4. **ESO's operating expenses, EUR'000**

	2021	2020	Change
Employee benefits and related social security contributions	53.085	51.368	3,3%
Other expenses	16.442	14.813	11,0%
Repair and maintenance expenses	22.102	24.842	-11,0%
Telecommunications and IT services	11.213	9.717	15,4%
Transport	2.932	3.240	-9,4%
Rental and utilities	2.463	1.956	26,0%
Operating expenses, total	**108.237**	**105.936**	**2,2%**

EBITDA

Table 5. **EBITDA indicator**

	2021 *(restated)*	2020 *(restated)*
EBITDA (EUR '000)	171.414	184.429
Recalculation of regulated income of the current period (will be realised in the future periods)[8]	*-53.576*	*-104.314*
Recalculation of regulated income from previous periods (realised in the current period)[9]	*27.560*	*60.867*
Other corrections[10]	*2.653*	*-696*
Adjusted EBITDA, EUR '000	148.051	140.295
EBITDA margin, %	32,02	38,04
Adjusted EBITDA margin, %	27,66	28,94

Description of ESO's indicators is available at: www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html

In 2021, the Company earned profit of EUR 171.4 million before interest, taxes, depreciation and amortisation (EBITDA). Compared to 2020, the Company's EBITDA decreased by 7.1 percent; it was caused by the increase of the price of the electricity transmission service by 111 percent, the negative effects of which were partially offset by 7.6 percent of increase in the quantity of transmitted electricity and, consequently, the increase in revenue from electricity transmission.

In order to disclose the results from ordinary activities of the Company, excluding the effects of irregular, 'one-time' factors which also are directly unrelated to the current period, the result of EBITDA is provided subsequent to the adjustments made by the management by eliminating deviation of actual and regulated revenue as well as the impact of 'one-time' factors (Adjusted EBITDA). In the opinion of the management, adjusted EBITDA reflects the results of a specific period more accurately and improves comparability of actual results with the previous periods.

[8] Recalculation of regulated income of the current period for the adjustment of excess profit that may form according to estimates of the management Assessment of the difference between forecasted values of key income level components (OPEX, costs of purchase of electricity for own needs and consumption thereof in technological equipment, depreciation and amortisation expenses, return on investment, and other income) and values of price components approved by the regulator. Annual values of the price components approved by the regulator are published on the regulator's website (www.vert.lt), in the price approval certificates. Income components of regulated activity for 12 months are calculated in proportion to the Company's planned monthly amounts.
[9] Recalculation of regulated income from previous periods, which is implemented in the current year's prices, is set by the regulator when approving regulated prices Annual values of recalculations of income of the previous periods set by the regulator are published on the regulator's website (www.vert.lt), in the price approval certificates. Income components of regulated activity for 12 months are calculated in proportion to the Company's planned monthly amounts.
[10] Adjustment of significant 'one-time' effects.

Certificates of the regulatory body on the basis of which regulated revenues for 2021 are recalculated:

- Certificate No O5E-838 of 14 October 2020 “Regarding the adjustment of the upper limit of the revenue level of natural gas distribution activities of Energijos Skirstymo Operatorius AB for 2021“www.regula.lt/SiteAssets/posedziai/2020-10-22/eso_pazyma.pdf)
- Certificate No O3E-989 of 16 October 2020 “Regarding the adjustment of the price caps for distribution services of medium and low voltage networks of Energijos Skirstymo Operatorius AB for 2021“. www.vert.lt/Docs/nutarimas_2020_O3E-989.pdf)

Notes to recalculation Adjusted EBITDA results:

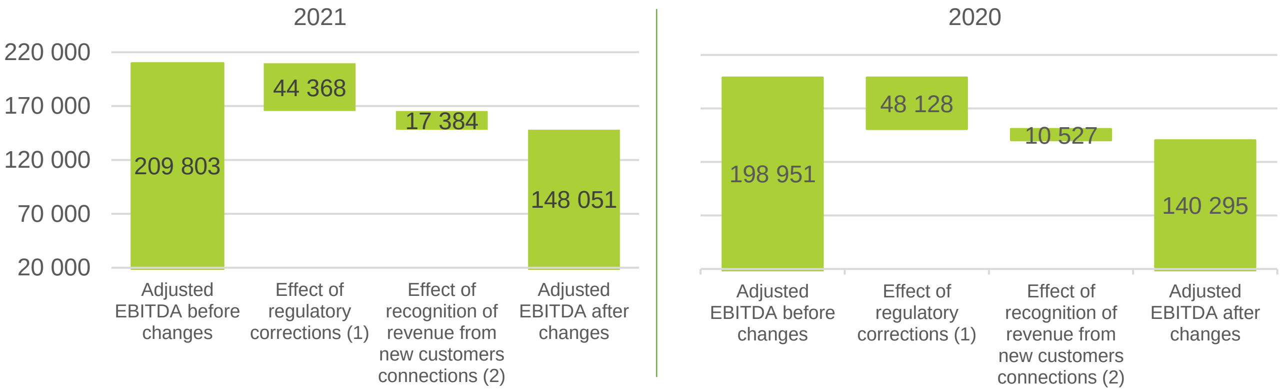
Taking into consideration regulatory environment changes in 2021 and the decision of the management to simplify the calculation of Adjusted EBITDA by bringing it closer to International Financial Reporting Standards (IFRS), the following corrections have been made to Adjusted EBITDA results published in 2021 and 2020:

(1) Pursuant to the Methodologies for Calculation of Price Caps of Electricity Transmission, Distribution and Public Supply Services (the Methodology) updated in 2021, the calculation method of Regulated Asset Base (RAB) was changed from LRAIC1 (that was applied in 2016-2021) to Historical cost model. Accordingly, return on investments of ESO and compensation of depreciation for the period of 2018-2021 were recalculated. According to a preliminary assessment by AB Ignitis grupė, the difference of depreciation and return on investments for the mentioned period amounts to EUR 160 million, out of which EUR 48.1 million is related to the year 2020 while EUR 44.4 million is related to the year 2021. Given that from the date of change in the Methodology such amounts are considered to be temporary regulatory differences and will have to be returned to customers (96 percent of the recalculated amount will have to be returned during the period of 2032-2036), the result from adjustments of the management and Adjusted EBITDA was recalculated retrospectively.

(2) In order to simplify reporting, the management has decided to exclude adjustment of monetary effects of connection of new customers and increase of capacity, the disposal result of non-current assets as well as impairment and write-off of receivables, loans, goods, etc. in 2021 by adjusting accordingly the results of 2020 for the purpose of comparability. When the result of Adjusted EBITDA is calculated subsequent to the changes, corrections are made to temporary regulatory differences and significant ‘one-time’ factors.

The result of adjustments made by the management and comparability to unadjusted results is provided in Figure 4:

Figure 5. **Adjusted EBITDA corrections in 2021 and 2020, EUR’000**



The Company’s Adjusted EBITDA increased by 5.5 percent. The change in this indicator was affected by improving efficiency of the Company’s activity and increasing Regulatory Asset Base.

Segments

Operating segments are reported in a manner consistent with the one applied when providing information to the chief operating decision-maker of the entity. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

Based on the judgement of the management, the Company has two operating segments, i.e., electricity supply and distribution, and gas distribution. All the Company’s assets and customers are located in the Republic of Lithuania. The Company’s manager monitors the results with reference to the financial statements that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e., information on profit or loss, including the reported amounts of income and expenses. The management does not analyse operating segments based on information about assets and liabilities. Inter-segment transactions are not executed.

Table 6. **Information on segments for the period of twelve months ended 31 December 2021**

2021	Supply and distribution of electricity	Distribution of gas	Total
Revenue from contracts with customers	485.213	47.921	533.134
Other revenue	1.689	483	2.172
Expenses	(334.037)	(29.855)	(363.892)
EBITDA	**152.865**	**18.549**	**171.414**
Depreciation and amortisation	(72.371)	(13.169)	(85.540)
Impairment expenses and write-offs	(9.124)	(6.845)	(15.969)
Operating profit (loss)	**71.370**	**(1.465)**	**69.905**
Finance income	55	7	62
Finance (expenses)	(10.580)	(2.946)	(13.526)
Share of (profit) of associates and joint-ventures	325	41	366
Profit (loss) before tax	**61.170**	**(4.363)**	**56.807**
Income tax	(5.709)	(1.067)	(6.776)
Net profit	**55.461**	**(5.430)**	**50.031**

Table 7. **Information on segments for the period of twelve months ended 31 December 2020**

2020	Supply and distribution of electricity	Distribution of gas	Total
Revenue from contracts with customers	443.834	38.857	482.691
Other revenue	1.950	200	2.150
Expenses	(276.007)	(24.405)	(300.412)
EBITDA	**169.777**	**14.652**	**184.429**
Depreciation and amortisation	(70.038)	(12.678)	(82.716)
Impairment expenses and write-offs	(5.130)	(6.592)	(11.722)
Operating profit (loss)	**94.609**	**(4.618)**	**89.991**
Finance income	34	4	38
Finance (expenses)	(9.691)	(2.405)	(12.096)
Share of (profit) of associates and joint-ventures	124	15	139
Profit (loss) before tax	**85.076**	**(7.004)**	**78.072**
Income tax	(8.290)	(300)	(8.590)
Net profit	**76.786**	**(7.304)**	**69.482**

Profit (loss) and profitability ratios

In 2021, ESO's net profit totalled EUR 50.9 million, which is 28.0 percent less than in 2020. The decrease in net profit in 2021 was caused by increased prices, growth in purchase costs of electricity, gas and related services as well as asset revaluation results. Growth in revenue resulted from the increased quantity of transmitted and distributed electricity and distributed gas had a positive impact on net profit.

Table 8. **ESO's profitability ratios, %**

	2021	2020	2019
Net profit margin	9,35	14,33	8,19
Operating profit margin	13,06	18,56	10,56

Description of ESO's indicators is available at: www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html

Investments

During 2021, ESO's investments in the electricity and gas distribution networks amounted to EUR 188,032 million, which is 33.8% more than in the same period in 2020, where investments amounted to EUR 140,489 million.

Table 9. **ESO's investments, EUR '000**

	2021	2020
Renewal of the electricity distribution network	90.649	49.046
Expansion of the electricity distribution network	63.191	54.218
Re-construction of gas systems	10.192	9.599
Construction of gas systems	14.789	21.443
Other (IT, management systems, etc.)	9.211	6.183
Total investments	**188.032**	**140.489**

Description of ESO's indicators is available at: www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html

In 2021, ESO's investments in the renewal of the electricity distribution network amounted to EUR 90.65 million, 84.8 percent higher than in 2020. ESO invested EUR 63.19 million in network development (connection of new customers and increase of capacity), an increase of 16.5 percent compared to 2020.

In 2021, ESO connected to the electricity distribution network or made capacity upgrades to 50,286 new customers, which is 22.5 percent more than in 2020, when 41,043 new customers were connected. This is a result of intensive real-estate market, customers' need for higher capacity due to increase in additional household installations, appliances and producing customers. The capacity was distributed among 23.4 thousand customers and 18.2 thousand customers in 2021 and 2020, respectively. The quantities of household customers connection and capacity upgrades increased most. In 2021, admissible electric power of newly connected customers was 515.8 thousand kW, which is 33.5 percent more than in 2020 (386.2 thousand kW).

Increase in costs related to connection of new customers to the network which may amount to 30 percent is observed in 2021. Increase in costs is influenced by the growth of rates of works contracts in the market and increasing production prices of metals, plastics and other materials. In addition, EU regulation No 548/2014 of 21 May 2014 on implementing Directive 2009/125/EC of the European Parliament and of the Council with regard to small, medium and large power transformers has come into effect from 1 July 2021, the aim of which is to standardise eco-design requirements applicable to energy performance or efficiency of medium power transformers and to energy efficiency of large power transformers in the European Union. Both price and efficiency of such types of transformers are higher than those of the previous type.

In 2021, ESO's investments in the construction of gas systems amounted to EUR 14,79 million, which is 31 percent less than in 2020, when investments totalled EUR 21.44 million. ESO invested EUR 10,192 million in the reconstruction of gas systems, which is 6.2 percent more than in 2020. In 2021, ESO constructed 136 km of the gas distribution pipeline (in 2020: 206.1 km). In 2021, ESO connected 8,127 new customers to the natural gas distribution network, which is 4.4 percent more than in the same period in 2020 (7,785 customers were connected).

Analysis of financial indicators

At the end of 2021, the Company's assets amounted to EUR 1.82 billion. Non-current assets accounted for 94.1 percent (EUR 1.71 billion) of the total assets; whereas, at the end of 2020, he Company's assets amounted to EUR 1.76 billion, out of which non-current assets accounted for 94.9 percent (EUR 1.69 billion). Current assets amounted to EUR 108.1 million (in 2020 – EUR 90.1 million). Cash and cash equivalents, the most liquid assets, amounted to EUR 14.5 million or 13.44 percent of the total current assets (in 2020 – EUR 8.9 million).

Table 10. **ESO's financial leverage ratios**

	31/12/2021	31/12/2020	31/12/2019
Net borrowings, EUR million	709,95	680,70	657,71
Net borrowings to equity ratio	1,13	1,02	0,99

Description of ESO's indicators is available at: www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html

At the end of December 2021, ESO's liabilities totalled EUR 1,191.8 million, out of which non-current liabilities amount to EUR 927.3 million, current liabilities – to EUR 237.3 million, grants – to EUR 27.2 million; whereas at the end of December 2020, ESO's liabilities totalled EUR 1,097.9 million, out of which non-current liabilities amount to EUR 924.7 million, current liabilities – to EUR 151.9 million, grants – to EUR 21.3 million. Current liabilities increased mainly as a result of (i) a current loan received in December from AB Ignitis Grupė intended to finance the increased acquisition costs and (ii) increased trade payables resulting from higher expenses. At the end of 2021, borrowings amounted to EUR 724.5 million and accounted for 60.8 percent of total liabilities. Non-current borrowings amounted to EUR 656.46 million or 90.61 percent of total borrowings, current liabilities totalled EUR 68 million.

Table 11. **ESO's liquidity ratios**

	31/12/2021	31/12/2020	31/12/2019
Current ratio	0,46	0,59	0,24
Working capital, EUR '000	-71.469	-44.003	-44.929
Working capital/Revenue	-0,13	-0,09	-0,11

Description of ESO's indicators is available at: www.eso.lt/lt/investuotojams/alternatyvus-veiklos-rodikliai.html

ESO's current liabilities exceeded its current assets by EUR 129.2 million (in 2020 – EUR 61.8 million). The current ratio is equal to 0.46. Borrowings, as reduced by the amount of short-term investments and cash and cash equivalents, are equal to EUR 709.95 million. The Company's net borrowings account for 113 percent of its equity (in 2020: 102.27 percent).

References and additional explanations of disclosures in the financial statements and other significant events and their impact on the annual financial statements

Other information is presented in the condensed interim financial statements of ESO for the period from January to December 2021.

FACTORS AFFECTING THE COMPANY'S FINANCIAL INDICATORS

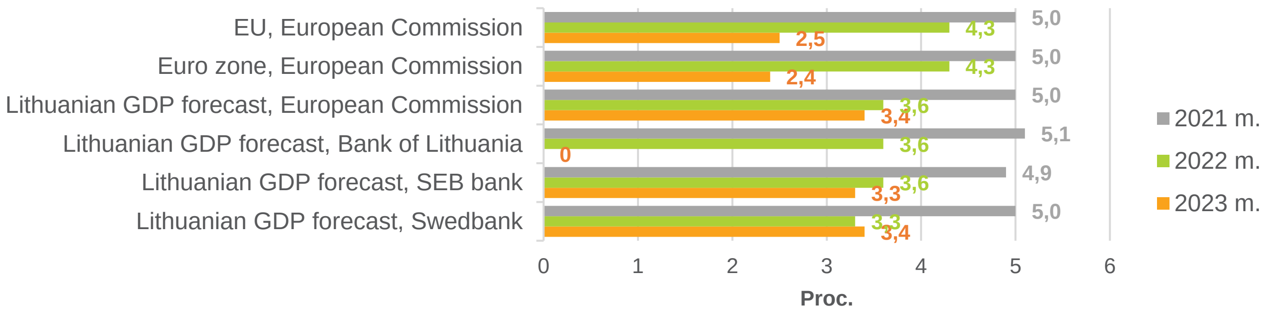
Business environment

COVID-19 pandemic that started in the beginning of 2020 had a strong impact on the global economy.

In accordance with the forecast of the European Commission published in November 2021[11], the gross domestic product is forecasted to grow by 4.3 percent in the European Union (EU) in 2022, by 2.5 percent in 2023. The economic growth in euro zone should be 4.3 percent in 2022 and 2.4 percent in 2023. The European Commission forecasts[12] that the growth of the Lithuanian economy was going to reach 3.6 percent in 2022 and 3.4 percent in 2023.

As indicated in the Lithuania's economic outlook published by the Lithuanian banks, Lithuania's economic prospects are considered to be positive. In accordance with the forecasts presented by the analysts of SEB bank in September 2021[13], Lithuanian economy will grow by 3.6 percent in 2022 and 3.3 percent in 2023. The Swedbank analysts adjusted the Lithuania's economy outlook in November[14]: 3.4 percent growth forecasted in 2022 and 3.4 percent in 2023. The survey of the Bank of Lithuania[15], made in December 2021, showed that Lithuania's GDP is expected to grow by 3.6 percent in 2022. Data for 2023 is not provided.

Figure 6. ***Gross Domestic Product (GDP) Growth Forecasts for the EU, Euro Zone and Lithuania in 2021–2023, %***



Electricity consumption is closely linked with the growth of a gross domestic product, therefore economic growth also impacts the performance of ESO. Given the macroeconomic forecasts presented by economists for a year, we hold the view that the volume of distributed electricity will increase at a moderate pace in 2022.

Situation in the electricity market

In 2021, the average price of electricity in the Nord Pool's Lithuanian trading zone increased compared to the year of 2020. In 2021, the average price was 90.45 EUR/MWh, in 2020 it was equal to 34.04 EUR/MWh.[16]

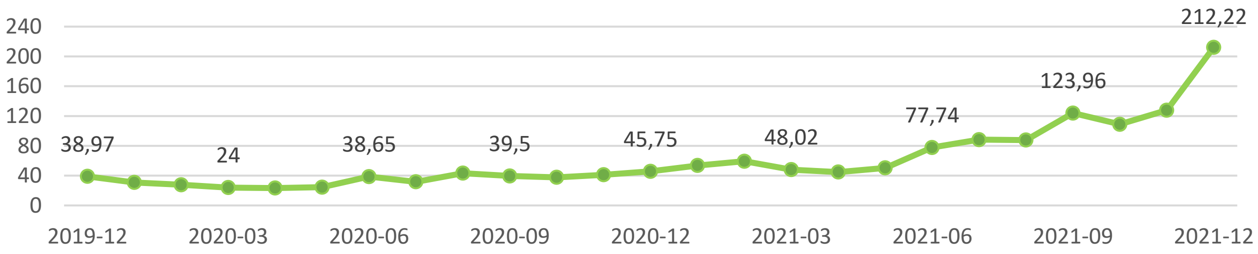
Following the transfer of public supply activities, fluctuations in the purchase price of electricity have a less impact on the Company's results and affects the amount of technological losses and the result of guaranteed supply.

Table 12. **Sensitivity analysis to the purchase price of electricity**

	2021			2020		
	Factual information	**-1 ct/kWh**	**+1 ct/kWh**	**Factual information**	**-1 ct/kWh**	**+1 ct/kWh**
Impact (EUR'000)	0	-9.161	9.161	0	-10.156	10.156
Average electricity purchase price, ct/kWh	10,09	9,09	11,09	3,81	2,81	4,81

[11] *Source: European Economic Forecast. Autumn 2021 (europa.eu)*
[12] *Source: https://ec.europa.eu/economy_finance/forecasts/2021/autumn/ecfin_forecast_autumn_2021_lt_en.pdf*
[13] *Source: https://www.seb.lt/infobankas/lietuvos-makroekonomikos-apzvalga/lietuvos-makroekonomikos-apzvalga-nr-76*
[14] *Source: https://www.swedbank-research.com/english/swedbank_economic_outlook/2021/q3/_uncharted_recovery_pushes_inflation_up/seo_nov_2021_eng_final.pdf*
[15] *Source: https://www.lb.lt/lt/leidiniai/makroekonomines-prognozes-2021-m-gruodzio-men#_Toc90645596*
[16] *Source: https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Yearly/?view=table*

Figure 7. **The average price of electricity in the Lithuanian trading zone on the Nord Pool power exchange, EUR/MWh**[17]

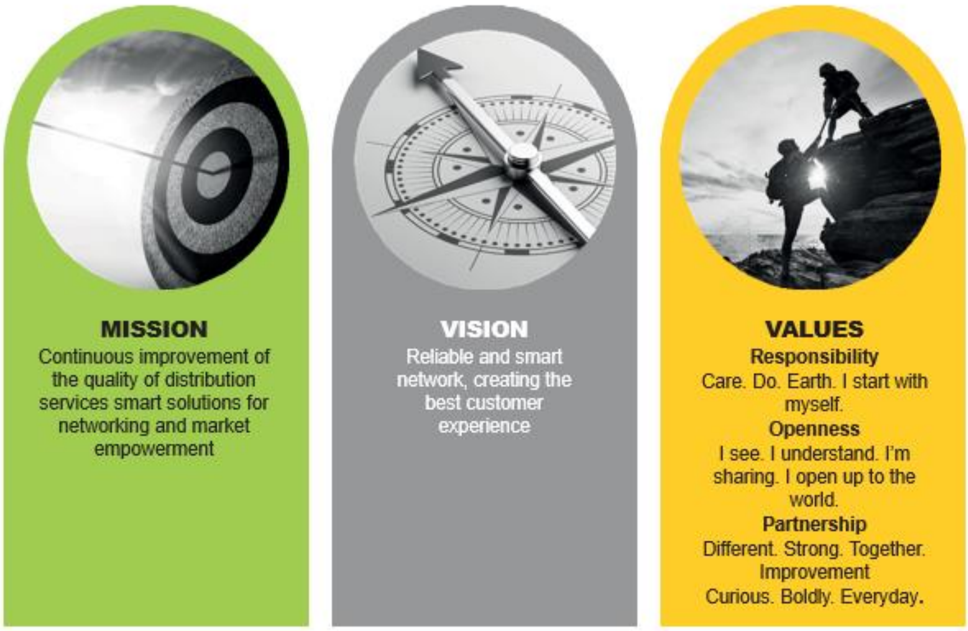


Company's strategy and objectives

In pursuing its strategy and goals, ESO follows guidelines published by the Governance Coordination Centre (GCC), OECD and applies strategic and risk management models in line with global practices. ESO prepares and updates its strategy and draws up an operational plan for its implementation, taking into account Ignitis Group strategy and the NEIS (National Energy Independence Strategy). Each year, ESO prepares the long-term financial plan and annual budget in accordance with the strategy, strategic and operational plans, which are drawn up for a period of 4 years. In addition, another strategic planning document is being prepared – a long-term (10-year) investment plan (link), setting out the principles and objectives of the largest investment programmes. The strategies of Ignitis Grupė and group companies are subject to annual review. The strategies are updated if there is a change in circumstances that affect the structure, the areas of activity of the Group companies, and have a significant impact on the forecasted outturn, strategic directions and strategic goals. It is important to note that the Company has specific annual objectives linked to the implementation of the strategy and covers the strategic directions related to resilience and smartness of network, customer experience and market facilitation, sustainable and efficient operation, sustainable development, people and culture, the implementation and performance of which are monitored on a monthly/quarterly basis.

The parent company AB Ignitis grupė announced the updated long-term business strategy on 19 June 2020 and the strategic plan for 2022–2025 on 28 February 2022. On the basis of these documents, being a resilient and smart network and market facilitation and customer experience remain the key strategic directions of ESO's activities as set out in Figure 5. ESO is planning to update its long-term strategy until 2nd quarter of 2022 on the basis of updated strategy of Ignitis Grupė and the strategic plan for 2022–2025 (link).

Figure 8. **ESO strategic directions and priorities for 2030**



[17] *Source: https://www.nordpoolgroup.com/Market-data1/Dayahead/Area-Prices/LT/Monthly/?view=table*

Investment plan: modernisation of the electricity and gas distribution networks

Based on the updated long-term business strategy and the strategic plan for 2021-2024 of AB Ignitis Grupė, ESO announced its investment plan for 2021-2030 of present and planned investments into the investment plan of electricity and gas distribution network (link), on 7 December 2021. The plan specifies that ESO intends to invest EUR 1.9 billion into improvement of the network's reliability, durability, smartness and client's experiences in the next 10 years. The planned investments are continued to be targeted at two main directions: increase in reliability and efficiency of network as well as market empowerment and customer experience:

- Increase in reliability and efficiency of network. This programme intends to accelerate restoration of energy supply after the failures, continue replacement of airways of electrical grid by underground line giving priority to replacement of frequently disconnecting and emergency airways, wooded territories. It will be continued to install the equipment that ensures automation and management of gids. In addition, advanced and innovative solutions will be installed especially in order to ensure fluent and optimum integration of distributed energy sources and EV (electric vehicle) charging stations as well as solutions for digitisation of asset management.
- Market facilitation and customer experience. This programme is meant to enable the transformation and development of electricity market and to promote activeness of the customers in selection of the energy supplier. The main tool of this programme is installation of smart meters. This technological solution will ensure accuracy and timeliness of data in the ESO network, will enable the market and customers to create services of higher quality.

Up to now, the Investment plan used to be updated on an annual basis; however, the plan has not been formally agreed with NERC. From 2022, in accordance with the Law on Electricity and legislation, the Investment plan will have to be provided to NERC for approval every second year.

Risk and uncertainty factors and their management

The risk management model, which is applicable across the entire companies group AB Ignitis grupė, has been based on the guidance of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the main principles of AS/NZS ISO 31000:2009 (Risk management – Principles and guidelines).

The main risk management objectives at the Company are the following:

- to achieve the Group's performance objectives with controllable, yet, in principle, acceptable deviations from these objectives;
- to ensure uninterrupted performance of core activities of the Group in short- and long-term perspectives;
- to ensure a timely provision of information of the highest possible accuracy to decision-makers, shareholders and other stakeholders;
- to protect the Group's reputation and ensure reliability;
- to protect the Group's reputation and ensure resilience;
- to protect the interests of shareholders, employees, customers, stakeholders and the public;
- to ensure the stability (including financial) and sustainability of the Group's activities.

The risk management principles established by AB Ignitis grupė are consistently applied across the entire Group of companies. The uniform risk management principles ensure that the management personnel of the Group companies receive risk management information covering all areas of activities. To ensure the practicality of the risk management process, specific activity areas supplement information on their activities with detailed risk assessment, monitoring, and management principles.

Aiming to ensure that risk management information and decisions correspond to recent developments and changes in the Company's activities, the Company's risk level is re-assessed each year during a specified time period and risk management actions are established. Continuous communication between the parties involved is ensured throughout the risk management process. In addition, the Company monitors risk management measures on monthly basis and foresees additional actions as needed.

- Identification stage – identification of new key risks and revision of the current risks allows to form a comprehensive picture about the Company's risk.
- Analysis stage – risk criteria are determined according to the established method and quality and quantity risk materiality analysis is then performed.
- Assessment stage – here risk levels are determined. The risk level is determined by assessing the current control measures, probability of occurrence and potential impact of the risk (in the context of financial, reputational, compliance, corruption, human health and safety and business continuity aspects) and then multiplying them. Risk level can be low, medium, high, or very high (see risk assessment matrix). Risk appetite and KRI (tolerance) thresholds of the companies group Ignitis Grupė are established and reviewed as needed by the parent company's Management Board . Risk appetite means the level and type of risk that the Group is ready to accept in order to implement strategic objectives.
- Management stage – all risks are assigned a risk management strategy, such as "accept", "mitigate", "avoid", or "dispose". Also, every year new risk management measures, key risk indicators and their tolerance thresholds are developed / revised. KRI threshold means the specific value of the occurrence of a particular risk factor, without threatening or creating the preconditions for a financial, reputational or other type of crisis to occur, expressed in qualitative or quantitative units. KRI is used to determine risks of all levels by distinguishing deviation thresholds (low, average, high), which would allow to identify risk tendency and, should there be deviations from the plan within the tolerance threshold, to initiate a more intensive monitoring by escalating the issue and planning additional steps to control it.
- Control stage – periodic monitoring of risks, risk management measures, key risk indicators and preparation of reports to the Company's Board and Supervisory Board. .

Risk categories

The Group's risks are categorized into strategic, operational (activity), financial and external risks. Their descriptions are provided below.

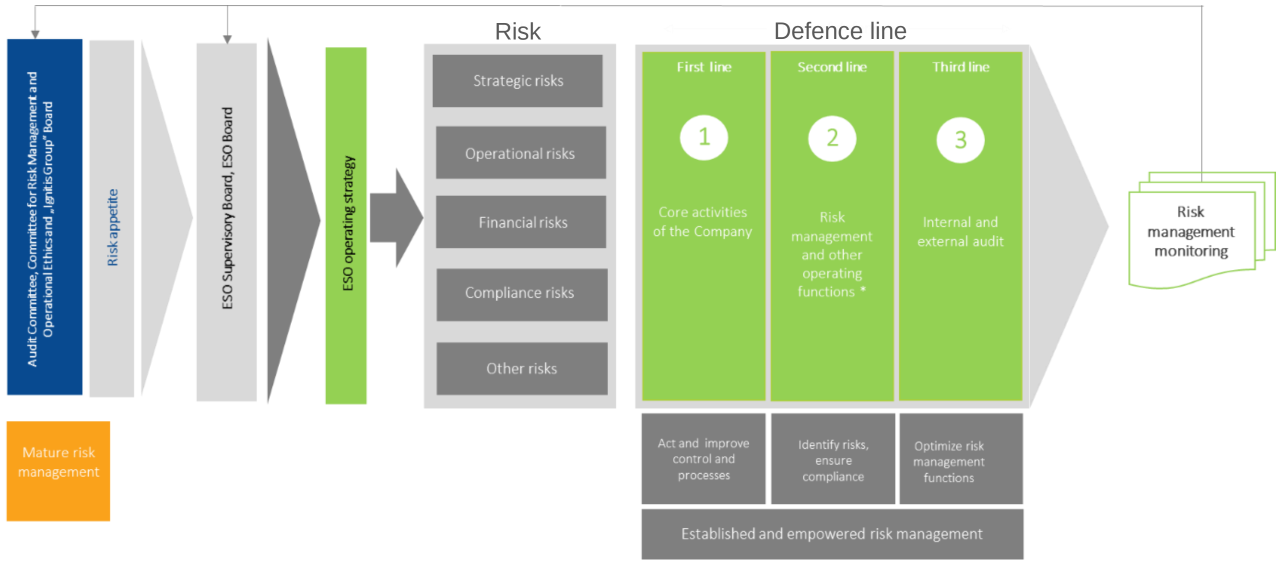
Table 13. **Risk categories**

Risk category	Strategic	Operational (activity)	Financial	External
Description	Risks that may impact the mission, strategic objectives of the Company. They can manifest due to unfavourable or erroneous business decisions, inadequate implementation of decisions or due to unfavourable reaction related to political, legislative changes.	Risks that manifest due to inadequate or poorly organised internal processes, failed or ineffective internal control procedures, poor business practices or development, employee errors and/or illegal activities, improper/insufficient management of IT operations, etc.	Risks that manifest from financial assets and/or obligations of the Company. This category includes the following risks: credit risk, liquidity risk, insufficient capital risk, interest rate risk, currency exchange risk, risk related to fluctuation of shares and market prices, etc.	Risks manifesting due to changes in market conditions, regulatory and judicial changes (both planned and unplanned), natural resources, natural disasters, etc.

Risk appetite and risk tolerance limits are established within the companies group AB Ignitis grupė. Risk appetite means the level and type of risk that the companies group is ready to accept aiming to implement strategic objectives. Risk appetite is determined by assessing financial impact of risk as well as impact on health and safety of persons, etc. Tolerance limit means the level of risk the excess of which is not acceptable for the Group of companies and which is expressed in the results of operations or values of incidents. The risk appetite and risk tolerance limits of the Group of companies are established and reviewed once a year by the Board of AB Ignitis grupė. Where risk appetite and risk tolerance limits are exceeded by the Company, action plans are prepared in order to meet the mentioned thresholds. The effectiveness of the management plans is assessed by the Company's Board, the Company's Supervisory Board and the Group's Risk Management Supervision and Business Ethics Committee under the Supervisory Board.

In order to effectively manage risks arising from its activities, the Company applies the three lines of defence principle by establishing a clear segregation of duties for risk management and control between the Company's management and supervisory bodies, structural departments or functions.

Figure 9. **Risk management and control model**



**Risk management and other functions (prevention, compliance, occupational safety, financial control).*

In the fourth quarter of 2021, a periodic risk management process was initiated based on the updated risk assessment methodology. In 2021, during the risk assessment of ESO, certain areas were identified in which the Company concentrates and coordinates the main risk management measures and initiatives. When performing the risk and risk factors assessment for 2022, the Company assessed the impact of risk not only on financial and occupational health and safety outcomes, but also on other outcomes of strategy implementation, thus ensuring that the Company's risk management is associated with strategic planning and implementation of Ignitis Grupė and ESO strategy. The list of the main risk factors for 2022 and their management policies is presented in table below.

Table 14. **Risk factors for 2022 and their management policies**

Risk category	Risk factor	Sources of risk	Main risk management policies	Risk level
Strategic/Business/Compliance risks	**External regulation**	The Company is exposed to regulatory risk due to following reasons: (1) Volatility and instability of the regulatory environment (frequent changes in legislation give rise to erroneous interpretations/misinterpretations, changes regulatory periods – significant risk of change in regulatory model). (2) Reforms of the legal framework for the protection of personal data, the main act of which is the General Data Protection Regulation of the European Union (GDPR), which took effect on 25 May 2018. Changes in the regulation of personal data protection and the lack of clarifications of practical application thereof pose the risk of faulty implementation of rules provided for by the GDPR.	• For the purpose of ensuring compliance with new requirements, the Group-level projects engaging the best specialists of the Group companies with regard to the issue concerned are organised. • Active contribution to the process of public coordination of legal acts. • Initiation of draft amendments to legal acts that are unfavourable to the Company and raising issues regarding implementation of legal acts; • Phase two of the project for the implementation of GDPR requirements has been in progress, implementing additional solutions in IT, legal and process areas, and organizational measures to ensure the compliance of the Company's activities with GDPR.	High

Strategic/ Business risks	**Implementation of strategic initiatives/programmes**	In order to achieve the strategy and the objectives set, the Company intends, among other things, to implement strategic initiatives, projects, programmes, the implementation of which ranges from one to several years. Currently, the Company implements strategic projects at national level, such as Smart Meter Installation program, data exchange platform, deregulation, etc. Any delays and occurrence of external risks (e.g. regulation, suspension of the procurement procedure due to third parties, , disrupted global supply chains due to COVID-19 ("chip crisis"), etc.) may affect the financing of these initiatives and the plan for the strategic portfolio implementation. Therefore, long-term investment planning, cost control and monitoring remain a priority for the Company.	• Internal control of costs (resources) and investments; • Analysis of the market and external regulation; • Procurement procedure performance control and monitoring; • Monitoring portfolio of strategic initiatives at the level of the Company's Board and Supervisory Board; • Forecasting, monitoring, analysing cash flows.	High
Operational risk	**Health and safety of employees, contractors and residents**	Inherent risk. With regard to the specific character of its business activity, the Company bears the risk of injury to the employees of ESO, its contractors, and residents. Every year this risk remains a priority area and the main causes of this risk include high-risk working environment, potentially dangerous equipment and lack of awareness or experience. COVID-19 pandemic poses a risk of incapacity, illness to the Company employees, which in turn put the business continuity at risk.	• Maintenance of the occupational health and safety management system (OHSAS 18001:2007). • Implementation of the programme for the strengthening of safety culture. • Regular control and supervision of safety of employees and contractors. • Mobile application installed and further developed for the record of occupational safety violations to be comfortable. • A base for management of preventive measures has been implemented to record measures after accidents, incidents, etc., ensuring timely implementation of the measures envisaged. • Information system for providing employees with security measures and improving health screening process has been successfully developed further. • The process of mandatory training and certification has been reviewed and a database has been set up to monitor the timely learning of energy workers; • Prominence was given to the control of the COVID-19 pandemic: 1. The occupational risk for COVID-19 has been assessed; 2. Internal legislative framework has been developed to control	High

			the pandemic within the organisation; 3. The work has been reorganised in such a way that those who are able by the nature of their work to work outside the office work remotely, the work of all other employees has been reorganised to minimise contact between them; 4. Employees are fully provided with all necessary personal protective equipment and an adequate quantity is maintained in the warehouse. 5. Regular communication about changes; 6. Critical function workers have been vaccinated with pneumococcal vaccine to reduce the consequences of COVID-19 disease.	
Operational risk	**Risk of network reliability failure**	According to information provided by the Hydrometeorological Service, during the period of 1981–2016. There were 190 natural phenomena in Lithuania or of 6–7 cases of storm, strong wind, hail per year, on average. Hydro-meteorologists predict that climate change in Lithuania will increase the number of cases of strong winds, heavy rainfalls and storms to which the existing electricity network of ESO is highly vulnerable: falling trees, snow and icing cut wires off, and falling branches cause short-circuits. As the number of customers increases along with the quality of electricity supplied, the technical parameters of the existing lines do not, in some cases, partially ensure the quality of electricity supply. Moreover, the rapid growth of distributed generation, electric vehicles and their charging equipment on the network, distribution system faces a profound challenge in terms of quality management.	• Through the cooperation with the Meteorological Service, the information on forecasted meteorological events is obtained prior its occurrence which leads to resource mobilisation. • 10-Year investment plan is updated every second year (the planned investments for the replacement of overhead power lines with underground cables in wooded areas). • Investment rating models are regularly revised and updated. • As from 2019, voltage regulators are used in overhead electricity lines as an alternative to more expensive network reconstruction. • A voltage quality monitoring system is being implemented in the electricity distribution network.	High
Operational risk	**Information security (cybersecurity)**	The changing geopolitical situation increases the risk of cyber incidents that can affect the reliability of the electricity distribution network. Based on global trends, cyber threats in the electricity transmission and distribution sectors are increasing every year. Cyber-attacks tend to target the companies of strategic	• The area of digital security in the group of companies of AB Ignitis Grupė is managed centrally by the parent company, therefore, the main competencies, tools and good practices in this area are consolidated; • Enhancement of cyber-attack detection/resistance systems. • Increasing the resilience of electricity distribution network	High

importance to the State. The changing geopolitical situation increases the risk of cyber incidents that can affect the reliability of the electricity distribution network.

management systems to cyber threats by expanding the cyber security network.

- Cooperation with external organisations in the field of cyber security.
- Continuous education of the Company's employees and training in the field of digital security.
- Measures applied in functional areas of business safety to tackle corruption and cases of potential spying.
- Employees of AB Ignitis Grupė Digital Security Operations Centre improve their skills by participating in national and international cybersecurity exercises.

INFORMATION ON THE COMPANY'S ISSUED CAPITAL AND SECURITIES

Structure of issued capital and securities

As at 31 December 2021, the Company's issued capital amounted to EUR 259,442,796.57. All shares of the Company are paid.

Table 15. **Structure of issued capital**

Class of shares	Number of shares, units	Par value, EUR	Total nominal values, EUR	% of issued capital
Ordinary registered shares	894,630,333	0.29	259,442,796.57	100.00

With effect from 11 January 2016, the shares of ESO have been listed on the main list of Nasdaq Vilnius AB stock exchange. From 1 July 2020, ESO shares were delisted from the Official List (the last day of trading on Nasdaq Vilnius was 30 June 2020). The Company's shares are not traded on any other regulated markets.

Table 16. **Information on the Issuer's securities**

ISIN code	Trading list	Securities' abbreviation	Number of shares, units	Nominal value per share, in EUR	Industry under the ICB standard	Higher sector under the ICB standard
LT0000130023	BALTIC MAIN LIST	ESO1L	894,630,333	0.29	7000 utilities	7500 utilities

The Company did not acquire its own shares until the end of the reporting period and neither acquired nor disposed of its own shares during the reporting period.

Shareholder structure

All the persons who owned the shares of LESTO AB and Lietuvos Dujos AB on 11 December 2015, became shareholders of ESO, which took over all the assets, rights and obligations of LESTO AB and Lietuvos Dujos AB upon their reorganisation.

On 2 April 2021, the Vilnius City District Court satisfied the claim of AB Ignitis grupė regarding the establishment of a fact of legal significance and ruled that all the shares not sold during the mandatory redemption of shares of its subsidiary Energijos Skirstymo Operatorius are the property of AB Ignitis grupė. On April 15, securities account administrators made entries in the share accounts on the transfer of ownership of the remaining ESO shares to the Company, and as of that day the 100 percent ESO holding belongs to AB Ignitis grupė.

According to the data as of 31 December 2021, the common sole shareholder of the Company is AB Ignitis grupė.

Rights of the shareholders, shareholders with special control rights and description of these rights

All rights conferred by ordinary registered shares are the same. The property and non-property rights granted by the shares are determined by the laws, other legal acts and the Articles of Association of the Company.

None of the shareholders of the Company had special control rights.

There were no restrictions on voting rights.

Restrictions on transfer of securities

According to the data of 31 December 2021, no restrictions on the transfer of securities were imposed during the reporting period.

Information on agreement with intermediary of public trading in securities

AB SEB bankas is authorised to keep and manage the Company's securities accounts.

AB SEB bankas contact details:
Gedimino ave. 12, LT-01103 Vilnius,
Tel. 1528 or +370 5 268 2800.

Dividend policy and dividends

Since 4 September 2020, a new dividend policy of AB Ignitis grupė has come into force. The new dividend policy defines the procedure for the distribution of dividends.

The ordinary General Meeting of the Company’s Shareholders was convened on 30 March 2021. Its agenda contains an issue of payment of dividends for 2020. During the meeting, the Company’s profit (loss) appropriation for 2020 was approved. It was decided to pay out dividends in the amount of EUR 55.47 million for the period from 1 January 2020 ended 31 December 2020, dividends per share amounted to EUR 0.062. (the amount of EUR 67.99 million for the period from 1 January 2019 ended 31 December 2019,dividends per share amounted to EUR 0.076).

CUSTOMER SERVICE, SERVICE ASSESSMENT

Number of customers being serviced

In 2021, ESO concluded 37,422 more contracts with private customers for connection to ESO's electricity distribution network or 25 percent more than in 2020, when 29,865 ESO's electricity distribution network service contracts were signed. Last year, 18,610 contracts with business customers were concluded or 42 percent more than in 2020, when 13,060 contracts with business customers were signed. In 2021, ESO upgraded capacity to or connected 34,533 thousand private customers to the electricity distribution network or 29 percent more than in 2020 (in 2020 – 26,757 customers), and 15,753 thousand business customers or 10 percent more than in 2020 (in 2020 – 14,286 customers).

In 2021, ESO concluded 7,054 contracts with private customers for connection to ESO's gas distribution network or 12.4 percent less than in 2020, when 8,048 contracts were signed. During 2021, 345 contracts for gas network service were signed with business customers or 30 percent more than in 2020 (266 contracts). In 2021, 7,837 private gas consumers were connected – 4 percent more than in 2020 (7,565 private customers). In 2021, 290 business customers, who were provided with distribution and warranty supply service, were connected to the ESO's gas distribution network or 32 percent more than in 2020 (220 customers).

Operation and development of electricity and gas metering devices

During a 12-month period in 2020, ESO replaced 37.7 thousand units of metering devices that no longer meet the meteorological requirements, whereof: 7.1 thousand units of electricity meters and 30.6 thousand units of natural gas meters. The Company installed 25.17 thousand electricity metering devices and 10.2 thousand natural gas metering devices for new customers.

By regularly renewing metering devices being operated, the Company and its authorised persons inspected more than 614 thousand electricity meters and more than 64.4 thousand natural gas meters during a 12-month period in 2020.

By investing in the modernisation and automation of the electricity metering equipment, during a 12-month period in 2020 ESO connected 8.5 thousand electricity metering devices to the existing automated data reading systems. As a result, the number of operated electricity meters that are scanned remotely reached nearly 52.7 thousand. The number of natural gas meters that are scanned remotely remained unchanged and is equal to 1.257 thousand. The automation of metering devices allows to automatically submit bills for electricity consumed to commercial customers and establish a precise amount of natural gas consumed by a commercial customer.

In order to improve the quality of services, create preconditions for customers to accurately monitor their energy consumption, receive accurate invoices, and save energy by using it rationally, the Company carries out the programme on the implementation of the smart metering system in Lithuania. An investment project envisaging the replacement of existing electricity meters with smart electricity meters was approved by the National Energy Regulatory Council in September 2019. The plan is to have smart meters installed for electricity customers with intense electricity consumption (from 1,000 kWh/year) and each business customer in the first stage by the end of 2023.

On 16 January 2020, the NERC assessed the submitted calculations and confirmed that mass installation of gas smart metering is not reasonable in this stage. The analysis of costs-benefits will be renewed, when technological or economical preconditions change essentially, but, in any case, at least once in four years, as recommended by the European Commission.

The procurement of smart metering infrastructure was announced in the first half of 2019 with intention to purchase smart electricity meters (about 1.2 million pcs.) and IT system for meter management and secure data collection. In 2020, initial offers were received, negotiations were held with suppliers and suppliers were invited to submit final tenders, which were received in January 2021. In 2021, a proof of concept will be performed before signing the contract. The main objective of a proof of concept, which is performed in a compliance stage, is to demonstrate that all components of the Smart Metering Infrastructure offered by the supplier (meters, communication and IT system) function as a unified system and meet the needs of the ESO, as set out in the technical specification. If this phase is successful, the contract is scheduled to be signed in Q2 2021 and the meters will start to be installed in Q4.

Development of service channels

In order to enhance customer service, ESO is improving such processes as serving and informing of its customers which leads to better customer experience. In 2021, ESO provided information to 854,625 customers having called short customer service number 1852, whilst 700,167 customers were served in 2020. Regarding the issue of market liberalisation, 54,709 customers (having called number 8-626-55565) were served in 2021.

As there was strong interest felt, it was continued to improve customer service in the digital environment as well – customers were served via an internet chat channel – 57,090 customers were served in 2021 while 28,184 customers were served in 2020. In 2020, 521 thousand requests were received, all employees of ESO responded to them either by phone or by email. In 2021, 524 thousand requests were received.

Management of customer settlements

At the end of 2021, ESO had 63 thousand customers who were provided with distribution and warranty supply services; whereas, at the end of December 2020, there were 65.5 thousand customers. An average of 61 thousand bills are generated per month, 89 percent of which, or about 57 thousand, are sent by electronic means (self-service + e-bills in banks). About 11 percent of bills or 3.5 thousand per month are sent by regular mail.

Market liberalisation

In implementing the private customer market liberalisation programme, more than 96 thousand customers from Phase I (consuming more than 5,000 kWh annually), comprising 98 thousand objects of customers, have selected an independent supplier (98.7 percent). As at the end of 2021, out of 766 thousand objects of customers independent suppliers supplied electricity to more than 317 thousand (41.4 percent) objects of customers from Phase II (consuming more than 1,000 kWh annually). In the market liberalisation project, customers from Phase II have a selection deadline extended; i. e. in case they do not select an independent supplier by 18 June 2022, an object of a customer will be included in guaranteed supply from 1 July 2022. Customers from Phase III (consuming less than 1,000 kWh annually) have to select an independent supplier by the end of 2022. Independent suppliers supplied electricity to more than 176 thousand (21.8 percent) objects of customers out of 785 thousand objects of customers from Phase III (consuming less than 1,000 kWh annually) as at the end of 2021. The programme has been implemented successfully through an active communication, customers are enabled to select independent suppliers ahead the deadlines set out for each Phase.

As at 31 December 2020, independent suppliers supplied electricity to 80,412 (61.3 percent) objects of commercial customers, and the guaranteed supply service was provided to 50,757 (38.7 percent) customers. As at 31 December 2021, independent suppliers supplied electricity to 136,264 (82.4 percent) objects of commercial customers, and the guaranteed supply service was provided to 29,162 (17.6 percent) customers.

A basic version of the data exchange platform (DataHub) for market participants was launched in 2020. This platform has enabled consumers, who have selected an independent supplier, to share their consumption data with independent suppliers (with the consent of consumer) and to obtain a single invoice from the supplier for distribution and supply services. In 2021, over 450 thousand supplier change requests were processed through the DataHub platform, and over EUR 795 thousand rights to review consumption data were awarded to suppliers along with those data.

Customer satisfaction

In 2021, the market research company Synopticom conducted an ESO customer satisfaction survey. Customers were asked about the overall satisfaction with the services provided by ESO: connection to the electricity and gas network, capacity upgrade, repair of failures in the electricity and gas distribution network, quality of service channels, etc. A total of 30.8 thousand customers participated in the surveys during the year. The study revealed that the average customer rating is a 8.8 on a scale of 10 (in 2020 - the rating of 9.0).

In 2021, ESO, together with market research company Synopticom, also conducted quarterly customer satisfaction surveys using the NPS (net promoter score) methodology. Customers were asked about their overall satisfaction with the Company and how likely they were to recommend ESO. 15 thousand customers participated in the survey. The results of the ESO customer satisfaction survey revealed that currently the overall net promoter score (NPS) is 60 percent. The vast majority (8 out of 10) of customers are satisfied with the Company’s services and service and would recommend ESO to other customers. The result remained unchanged compared to 2020.

SUSTAINABILITY (CORPORATE SOCIAL RESPONSIBILITY) REPORT

The sustainability performance and results of AB Ignitis grupė as a whole, including its subsidiary Energijos Skirstymo Operatorius, are summarised in the consolidated Annual Report 2021 of AB Ignitis grupė, of which the Sustainability Report of AB Ignitis grupė as a whole is an integrated part. This report can be found on www.ignitisgrupe.lt under 'For Investors' and 'Sustainability'.

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

In this context, ESO is not preparing a separate report on this topic, but provides below a summary of its sustainability activities and links to the relevant sections of the sustainability report of AB Ignitis grupė.

Sustainability in AB Ignitis grupė and ESO

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

The guiding principles of sustainability that we follow in our day-to-day activities at ESO and across AB Ignitis grupė are defined in the 2020 update sustainability policy of AB Ignitis grupė.

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

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

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

Table 17. **Key sustainability themes and principles of governance and accountability in AB Ignitis grupė**

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

MEASURING PROGRESS

We continuously assess the progress of AB Ignitis grupė on the basis of ASV ratings provided by independent, leading ASV rating agencies.

Stakeholder relations and assessment of ASV priorities

Stakeholder engagement is crucial to ensure that ESO respond proactively to trends, emerging issues and opportunities. Geographic and operational coverage of ESO extends throughout Lithuania, and by applying the ASV principles in our relationships with stakeholders, as set out in the Sustainability Policy, we aim not only to effectively manage their expectations and interests, but also to look for opportunities where our collaboration can increase the positive impact of our activities.

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

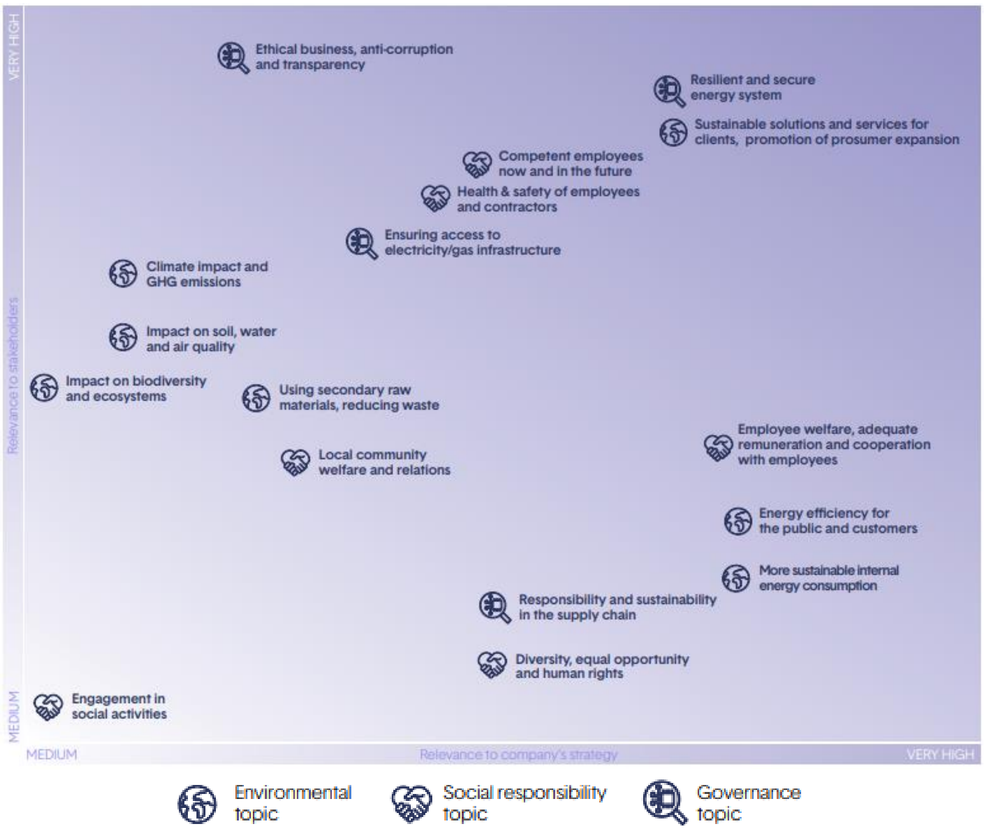
The stakeholder engagement exercise identified and interviewed 9 main stakeholder groups (responses from 1.7 thousand respondents, equivalent to 6 percent ownership). This grouping was chosen to more accurately reflect the specificity of the expectations of each group, while at the same time assessing the similarity of respondents' expectations within each group. As recommended by the above sustainability standards, a materiality assessment was carried out on the basis of the survey results).

Table 18. **Major stakeholders of ESO**

Private customers	Suppliers, contractors	State and municipal institutions
Business clients	Energy sector partners	Media
Employees	Associations and education institutions	Shareholders / investors

The expectations of stakeholders expressed during this process were aligned with ESO's existing goals and objectives, which led to the identification of ESO priority themes that are in line with both stakeholders' expectations and ESO's stated operational objectives. The outcome of the materiality assessment provides the basis for further embedding sustainable development in the ESOs' activities in a way that takes into account the overall impact of the ESOs on its stakeholders and aligns the expectations expressed by the stakeholders with the strategic objectives. The main expectations of ESO stakeholders are described in the Investment Plan 2021-2030.

Figure 10. **ESO materiality assessment matrix 2021**



Key facts on ESO materiality assessment:

- We interviewed nearly 1,700 ESO stakeholder representatives (AB Ignitis grupė – 3 thousand in total);
- We identified 17 thematic aspects of the ASV that are most relevant to ESO and its stakeholders;
- Stakeholders shared their views on which aspects of the ASV should be relevant for the ESO countries;
- During the internal strategy sessions, ESO managers clarified the links between stakeholders' expectations and the operational strategy.

It should be noted that the most significant areas of impact of ESO ASV have remained largely unchanged compared to what was described in the ESO 2020 Annual Report (page 31). The materiality assessment has clarified their importance for each ESO stakeholder and for the strategy of the company and AB Ignitis grupė. A full report on the materiality assessment for the entire AB Ignitis grupė can be found in the 'Sustainability' section of the AB Ignitis grupė website.

An overview of key activities and achievements of ESO in 2021 from a sustainability perspective

Environmental area

ESO's main environmental impacts:

- Climate change impact/GHG emissions - reduction of greenhouse gases (CO2, etc.) generated by activities;
- energy efficiency for society and customers - promoting consumer energy efficiency and digitising the grid;
- sustainable solutions and services for customers - promoting the development of producing consumers and other environmentally friendly and smart solutions for customers;
- impacts on biodiversity and ecosystems - protecting biodiversity, flora and fauna;
- impact on soil, water and air quality - maintaining soil, water and air quality, preventing environmental pollution;
- more sustainable self-consumption of energy - using green energy for self-consumption; reducing self-consumption;
- Resource efficiency and waste management - recycling raw materials and reducing waste from operations.

Reducing impacts on climate change

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

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

In order to achieve our GHG emission reduction targets, we will focus on operational emissions throughout the year and will seek to involve our partners, suppliers and customers in this process. The planned emission reduction measures of AB Ignitis grupė and its companies include increasing green generation capacity, increasing the share of green electricity sold to consumers and consumed by AB Ignitis grupė, promoting the phase-out of natural gas, reducing losses in the distribution network, adding electric vehicles to the vehicle fleet, etc. For more information on AB Ignitis grupė objectives and planned emission reduction measures, please refer to the Reducing Climate Impacts section of the Sustainability Report integrated into the Annual Report of AB Ignitis grupė for 2021 (link).

One of the main factors affecting ESO's GHG emissions is distribution losses. Distribution losses are both direct (in transformers, power lines, substations and other network elements) and indirect (e.g. when lines are iced over or when consumers incorrectly declare the amount of electricity used). Investment plans and the organisation's long-term strategy, as well as annual budgets, set distribution loss reduction targets as key performance indicators.

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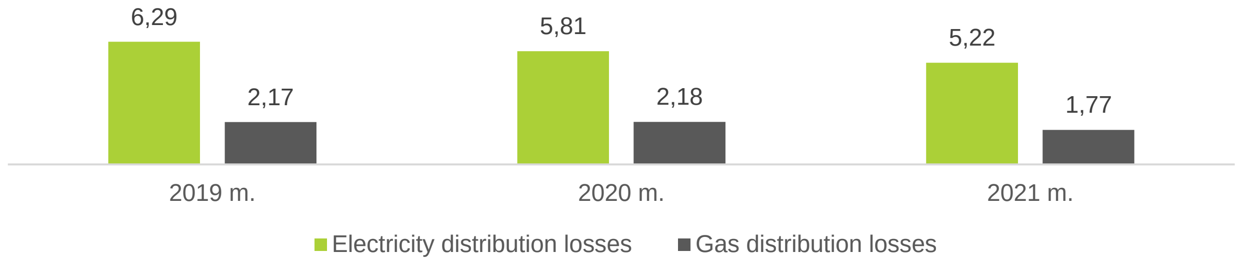
- develop long-term (up to 10 years) and short-term (1 year) distribution loss management plans;
- monitor actual losses on a monthly basis;
- implement plans for distribution loss reduction measures and monitor quarterly implementation with reporting to management;

- continuously modernise the network, including the development of software solutions and the deployment of smart meters;
- encourages the use of the Helpline, where residents can report suspected energy theft;
- integrates objectives into the activities of multiple business units, e.g. human, financial, technological and other resources are allocated to minimise the rate of distribution loss.

Figure 11. **Distribution losses**



Energy efficiency for society and customers

In October 2020, ESO, together with other companies in the Group, signed a tripartite agreement with the Ministry of Energy whereby ESO commits to saving at least 1.6 TWh of final energy by 2030. The agreement foresees that ESO will implement energy efficiency measures to save energy in end-users' installations and facilities. Savings of 1.6 TWh is an ambitious target - by comparison, the amount of electricity consumed by the entire population of Lithuania in about half a year.

In December 2020, together with other AB Ignitis grupė companies, ESO signed an agreement with the Ministry of Energy, committing to educate and advise consumers on energy efficiency improvements to help them reduce their energy consumption and associated costs.

Table 19. **ESO energy saving achievements***

	Achievements 2021	Goals 2022	Goals 2022–2025
Energy saving in the network (ESO)	0,108 GWh (long-lasting effect 1,937 GWh)	5,3 GWh	473,4 GWh
Energy saving through consumer education	3,44 GWh	At least 1 percent of the energy supplied to final energy consumers by business customers.	

**Provides information on energy savings from the implementation of agreements under Article 7 (energy savings) and Article 8 (consumer education and advice) of the Law on Energy Efficiency Improvement. The table below shows the estimated energy savings for 2021 and submitted for verification by the Lithuanian Energy Agency.*

Smart metering is one of the solutions to improve energy efficiency. Smart meters also offer further advantages for the consumer, eliminating the need for manual data submission. In 2021, ESO signed a smart metering infrastructure purchase agreement with Sagemcom Energy and Telecom SAS of France. The contract will see the purchase and deployment of around 1.2 million next-generation smart electricity meters and a system data management and communication solution by 2025. Smart meters will enable end customers to monitor their electricity consumption more efficiently and use energy more economically.

Solutions and services to customers

Over 5,000 energy-producing consumers (mostly solar power plants) will be connected to the grid during 2021. In total, over 14,000 generating consumers have already been connected to the distribution grid (excluding remote generating consumers). In view of the increase in the number of generating consumers, a strong focus is being placed on preparing and improving the stability of the common and local grid.

For more information on this and the initiated legislative changes, the pilot battery project to reduce the need for grid reconstructions, the artificial intelligence-based solution to inform solar plant owners about equipment failures, and the provision of information to customers on these issues, please refer to the section Reliable Organisation in the Sustainability Report section of the integrated Sustainability Report in the AB Ignitis grupė annual report 2021 (link).

Impacts on biodiversity, ecosystems and land, water and air quality

Environmental issues at the level of AB Ignitis grupė are coordinated in accordance with Environmental Policy of AB Ignitis grupė, which establishes general environmental provisions and principles. The policy sets out the objectives for the maintenance and modernisation of the facilities under management, with a view to protecting the landscape and biodiversity, and to respecting the principle of the integrity of protected areas and species and habitats of high ecological value. Where this cannot be avoided for objective reasons, all feasible measures shall be implemented to reduce and compensate for the impact.

ESO is guided by the Environmental Protection Standard, the purpose of which is to define the implementation of the environmental protection requirements of the legislation of the Republic of Lithuania, ISO 14001:2015 and the provisions and principles of the environmental protection policy of AB Ignitis grupė. The aim is to reduce the overall environmental impact of the Company in the most effective way and to ensure compliance.

In order to ensure a safe and reliable supply of electricity and to protect wildlife, ESO, in cooperation with the Lithuanian Environmental Protection Agency, is relocating stork-beetles that pose a threat to the electricity grid and human safety. To deal with unplanned emergency power line failures, ESO relocates storks' nests to a nearby environment suitable for birds - storks' nests are relocated no more than 100 metres away from the original nesting site of the wild birds.

Anthropogenic structures used in ESO's operations (overhead power lines, gas distribution networks) and their maintenance contribute to the loss or fragmentation of animal habitats. For information on measures to manage these impacts and other environmental initiatives taken by ESO, please refer to the section Protection of Natural Resources in the Sustainability Report integrated in the Annual Report of AB Ignitis grupė for 2021 (link).

Energy consumption for own needs

ESO promotes energy efficiency, contributes to employee education and introduces measures to improve energy efficiency. In 2021, ESO deployed water and electricity efficiency solutions in its operations, as well as carried out an internal energy audit, the implementation of whose recommendations will contribute to more efficient energy consumption and the achievement of its targets for reducing GHG emissions. ESO also gave up most of its energy-inefficient office space in Vilnius and moved to an A+ energy efficiency class building complex, and organised efficient driving courses (theory) for employees. These and other energy efficiency initiatives of ESO and AB Ignitis grupė as a whole are described in more detail in the Protection of Natural Resources section of the Sustainability Report integrated in the Annual Report of AB Ignitis grupė for 2021 (link).

Resource efficiency and waste management

Waste management in each AB Ignitis grupė company is based on the AB Ignitis grupė environmental policy. In order to contribute to the protection of the environment and the reduction of pollution in Lithuania, all waste generated by ESO's activities is sorted, separating out secondary raw materials, hazardous waste, accounted for in the GPAIS (the Unified Product Packaging and Waste Information System) and transferred to licensed waste handlers under contract. The same is required of ESO's partners and contractors.

In 2021, ESO developed and launched mandatory environmental training for every employee, with the aim of reducing the amount of waste generated by operations. For more information on these and other efforts by ESO and AB Ignitis grupė as a whole to implement circular economy principles, please see the section Protection of Natural Resources in the Sustainability Report integrated in the Annual Report of AB Ignitis grupė for 2021 (link).

Staff and society/communities area

ESO's main impacts on staff and society/communities:

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

Occupational safety and health of employees and contractors

ESO adheres to the general provisions and principles of occupational safety and health and the Zero Tolerance for Accidents at Work Policy of AB Ignitis grupė, which defines the main guidelines for their implementation. The prevention of accidents and ensuring safety and health is a major focus of the company, which is why ESO has implemented the occupational safety and health standard ISO 45001:2018. ESO employees and contractors' workplaces and the quality of work organisation are regularly inspected, and complex inspections of departments are carried out. New and innovative measures are constantly being introduced to strengthen the safety culture, increasing the involvement of ESO employees and managers in employee safety (analysis of violations detected during inspections, proposals for preventive measures, assignment of persons responsible for their implementation, strengthening of the system of prevention of drunkenness, which not only includes the inspection of employees, but also education on the topic of healthy lifestyle, and the opportunity for operational managers to use the smart workplace inspection application on their mobile phones when inspecting the work places).

Detailed information on the measures and initiatives implemented to ensure the safety and health of employees and contractors at AB Ignitis grupė companies, including ESO, is provided in the section 'Employees and Communities Ready for the Future' of the Sustainability Report, integrated in the Annual Report of AB Ignitis grupė for 2021 (link).

Table 20. **Health and safety performance indicators of ESO employees (year 2021)**

Employee incidents and accidents (minor, serious or fatal)	In 2021, there were 10 minor accidents. 8 occurred at work, 2 on the way to/from work. The main causes of accidents are carelessness of the part of workers, who are injured by slips, trips and falls. There were also 7 incidents recorded where the main causes were being stung by a hornet or feeling unwell due to high blood pressure. All accidents and incidents are investigated.
Occupational safety and health violations, their nature and accidents of contractors' workers on the Company's sites	1228 contractors' workplaces were inspected and 658 infringements were found. 44 work stoppages due to complex or serious infringements. Characteristics: inadequate documentation of work, failure to wear safety helmets, complete absence or lack of properly tested fire-fighting equipment. According to information provided by the contractors, there were 0 accidents involving contractors' workers.

We see working with contractors on occupational safety and health as a priority, the importance of which is unfortunately not illustrated by concrete examples. In 2021, fatalities were avoided, but after the reporting period, in January 2022, a tragedy occurred when a contractor's employee was fatally injured while clearing trees and shrubs from under a high-voltage power line.

Well-being of employees and engagement with them, ensuring of staff competence

AB Ignitis grupė is one of the largest employers in Lithuania, and as such, it is committed to creating and maintaining an organisational culture that fosters a long-term partnership between employer and employee based on AB Ignitis grupė values and Code of Ethics, mutual understanding and the opportunity to build an energy-smart future together. We conduct our activities and achieve our goals with respect not only for the environment, but also for the well-being of our employees: for us, this is a prerequisite for sustainable performance. This is why AB Ignitis grupė is constantly developing, researching and testing different measures that can contribute to the well-being of employees. ESO is the largest company in the AB Ignitis grupė, with 2,427 employees at the end of 2021, and all of these principles are implemented with the utmost scrutiny.

ESO respects the rights of workers and opposes child labour and discrimination of any kind, both in the recruitment of new employees and among existing employees. The company is unionised and has a collective agreement in force, which was concluded on 22 December 2020 with all 7 trade unions active in ESO. ESO's Employee Satisfaction Index (eNPS) for 2021 has increased compared to 2020, from 56.7 percent to 59.4 percent. Improving this indicator is a strategic objective for every AB Ignitis grupė company.

By creating and fostering a culture and environment of continuous improvement within the organisation, as well as based on performance and career goals, new activities, and innovations in work processes, ESO enables its employees to grow and develop, and to expand their professional, general and managerial competences.

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

Influence on and relations with local communities, involvement in social activities

AB Ignitis grupė strives to maintain good relations with the communities where it operates. This is done on the basis of the Community Relations and Engagement guidelines, according to which the companies of AB Ignitis grupė engage and manage their relationships with communities, and the measures set out for the implementation of these principles in AB Ignitis grupė, which reinforce the culture and practice of responsible and sustainable business.

ESO implements wide-ranging, long-term corporate social responsibility initiatives, which are united by the active involvement of target groups in society and the ideas of security and energy efficiency. Through the media - television, radio, print and the internet - the aim is to inform the public about the safety principles that must be observed when working outdoors. Particular attention is paid to reminding people about the underground electricity and gas network and to disseminating advice on safe behaviour during storms. Much attention is paid to the prevention of theft leading to disruption of the electricity grid and to the promotion of public citizenship.

For more information, please refer to the Sustainability Report integrated in the Annual Report of AB Ignitis grupė for 2021 under the heading 'Employees and communities ready for the future' (link).

Human rights

ESO's main impacts in the field of human rights: diversity, equal opportunities and human rights - ensuring gender equality and equal opportunities, promoting diversity at work.

Diversity, equal opportunities and human rights

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

AB Ignitis grupė regularly collects and publishes data on the diversity of its workforce: the distribution of employees by gender, age, education, occupation and country of employment. Diversity data is a way of getting to know the people of AB Ignitis grupė and, taking into account the fact that we are different, of creating a supportive and inclusive work culture for all. At the end of 2021, men accounted for 80 percent of ESO's workforce, while women accounted for 20 percent. This distribution remains stable in ESO due to the specific nature of its activities, with women being less likely to opt for technological jobs and related specialties. For more information on the work and achievements in ensuring diversity, equality and human rights in AB Ignitis grupė companies, please refer to the section 'Employees and Communities Ready for the Future' of the Sustainability Report integrated in the Annual Report of AB Ignitis grupė for 2021 (link).

Governance and anti-corruption

Main ESO impacts on governance and anti-corruption:

- Ensuring access to energy - seamless and fast connection of customers to the grid, financial and physical availability of electricity;
- Stability and security of the energy system - ensuring the security and continuity of operation of the energy system, the reliability and resilience of the grid to weather and other external factors;
- Ethical business, anti-corruption and transparency - transparent corporate governance, anti-corruption, fair and ethical market conduct;
- Responsibility and sustainability in the company's supply chain - buying more environmentally friendly goods and services for your own use and reducing the negative impact of suppliers on the natural and social environment.

Ensuring access to energy

ESO manages about 126.8 km of electricity distribution and about 9,700 km of gas distribution networks. The company is responsible for energy access and a stable, reliable and resilient distribution network. ESO is continuously investing in the modernisation of the network, and one of the main objectives of ESO's 10-year investment plan is to ensure the uninterrupted and high-quality distribution of energy to the public through a secure electricity and natural gas network.

Energy system stability and security

ESO is investing heavily in ensuring the reliability and efficiency of the electricity and gas distribution network, automating the network, introducing smart solutions, and effectively enabling the market. Between 2021 and 2030, the company plans to invest €1.9 billion to improve the reliability, resilience and smartness of the network. The planned investments will be focused on two main programmes - improving network reliability and efficiency and market enablement and customer experience. Network reliability (SAIFI and SAIDI) and other indicators are continuously monitored and improved, the underground power line network is planned to be expanded, and ESO is continuously testing innovative solutions, such as LiDAR (Light Detection and Ranging) technology to inspect overhead lines. ESO's planned measures, objectives and targets are described in detail in the Investment Plan 2021-2030.

Ethical business, anti-corruption and transparency

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

Responsibility and sustainability in the company's supply chain

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

Detailed information on achievements in ensuring grid stability and reliability, applying transparency and anti-corruption principles, ensuring security of personal data, quality customer service, responsible procurement and supplier involvement is provided in the section Trusted Organisation of the Integrated Sustainability Report integrated in the Annual Report of AB Ignitis grupė for 2021 (link).

THE COMPANY AND ITS MANAGEMENT BODIES

Table 21. **Information on the Company and contacts**

Company name	AB Energijos Skirstymo Operatorius
Company code	304151376
Issued capital	EUR 259,442,796.57
Registered address	Laisvės ave. 10, LT-04215 Vilnius*
Telephone	(8 5) 277 7524
E-mail	info@eso.lt
Website	www.eso.lt
Legal-organisational form	Joint stock company
Date and place of registration	11 December 2015, Register of Legal Persons of the Republic of Lithuania
Register accumulating and storing data about the Company	Register of Legal Entities
Name of Register of Legal Entities	VĮ Registrų centras

** on 4 October 2021, head office address was registered - Laisvės av. 10, Vilnius (former address - Aguonų st. 24, Vilnius).*

ESO started its operations on 1 January 2016 after the merger of AB LESTO and AB Lietuvos Dujos. ESO took over from LESTO and Lietuvos Dujos all their assets, rights and obligations as well as all non-current and current assets, non-current and current financial and other obligations, amounts receivable and payable under the agreements signed by LESTO and Lietuvos Dujos, including any other otherwise arising obligations.

The main functions of ESO include electricity and natural gas distribution, guaranteed electricity and gas supply, connection to electricity and gas networks, assurance of safe and reliable operation of electricity and gas distribution networks, their operation, maintenance, management and development. The geographical market of ESO is the entire territory of Lithuania.

Information on the Company's branches and representative offices

The Company has no branches or representative offices.

Information subsidiaries and associates

ESO is part of one of the biggest groups of energy companies in the Baltic countries – AB Ignitis grupė, which owns 100 percent[18] of the Company's issued capital. As at 31 December 2021, ESO had no subsidiaries. At the end of reporting period, ESO, jointly with other companies, controlled UAB Ignitis grupės paslaugų centras.

Table 22. **Main information on related companies**

	UAB Ignitis grupės paslaugų centras
Address	Laisvės ave. 10, Vilnius*
Registration date	4 December 2013
Company code	303200016
Telephone	(8 5) 278 2272
Fax	(8 5) 278 2299
E-mail	ignitis.lt
Website	www.ignitisgrupe.lt
Ownership interest held by ESO (at 31 December 2020)	26.4%.**
Main business activity	Provision of information technology and telecommunication services to energy companies.

** On 16 November 2021, head office address was registered - Laisvės av. 10, Vilnius (former address - A. Juozapavičiaus st. 13, Vilnius).*
*** Reorganisation of UAB Verslo aptarnavimo centro was completed and the company was removed from the List of Legal Entities on 2 January 2020. Following completion of the reorganisation processes of UAB Ignitis grupės paslaugų centras and UAB Verslo aptarnavimo centras, as from 1 January 2020 ESO owns 26.40 percent of UAB Ignitis grupės paslaugų centras shares.*

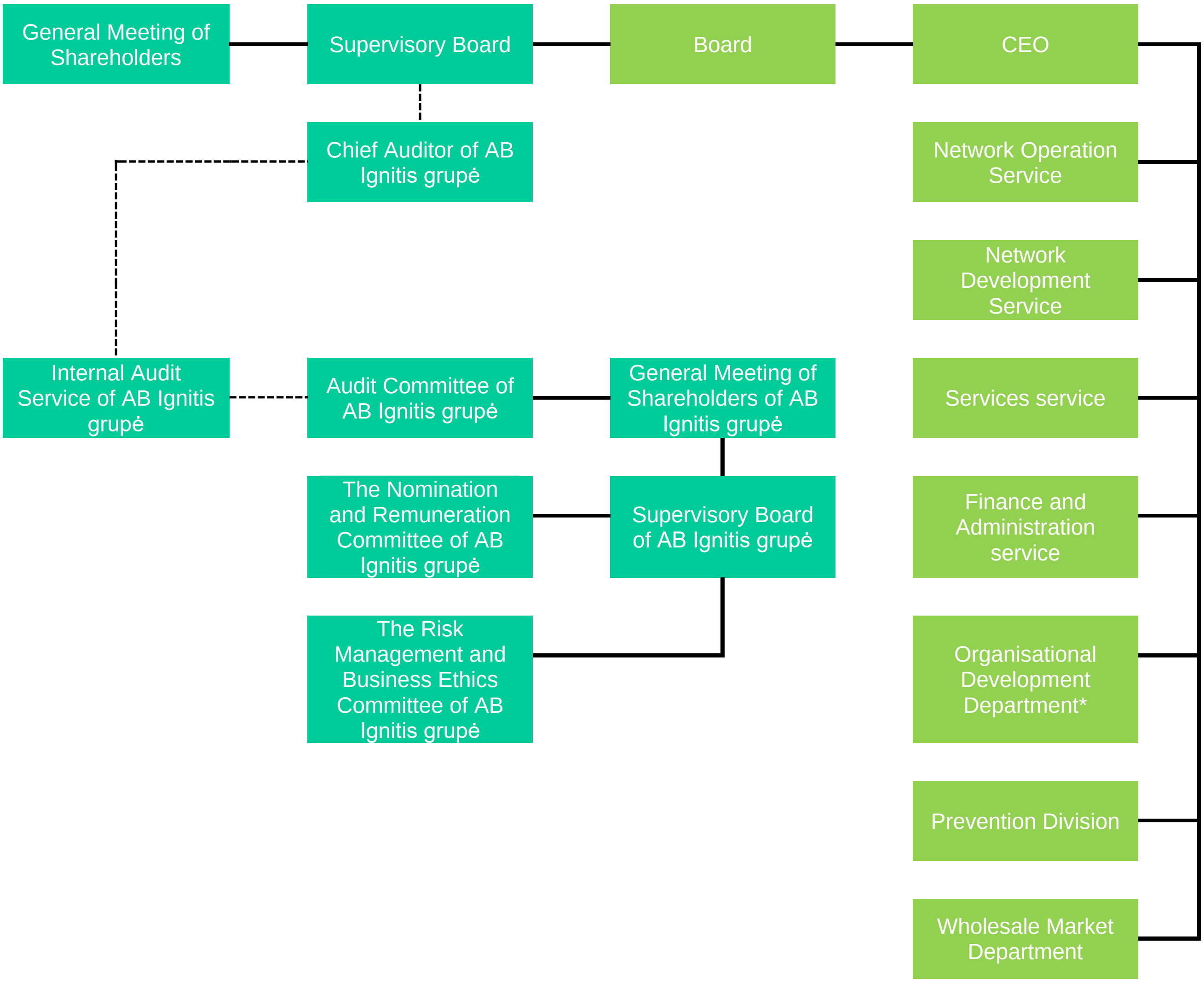
[18] Following the ruling of Vilnius City District Court of 2 April 2021, securities account administrators on April 15 transferred funds to the minority shareholders of the Company holding the shares in personal securities accounts for their shares. On 15 April 2021, securities account administrators made entries in the share accounts on the transfer of ownership of the remaining Company's shares to AB Ignitis grupė, and as of that day the 100% of the Company's shares belongs to AB Ignitis grupė.

Information on major related party transactions

Information on related party transactions is available in the notes to the Annual Financial Statements of 2021.

Corporate Governance

Figure 12. **The Company's organisational structure (as at 31 December 2021)**



* By the decision of the Company's management dated 29 November 2021 (minutes No. 26), the updated organisational structure of the Company valid from 1 January 2022 was approved: Organisational Development Department was repealed, and the departments of Strategy and Digitalisation and HR Business Partner were established.

At the date of signing of the report, the Company's Articles of Association stipulated that the Company's management bodies include the following:

- The General Meeting of Shareholders;
- A collegiate supervisory body – the Supervisory Board;
- A collegial management body – the Board;
- A single-person management body – the Chief Executive Officer[19].

Group of companies of AB Ignitis grupė abides by the equal opportunity policy of AB Ignitis grupė which regulates the principles of the implementation of equal opportunities and supervision of their performance, as well as the implementing measures of these principles at the companies of AB Ignitis grupė. The principles of equal opportunities defined in this policy apply not only to the selection of all employees without distinction, but also to the selection of members of corporate management and supervisory bodies.

[19]. *Pursuant to the Articles of Association registered in the Register of Legal Entities on 9 September 2021, the title of the sole management body has been changed from "General Manager" to "Chief Executive Officer".*

Amendment procedure of the Articles of Association

Only the General Meeting of Shareholders has the right to amend the Articles of Association of ESO.

The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Company.

The competence of the General Meeting of Shareholders, the procedure of its convocation and decision-making are established by laws, other legal acts, and the Company's Articles of Association. Additional functions of the General Meeting of Shareholders include the following:

- Adoption of decisions regarding conclusion of contracts with members and the chairman of the Company's Supervisory Board, approval of contractual conditions, and appointment of a person authorised to sign contracts on behalf of the Company;
- Approval or disapproval of the Company's annual report and interim report prepared for adoption of a decision regarding allocation of dividends for the period shorter than one financial year.

During the reporting period, the Company's shareholders had equal rights (both property and non-property) established by laws, other legal acts, and the Company's Articles of Association. None of the shareholders of the Company had any special control rights; all shareholders have equal rights.

As of 15 April 2021, 100 percent of the Company's shares are held by a single shareholder, Ignitis Group AB, and therefore, pursuant to Article 29(6) of the Law on Joint Stock Companies of the Republic of Lithuania, where a single person is the owner of all the shares of the Company, his written decisions shall be treated as decisions of the General Meeting of Shareholders.

During the reporting period, the Company's sole shareholder adopted the following decisions: on 10 August 2021, it approved a new version of the Company's Articles of Association, which was registered in the Register of Legal Entities on 9 September 2021; on 7 September 2021, it changed the address of its registered office, which was registered in the Register of Legal Entities as of 4 October 2021 and is located at Laisvės pr. 10 in Vilnius, and it selected KPMG Baltics, UAB, as the audit firm that will perform the auditing of the Company's 2021-2022 financial statements; on 19 October 2021, it initiated reappointment of the Company's Supervisory Board for the new term of office (approved the portfolio of competences of the Supervisory Board) and established that the term of office of the current Supervisory Board shall mature on the day when a new Supervisory Board will be elected but not later than until the Ordinary General Meeting of Shareholders taking place in 2022; on 25 October 2021, a new version of the Company's Articles of Association (the number of members of the Supervisory Board was increased to 6 by adding a civil servant) was approved which was registered in the Register of Legal Entities on 16 December 2021.

Information on the results of the shareholders' voting at the General Meetings of Shareholders held until 15 April 2021 is available in the Investors section of the Company's website.

The Company's Supervisory Board

ESO's Supervisory Board is a collegial supervisory body. Its competence, procedures of decision making, election and recalling of the members are established in laws, other legal acts and the Company's Articles of Association.

ESO's Supervisory Board has five members elected for the term of office of four years by the General Meeting of Shareholders. Following the newly registered Articles of Association of 16 December 2021, the newly appointed Supervisory Board will consist of 6 members.

The main functions and responsibilities of the Company's Supervisory Board, based on which annual activity of the Supervisory Board is planned, comprise the following competences:

- To consider and approve the strategy of the Company, to analyse and evaluate information on the implementation of the Company's strategy, and to submit this information to the ordinary General Meeting of Shareholders;
- To elect the members of the Board and to remove them from office;
- To supervise the activities of the Board and the CEO of the Company;
- To submit its comments and proposals to the General Meeting of Shareholders on the Company's set of annual financial statements, proposed profit/loss distribution and the annual report of the Company as well as the activities of the Board and the CEO of the Company;
- To submit to the General Meeting of Shareholders its comments and proposals regarding a draft decision on the allocation of dividends for a period shorter than the financial year and the set of interim financial statements and the interim report drawn up for the purpose of adoption of the decision;
- With regard to the report of the Audit Committee, to submit opinion about the transactions planned by the Company with the related party (if they satisfy the criteria discussed in the Company's Articles of Association)[20];

[20] *On 20 July 2021, the Policy of Transactions with Related Parties of the companies group (applicable to the Company) AB Ignitis grupė was approved, according to which the decision regarding related party transactions (if they comply with criteria set out in the mentioned policy) shall be made by the Supervisory Board of AB Ignitis grupė taking into consideration the conclusion of the Audit Committee. Accordingly, pursuant to the decision by the Company's sole shareholder of 10 August 2021, a new version of the Company's Articles of Association was approved which annuls the competence of the Company's Supervisory Board discussed above. The amended Articles of Association have come into force from 9 September 2021.*

- To submit proposals to the Board and the CEO of the Company to revoke their decisions which are in conflict with laws and other legal acts, the Articles of Association of the Company or the decisions of the |General Meeting of Shareholders;
- To address other issues assigned to the powers of the Supervisory Board by the Articles of Association of the Company as well as by the decisions of the General Meeting of Shareholders regarding the supervision of the Company's management bodies.

The expected end of term of office of the current Supervisory Board of the Company is 30 March 2022 or the day when new a Supervisory Board will be elected but not later than until the Ordinary General Meeting of Shareholders taking place in 2022.

Information on criteria for the selection of members of the Supervisory Board

The selection of the members of the Supervisory Board is initiated and conducted by AB Ignitis grupė in accordance with the Description of Selection of the Candidates for the Collegial Supervisory or Management Body of a State or Municipal Enterprise, a State-Owned or Municipally-Owned or its Subsidiary approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015. According to this resolution, members of Supervisory Board shall have diverse competences. All members must have at least one of the following competences: finance (financial management, financial analysis or audit), strategic planning and management, knowledge of the industry in which the parent company operates (i.e. energy sector), other competences (i.e., law, management, human resources).

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

Information on payments made to the members during the reporting period

The Articles of Association set out that independent members of the Supervisory Board may be remunerated for their work at the Supervisory Board by the decision of the General Meeting of Shareholders. The terms and conditions of the agreements with the members of the Supervisory Board, including the remuneration of independent members, are established by the General Meeting of Shareholders.

Details of the remuneration paid to the independent members of the Supervisory Board during the reporting period are provided the table 'The composition of the Supervisory Board of ESO' below.

Activities of the Company's Supervisory Board during the reporting period

Meetings of the Supervisory Board take place on a monthly basis. Also, *ad hoc* meetings are conducted upon need.

Overall 11 meetings of the ESO's Supervisory Board were held during the reporting period, and 9 of them were attended by all members of the Supervisory Board; two the meetings were attended by four out of five members of the Supervisory Board.

Activities of the Supervisory Board in 2021 covered the following key areas:

- Evaluation and approval of the Company's 10-year investment plan;
- Issues related to the annual report and annual financial statements for the year 2020;
- Provision of an opinion on related party transactions[21];
- Provision of an o[pinion on the audit company;
- Monitoring of the 'company's operating results.

Table 23. The composition of the Supervisory Board of ESO (as at 31 December 2021)*

				
Darius Maikštėnas Chairman	**Darius Kašauskas** Member	**Kęstutis Betingis** Independent member	**Žaneta Kovaliova** Independent member	**Dalia Jakutavičė** Employee representative, Member
Elected from: 30 March 2018 End of term of office: 30 March 2022	Elected from: 30 March 2018 End of term of office: 30 March 2022	Elected from: 28 May 2018 End of term of office: 30 March 2022	Elected from: 15 October 2019 End of term of office: 30 March 2022	Elected from: 15 October 2019 End of term of office: 30 March 2022

[21] Pursuant to the decision dated 10 August 2021, a new version of the Company's Articles of Association was approved which annuls the competence of the Company's Supervisory Board discussed above. The amended Articles of Association have come into force from 9 September 2021. Before registration of a new version of the Company's Articles of Association on 9 September 2021 where the above mentioned competence of the Supervisory Board was removed according to the Article 372 of the Law on Companies of the Republic of Lithuania which sets out the requirements applicable to related party transactions of a public limited liability company whose shares are admitted to trading on a regulated market. Requirements for related party transactions are implemented in accordance with the Policy of Transactions with Related Parties of AB Ignitis grupė.

Education				
Harvard Business School, *General Management Program*); Baltic Management Institute, Master's degree in Business Administration; Kaunas University of Technology, Bachelor‘s degree in Business Administration	ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	Vilnius University, Master's degree in Law; Lithuanian Institute of Public Administration, the Organisation Leaders Training Programme for Heads of Public Prosecutors (OLYMP-38)	Vilnius University, Bachelor and Master's degree in Business Management and Administration	Kaunas School of Radio and Television Mechanics Kolping College, Law (Specialization - Public Administration) Professional competence of social dialogue mediator
Principal workplace and position held				
AB Ignitis Grupė, Chairman of the Board, CEO	AB Ignitis Grupė, member of the Board, Finance and Treasury Director	Betingio ir Ragaišio Lawyer Firm, lawyer	UP Consulting Group Ltd, CEO	Deputy Chairwoman of the Lithuanian Energy Workers' Trade Union Federation, lawyer
Participation in the activities of other companies and organisations				
Name of a company, body, organisation, position held	**Name of a company, body, organisation, position held**	**Name of a company, body, organisation, position held**	**Name of a company, body, organisation, position held**	**Name of a company, body, organisation, position held**
–	Duomenų logistikos centras UAB, Chairman of the Board (until 7 July 2020); Lithuanian Energy Support Foundation, Member of the Board (until 15 October 2020); 288th DNSB Vingis, Member of the Revision Commission;	–	Member of the Association of Chartered Accountants (ACCA) Certified auditor of Lithuania (inactive status) Būsto paskolų draudimas, UAB, independent member of the Board.	–
Percentage of share capital and voting rights of other companies held in excess of 5%				
–	–	–	–	–
Compensations calculated during January–September 2021, in EUR (for activities in the Supervisory Board)				
–	–	7.560,35	14.300,00	10.684,79

** In accordance with ESO's Articles of Association, agreements may be concluded with the members of the Supervisory Board regarding the activity related to the Supervisory Board, which establish members' rights, obligations and responsibility. Remuneration for work at the Supervisory Board can be paid to the independent members of the Supervisory Board and representatives of the employees of the Company in the Supervisory Board upon the decision of the General Meeting of Shareholders.*

The Company's Board

The Board of ESO is a collegial management body of the Company. The scope of competence and the procedure for making the decisions, election of members and their removal from office is prescribed by law, other legal acts, the Company's Articles of Association, and the Work Regulations of the Board.

The main functions and responsibilities of the Company's Board, based on which annual activity of the Board is planned, comprise competence for adoption of decisions on:

- the Company's governance and corporate structure, staff establishment plan, maximum number of pots;
- the list of confidential information and trade secrets;
- the Company's remuneration report;
- the Company's acting as a founder or a member of a legal person;
- any transfer to third parties or encumbrance of the Company's shares/interests or rights attached thereto;
- formation or termination of branches and representatives offices of the Company;
- bond emissions;
- approval of the Company's annual report and interim report prepared for adoption of a decision regarding allocation of dividends for the period shorter than the financial year;

- operation of facilities owned by the Company and specified in the Lithuanian Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises Important to Ensuring National Security;
- signing of agreements for the value of in excess of EUR 3 million;
- natural gas distribution prices;
- prices of guaranteed supply of natural gas;
- prices of electricity transmission service and procedure for their application;
- other matters provided for in the Articles of Association of the Company.

In certain cases, prior to adopting a decision the Board is required to seek for comments from the Supervisory Board and obtain approval from the General Meeting of Shareholders.

In view of the opinion of the Supervisory Board, the Board elects and recalls the Chief Executive Officer, decides on his/her remuneration and other terms of employment contract, approves his/her job regulations, provides incentives and imposes penalties.

The composition of the Board of the Company was not changed during the reporting period.

The expected end of term of office of the current Board is 26 December 2022.

Information on criteria for the selection of members of the Board

Members of the Board are employees of the Company; they are appointed by the Supervisory Board. Every member of the Board is elected for a term of office of four years. The Company's Board shall be composed taking into consideration the fact that members of the Board shall have diverse competences. A member of the Supervisory Board of the Company or a subsidiary cannot be appointed as a member of the Board. In addition, neither a member of a legal entity, which is engaged in transmission or production of electricity and gas, or a member of a supervisory body, managerial body or administrative body of another legal entity, which is engaged in transmission or production of electricity and gas, nor an auditor or an employee of an audit firm, participating and (or) having participated in audit of the financial statements within a period of two years, or a person who is prohibited by law from holding this post can be appointed as a member of the Board.

The Company' Board members shall comply with general and specific criteria set out by legislation. The need of competences is established by the Supervisory Board upon composing the Board.

Information on payments made to members of the Board during the reporting period

Remuneration for the activity of the Board during the reporting period provided the table 'The composition of the Board of ESO' below an on the Company's website is paid in accordance with the Remuneration Policy of AB Ignitis grupė. The most recent version of the Policy was approved during the General Meeting of Shareholders on 27 September 2021.

More information is disclosed in the Remuneration Policy.

Activities of the Company's Board during the reporting period:

Overall 30 meetings of the Board of ESO were held during the reporting period. 26 meetings were attended by all members of the Board; whereas, four meetings were attended by fur Board members out of five.

Activities of the Company's Board in 2021 covered the following key areas:

- evaluation of the most significant transactions planned by the Company, approval of their conclusion and approval of essential terms of transactions;
- evaluation of the arrangement of the Company's activities and taking decisions related thereto;
- evaluation and approval of the Company's operational planning documents, taking into account the opinion of the Company's Supervisory Board;
- adoption of decisions on participation and voting in general meetings of shareholders in companies whose shareholder the Company is;
- approval of the Company's annual report and submission to the Supervisory Board and General Meeting of Shareholders;
- evaluation of the Company's annual financial statements and profit (loss) distribution project and provision of feedback to the Supervisory Board and the General Meeting of Shareholders.
- natural gas distribution prices;
- prices of guaranteed supply of natural gas;
- prices of electricity transmission service and procedure for their application.

The Board carries out a self-assessment of its performance on an annual basis. Self-performance assessment for the year 2021 was carried out subsequent to the reporting period – on 17 January 2022. On the basis of conclusions of this assessment, a performance improvement plan of the Board was prepared.

More details about the members of the Company's Board are available in the table below. Description of their education and professional experience is available on the Company's website under section 'About Us'.

Table 24. **The composition of the Board of ESO (as at 31 December 2021)**

				
Mindaugas Keizeris Chairman of the Board CEO	**Augustas Dragūnas** Member of the Board	**Renaldas Radvila** Member of the Board	**Virgilijus Žukauskas** Member of the Board	**Ovidijus Martinonis** Member of the Board
In the position of the CEO from: 8 October 2018 In the position of the Chairman of the Board from 27 December 2018 End of term of office: 26 December 2022	In this position from: 27 December 2018 End of term of office: 26 December 2022	In this position from: 27 December 2018 End of term of office: 26 December 2022	In this position from: 27 December 2018 End of term of office: 26 December 2022	In this position from: 27 December 2018 End of term of office: 26 December 2022
Education				
Vilnius University, Bachelor's degree in Business Administration and Management; Vilnius University, Master's degree in International Business Baltic Institute of Corporate Governance, Professional board member	Vilnius University, Master's degree in Business Management and Administration	ISM University of Management and Economics, Executive MBA degree; Vilnius University, Bachelor's degree in Economics	Kaunas University of Technology, Master's degree in International Trade and Bachelor's degree in Electrical Engineering	Kaunas University of Technology, Bachelor's and Master's degrees in Telecommunication and Electronics
Principal workplace and position held				
ESO's Chief Executive Officer	ESO's Director of Finance and Administration	ESO's Director of the Services	ESO's Networks Operation Service Director	ESO's Networks Development Service Director
Participation in the activities of other companies and organisations				
UAB Ignitis Grupės Paslaugų Centras, Member of the Board* Representative to the European Association of Distribution System Operators (E.DSO) Vice-minister of the European Association of Distribution System Operators (E.DSO) (from 15 October 2020) Member of the Council of the National Lithuanian Energy Association Lithuanian Energy Support Foundation, Chairman of the Board (from 15 October 2020).	–	–	–	–
Percentage of share capital and voting rights of other companies held in excess of 5%				
–	–	–	–	–
Compensations calculated during January–December 2021, in EUR (for activities in the Board)				

21.780	15.600	15.600	15.600	15.600

** Mindaugas Keizeris has been removed from the Board of UAB Ignitis grupės paslaugų centras from 22 July 2021.*

The Company's CEO

The CEO of the Company acts as a single-person management body of the Company. The powers of the CEO, the procedure of his/her election and removal are established by laws, other legal acts and the Company's Articles of Association. The CEO organises and controls the operations of the Company, acts on behalf of the Company and enters into agreements at his/her own discretion, except for the cases stipulated in the Articles of Association of the Company and legal acts.

taking into consideration the opinion of the Company's Supervisory Board, the CEO is elected, recalled and dismissed by the Board of the Company. The competence of a the CEO, the procedure of appointment and removal, the terms of office shall be established according to the Law on Companies, its implemented legislation, and the Articles of Association of the Company. It should be noted that the CEO of the Company, as a subsidiary of a state-controlled company, is also subject to the special recruitment requirements set out in the Law on Companies, according to which the CEO's term of office is limited to five years. The Law stipulates that the same person can only be appointed for two consecutive five-year terms.

Remuneration to CEO is established in accordance with the Remuneration Policy and its implemented legislation of AB Ignitis grupė. More information is disclosed in the Remuneration Policy.

Table 25. **Information on the remuneration calculated* for the Chief Executive Officer of ESO**

	Remuneration during 2021, in EUR	The variable component of the remuneration for the results of the previous year during 2021, in EUR	Total during 2021, in EUR
Mindaugas Keizeris, CEO	99.020	17.482	116.502

** Excluding employer tax.*

ESO has neither transferred management of assets nor issued guarantees to the members of the bodies. During January-December 2021, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

Information about committees

The group of entities of AB Ignitis grupė has an Audit Committee and Committees of the Supervisory Board of the Parent Company, which, in accordance with their competences, submit their conclusions, opinions and proposals to the Supervisory Board of AB Ignitis grupė and to the General Meeting of Shareholders. The Supervisory Board Committee shall be composed of at least three members, of which at least one shall be a member of the Supervisory Board and at least 1/3 shall be independent. The members of the Committees shall be elected for a term of office of four years. The activities of the Committees shall apply to AB Ignitis grupė and its directly and indirectly controlled subsidiaries, including the Company, and to legal entities of any other legal form in which AB Ignitis grupė is in a position to exercise, directly or indirectly, a determining influence.

AB Ignitis grupė has following committees:

- **The Risk Management and Business Ethics Supervision Committee of the Supervisory Board of AB Ignitis grupė** is responsible for reporting to the Supervisory Board on the state of implementation of the Group's governance and control system and/or key risk factors and risk management measures; for ensuring compliance with business ethics, maintaining the bribery and corruption risk management system and making recommendations to the Supervisory Board.
- **The Nomination and Remuneration Committee of the Supervisory Board of AB Ignitis grupė** is responsible for submitting opinions or proposals to the Supervisory Board on matters relating to the appointment, removal or promotion of members of the Management of the parent company's subsidiaries and of members of the supervisory and management bodies of the parent companies. The Committee's functions also include the formulation of the Group's overall remuneration policy, the determination of the level and composition of remuneration, the principles of incentives, etc.
- **The Audit Committee of AB Ignitis grupė** (hereinafter – Audit Committee) is responsible for providing objective and impartial opinions or proposals to the Supervisory Board and the General Meeting of Shareholders on audits, related party transactions as provided for in the Law on Companies of the Republic of Lithuania and the functioning of the internal control system within the Group.

Other committees may be set up on an ad hoc basis as required (e.g. to deal with specific issues, to prepare, supervise or coordinate strategic projects, etc.).

As at the date of publication of this report, the Risk Management and Ethics Supervision and Nomination and Remuneration Committees of the Supervisory Board of AB Ignitis grupė are in operation, as well as the Audit Committee, which is elected by the General Shareholders' Meeting of AB Ignitis grupė.

It should be noted that during the reporting period, the General Meeting of Shareholders of AB Ignitis grupė approved a new edition of the Articles of Association of AB Ignitis grupė, changing the procedure for the formation of the Audit Committee - from now on, the members of the Audit Committee are elected by, and are accountable to, the General Meeting of Shareholders of AB Ignitis grupė (instead of the Supervisory Board). In the light of these changes, the General Meeting of Shareholders also approved a new edition of the Audit Committee's Regulations (link).

Audit Committee

The Audit Committee is responsible for monitoring the process of preparation of financial statements of the group of entities of AB Ignitis grupė, with a focus on the relevance and consistency of accounting methods used. In addition, it is responsible for monitoring the effectiveness of internal controls and risk management systems of the group of entities of AB Ignitis grupė, analysing the need for and relevance of these systems and performing the review of the existing internal control management systems, and the monitoring of the effectiveness of the internal audit in relation to the audited financial statements of the group of AB Ignitis grupė. The Committee is also responsible for monitoring the audit of the annual financial statements of the group entities of AB Ignitis grupė that are public interest entities and the consolidated financial statements of the AB Ignitis grupė companies.

Audit Committee and internal audit function

As of 5 January 2015, the group of AB Ignitis grupė has a centralised internal audit function. This helps to ensure the independence and objectivity of internal audit, consistency in the application of uniform methodology and reporting principles, and a more rational allocation of available audit resources and competences. The Audit Committee shall monitor and periodically evaluate the work of the internal audit function, discuss the results of its inspections, the ways in which weaknesses identified can be addressed and the implementation of internal audit plans, in order to ensure the effectiveness of the internal audit function.

Table 26. **Main functions of the Audit Committee**

Financial reporting	External audit
– Monitor the process of preparation of the financial statements of the Parent Company and the group entities of AB Ignitis grupė, paying particular attention to the assessment of the appropriateness and consistency of the accounting methods used.	– Monitor the independence and objectivity of the statutory auditor and make recommendations on the selection of the audit firm. – Monitor that the rotation requirements for audit firms and lead audit partners are not violated.
Internal audit	**Internal control and risk management**
– Monitor the effectiveness of the internal audit function, make recommendations to the Supervisory Board on the selection, appointment and dismissal of the Head of Internal Audit of AB Ignitis grupė, periodically coordinate and evaluate the work of the internal audit of AB Ignitis grupė, discuss the results of the audit, the resolution of the identified deficiencies and the implementation of the internal audit plans. – Approve the Rules of Procedure for Internal Audit and the Internal Audit Plan of AB Ignitis grupė.	– Monitor the effectiveness of the internal control and risk management systems of the group entities of AB Ignitis grupė that have effect on the audited entity's financial statements. – To provide an opinion to the group entities of AB Ignitis grupė on transactions with related parties, as provided for in Article 372(5) of the Law on Companies of the Republic of Lithuania.
Governance	
– Evaluate and analyse other matters falling within the remit of the Committee. – Perform other functions related to the functions of the Committee as set out in the legislation of the Republic of Lithuania and the Code of Corporate Governance for Nasdaq Vilnius Listed Companies.	

Changes to the composition of the Audit Committee

On 2 July 2021, the majority shareholder of AB Ignitis grupė (the Ministry of Finance of the Republic of Lithuania, exercising the rights of a shareholder of the Republic of Lithuania) adopted an Order on the amendment of the Corporate Governance Guidelines. In accordance with the latest amendments, the procedure for the composition of the Audit Committee of the parent company has been changed: the members of the Audit Committee are no longer elected by the Supervisory Board of the parent company, but are instead elected by a decision of the General Meeting of Shareholders. In addition, the Audit Committee is made up of five members, most of whom must be independent. Two members are appointed by the Supervisory Board. The Chairperson of the Audit Committee shall be elected by the members of the Audit Committee from among its independent members. These changes have also been reflected in the parent company's Articles of Association.

The term of office of the former Audit Committee ended on 12 October 2021. In this context, the selection of the independent members of the Audit Committee was announced on 5 July 2021 by the parent company and the executive and personnel recruitment agency, J. Friisberg & Partners UAB. On 27 September 2021, the General Meeting of Shareholders of AB Ignitis grupė elected three independent members of the Audit Committee of the parent company. The other two members of the

Audit Committee were nominated by the Supervisory Board on 3 November 2021 and elected at the General Meeting of Shareholders, held on 15 December 2021. Irena Petruškevičienė was elected as the Chairperson of the Audit Committee. The term of office of the current Audit Committee expires on 26 September 2025.

None of the former members of the Audit Committee held shares in the group of entities of AB Ignitis grupė. Saulius Bakas, a member of the current Audit Committee, holds 1 800 shares in the parent company. The remaining members of the Audit Committee do not hold any shares in the parent company.

There have been no significant changes in the education, experience and place of work of the former members of the Audit Committee during the reporting period. For the relevant information, please refer to the Annual Report for 2020 of AB Ignitis grupė.

Information on the background, experience and place of work of the new Audit Committee members is provided below.

Table 27. **Members of the Audit Committee at the end of the reporting period**

Member of Committee	Shares owned by AB Ignitis grupė	Term of office	Other currently held positions
Irena Petruškevičienė Chairperson Independent member	–	13-10-2017 (re-elected on 27-09- 2021) – 26-09-2025	Chairperson of the Audit Committee of MAXIMA GRUPĖ.
Saulius Bakas Independent member	1 800 units AB Ignitis grupė	27-09- 2021 – 26-09-2025	Consultant in own company UAB Sauba
Marius Pulkauninkas Independent member	–	27-09- 2021 – 26-09-2025	General director and shareholder of UAB Kalnų grupė.
Ingrida Muckutė Member	–	23-03-2018 (re-elected on 15-12-2021) – 26-09-2025*	Ministry of Finance of the Republic of Lithuania, Director, Accountability, Audit, Asset Valuation and Insolvency Policy Department. Member of the Supervisory of AB Ignitis grupė.
Judith Buss Independent member	–	15-12-2021– 26-09-2025*	Member of Supervisory of Uniper SE. Independent member of the Supervisory of AB Ignitis grupė.

** The term of office of the Audit Committee expires on 26.09.2025, but according to the Articles of Association of the parent company, if a member of the Supervisory ceases to be a member of the Supervisory , he/she is deprived of the right to participate in the activities of the Committee, therefore, the term of office of individual members of the Supervisory is tied to the term of office of the Supervisory .*

The term of office of the current Audit Committee is from 29 September 2021 to 26 September 2025.

Activities of the former Audit Committee during the reporting period

Table 28. **Overview of the former Audit Committee**

Term of office	13 October 2017 – 12 October 2021
Independence, including the Chairperson	60%
Attending meetings	88%
Shares held in the parent company or its subsidiaries	None

Table 29. **Overview of attendance of former Audit Committee members**

Member	Attendance*
Aušra Vičkačkienė	10/18
Irena Petruškevičienė	18/18
Danielius Merkinas	16/18
Šarūnas Radavičius	18/18
Ingrida Muckutė	17/18

** The figures show how many of the meetings organised in 2021 were attended by members before the new Audit Committee was elected on 27 September 2021.*

Activities of the new Audit Committee during the reporting period

Table 30. **Overview of the new Audit Committee**

Term of office	**27 September 2021 – 26 September 2025***
Independence, including the Chairperson	80%
Attending meetings	100%
Shares held in the parent company or its subsidiaries	1 800

** On 27 September 2021, the General Meeting of Shareholders of the Parent Company elected three new independent members to the Audit Committee for a four-year term of office. The other two members were appointed by the Supervisory and were elected on 15 December 2021. The new members of the Audit Committee took up their duties after their election by the General Meeting of Shareholders.*

Table 31. **Overview of attendance in meetings of the new Audit Committee members**

Member	Attendance *
Irena Petruškevičienė	5/5
Saulius Bakas	5/5
Marius Pulkauninkas	5/5
Judith Buss	1/5
Ingrida Muckutė	1/5

** The figures show the number of meetings attended by members out of the total number of meetings organised after the election of the new Audit Committee on 27 September 2021. Ingrida Muckutė and Judith Buss were elected to the Audit Committee on 15 December 2021.*

The Audit Committee held 23 meetings during the reporting period.

Risk Management and Business Ethics Supervision Committee

The Risk Management and Business Ethics Supervision Committee is responsible for the submission of conclusions and proposals to the Supervisory on the functioning of management and control system in the Group of AB Ignitis grupė and the main risk factors and implementation of risk management or prevention measures.

The main functions of the Committee:

- monitor the way the risks relevant for the achievement of the targets set for Group companies are identified, assessed and managed;
- assess the adequacy of internal control procedures and risk management measures in view of the risks identified;
- assess the progress achieved in the implementation of risk management measures;
- monitor the process of risk management;
- assess the risks and the risk management plan for Group companies of AB Ignitis grupė;
- assess the periodic cycle of risk identification and assessment;
- monitor the availability of risk registers, analyse their data, provide recommendations;
- monitor the availability of internal documentation pertaining to risk management;
- assess the tolerance and the adequacy of internal documents regulating the Company‘s anti-bribery and anti-corruption policies and to monitor periodically their implementation/ compliance;
- monitor periodically information related to the controlling actions of assurance of business ethics, events and unsolved incidents (security of transparency, prevention of corruption, management/prevention of corruption risk, etc.);
- perform other functions assigned to the committee based on the decision of the Supervisory ;
- prepare and submit activity reports to the Supervisory at least every 6 months.

Changes to composition of the Committee

Following the expiry of the term of office of the Supervisory of the parent company on 29 August 2021, the former members of the Supervisory were not entitled to participate in the activities of the Committees and, therefore, due to the lack of a quorum, the Risk Management and Business Ethics Supervision Committee was no longer able to conduct its business. Following the election of the new Supervisory on 26 October 2021, a decision was taken on 3 November 2021 to elect two new members of the Committee from among the members of the Supervisory until the end of the term of office of the current Committee (19 April 2022).

None of the former members of the Risk Management and Business Ethics Supervision Committee held shares in AB Ignitis grupė. During the reporting period, there were no significant changes in the education, experience and place of work of the former members of the Risk Management and Business Ethics Supervision Committee.

None of the new members of the Risk Management and Business Ethics Supervision Committee has any shares in the group entities of AB Ignitis grupė. The term of office of the current Risk Management and Business Ethics Supervision Committee expires on 19 April 2022. The following is the information on the background, experience and place of work of the new members of the Risk Management and Business Ethics Supervision Committee.

Activities of the Committee during the reporting period

Five meetings of the Risk Management and Business Ethics Supervision Committee were held during the reporting period. In 2021, the activities covered the following main areas:

- Risk management policy and risk management model in the Consolidated Risk Register and Risk Management Plan of the group entities of AB Ignitis grupė;
- periodic monitoring reports on risk management of the group of entities of AB Ignitis grupė;
- Anti-Corruption Management System of the group of entities of AB Ignitis grupė;
- other topics relevant to the group entities of AB Ignitis grupė;
- cooperation with the Audit Committee;
- cooperation with the following function of the group entities of AB Ignitis grupė: information security, prevention, risk management, occupational safety, personal data protection and compliance.

Table 32. **Members of the Risk Management and Business Ethics Supervision Committee**

Member of Committee	Shares of the company	Term of office	Place of employment, position held
Tim Brooks Chairperson Independent member	–	03-11-2021–19-04-2022	LEGO System A/S, Vice-president, Corporative responsibility; Global Activity Plan, trustee of the ; Honnold Foundation, member. Independent member of the Supervisory of AB Ignitis grupė.
Alfonso Faubel Independent member	–	03-11-2021–19-04-2022	Independent member of the Supervisory of AB Ignitis grupė.
Šarūnas Rameikis Independent member	–	03-11-2021–19-04-2022	Law firm Litten, Managing partner, advocate.

The current Risk Management and Business Ethics Supervision Committee has a term of office until 19 April 2022.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for the submission of conclusions and proposals to the Supervisory on matters of appointment, removal or promotion of the Management members and members of the supervisory and management bodies of the parent company's subsidiaries, as well as the assessment of the structure, size, composition and activities of the Management and supervisory and management s of the parent company's subsidiaries and their respective members and issuing the respective opinions. The functions of the committee also cover the formation of the common remuneration policy at the AB Ignitis grupė group level, the establishment of the amount and the composition of remuneration and principles of promotion.

Key functions of the Nomination and Remuneration Committee:

- provide suggestions in relation to the long-term remuneration policy of the parent company and AB Ignitis grupė group companies (fixed pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, other items of the remuneration package), and the principles of compensation for expenses related to the person's activities;
- monitor compliance of the remuneration and bonuses policies of the parent company and AB Ignitis grupė group companies with the international practice and good governance practice guidelines, and provide suggestions for their improvement;
- assess the terms and conditions of the parent company's and AB Ignitis grupė group companies' agreements between the parent company and the Group companies and the members of the management and supervisory bodies;
- assess the procedures for recruitment and hiring of candidates to the positions of management and supervisory

bodies and top management of the parent company and group companies, and establish qualification requirements for them; submit recommendations and findings to the Supervisory ;;
- assess the structure, size, composition and activities of management and supervisory bodies of the parent company and AB Ignitis grupė group companies;
- oversee and assess the implementation of measures ensuring business continuity of the management and supervisory bodies of the parent company and AB Ignitis grupė group companies;
- perform other functions falling within the scope of competence of the Committee as decided by the Supervisory

Changes to the composition of the Committee

On 29 August 2021, following the expiry of the term of office of the Supervisory , the former members of the Supervisory were no longer entitled to participate in the work of the Committees and, therefore, in the absence of a quorum, the Nomination and Remuneration Committee was no longer able to carry out its activities. Following the election of the new Supervisory on 26 October 2021, on 3 November 2021 the Supervisory decided to elect three new members of the Nomination and Remuneration Committee from among the members of the Supervisory for a four-year term. The term of office of the current Nomination and Remuneration Committee will end on 2 November 2025.

None of the former members of the Nomination and Remuneration Committee holds any shares in the group of entities of AB Ignitis grupė. There have been no significant changes in the education, experience and place of work of the former members of the Nomination and Remuneration Committee during the reporting period.

None of the new members of the Nomination and Remuneration Committee holds any shares in the group of entities of AB Ignitis grupė. Information on the education, experience and place of work of the new members of the Nomination and Remuneration Committee is provided below.

Activities of the Committee during the reporting period

The Nomination and Remuneration Committee held 21 meetings during the reporting period.

In 2021, the activities covered the following key areas:

- evaluation of nominations for members of the parent company subsidiaries' management and supervisory bodies;
- issues related to the development of remuneration policy;
- planning issues for strategic posts in the parent company;
- proposals on the competence profile of the Supervisory of the parent company;
- proposals on the competence profile of the parent company's management ;
- proposals on the long-term promotion of the managers with share options programme;
- issues related to the implementation of the parent company's strategy and objectives in the area of people and culture;
- issues related to management remuneration;
- Committee organisational matters.

Table 33. **Members of the Nomination and Remuneration Committee at the end of the reporting**

Member of Committee	Shares of the company	Term of office	Place of employment, position held
Lorraine Wrafter Chairperson Independent member	–	03-11-2021 – 02-11-2025	The Problem, consultant and owner. Independent member of the Supervisory of AB Ignitis grupė.
Aušra Vičkačkienė Member	–	03-11-2021 – 02-11-2025	Ministry of Finance of the Republic of Lithuania, Director of the State Asset Management Department, State Investment Management Agency, member of the supervisory (from 21-10-2020). Member of the Supervisory of AB Ignitis grupė.
Bent Christensen Independent member	–	03-11-2021 – 02-11-2025	Christensen Management Consulting ApS, owner and director; Christensen Management Consulting Holding ApS, owner and director; Wind Estate“ A/S, member of the supervisory . Independent member of the Supervisory of AB Ignitis grupė.

The current Nomination and Remuneration Committee has a term of office from 3 November 2021 to 2 November 2025.

Remuneration of the Company's collegiate bodies

The principles of remuneration of the members of the collegiate bodies are set out in the Corporate Governance Guidelines for Group of State-Owned Energy Enterprises. Taking into account the recommendations of the Governance Coordination Centre and market best practices, the principle of remuneration of the members of the collegiate bodies of the parent company and the group of entities of AB Ignitis grupė was changed in 2021 from an hourly to a monthly remuneration.

This principle came into effect after the General Meeting of Shareholders approved the new Remuneration Policy on 27 September 2021. We believe that this change will improve both the transparency and clarity of remuneration.

Key principles for the remuneration of collegiate bodies

- In accordance with the Corporate Governance Guidelines for Group of State-Owned Energy Enterprises, the maximum remuneration per month (for those who are entitled to remuneration) for service on the Supervisory of the parent company and its committees may not exceed one-fourth of the average monthly remuneration paid to the CEO of the parent company. The maximum monthly remuneration for the Chairman of the Supervisory of a parent company for service on the Supervisory or its committees may not exceed one-third of the average monthly salary paid to the CEO of the parent company.
- The monthly remuneration of a member of the Supervisory of the parent company shall be determined by the General Meeting of Shareholders of the parent company, and the amount of this remuneration shall be used to calculate the monthly remuneration of the other members of the collegial bodies of the parent company and of the group of entities of AB Ignitis grupė.
- The remuneration for participation in the collegiate body is fixed and does not depend on the performance of the parent company or the group of entities of AB Ignitis grupė.

Remuneration for serving on the Company's collegiate bodies shall be paid to:

- Independent members of the Supervisory (as well as to a staff representative on the Supervisory);
- Members of the management .

For more information on the remuneration of the collegiate bodies, see the Remuneration Policy.

Remuneration structure

The principles for remuneration of members of the Company's collegiate bodies, effective from 27 September 2021, are set out in the table below. The collegiate bodies of the companies will gradually move to the renewed remuneration system at the start of their new term of office.

Table 34. **Remuneration for activities in the Company's collegiate bodies**

Position in a collegiate body	Remuneration coefficient per activity *	Monthly remuneration, in EUR
Independent member of the Supervisory of the parent company	1,00	2 000
Independent member of the Supervisory of the Company	0,65	1 300
Chairperson of the Management of the Company	0,90	1 800
Member of the Management of the Company	0,65	1 300

** The monthly remuneration of EUR 2,000 for the members of the Supervisory was set by the General Meeting of Shareholders of the parent company on 27 September 2021. The remuneration of the other collegiate bodies is calculated by multiplying the remuneration of a member of the Supervisory by the remuneration coefficient.*

Employees of the Company

The People and Culture Policy of AB Ignitis grupė, which is also applied to ESO, focuses on the continuous development of employees and the creation of an organisational culture that ensures greater value creation for customers, partners and society. As at 31 December 2021, the Company had 2,427 employees*.

Table 35. **ESO staff structure by category as at 31 December 2021**

Education	Number of employees
CEO	1
Key executives	4
Middle managers	206
Experts, specialists	1.602
Workers	614
Total	**2.427***

** This is the number of staff actually employed, which excludes staff on maternity or paternity leave and military service.*

Table 36. **ESO staff structure by education as at 31 December 2021**

Education	Number of employees (percentage)
Higher education	47,6
Higher college	26,7
Secondary and vocational	24,0
Other	1,7

Remuneration standard

ESO is subject to the Remuneration Policy and the Remuneration Guidelines of the group of entities of AB Ignitis grupė, which ensure: internal fairness, i.e. equal pay for the same or equivalent work; external competitiveness, i.e. the Group's employees are paid a remuneration that is competitive with the labour market in the country in which they are employed; transparency, i.e. we aim to ensure that employees and the public know that the Group's remuneration is determined on the basis of objective and transparent criteria and that the remuneration policy is made publicly available; clarity and flexibility. These guidelines enable the Company to manage its costs effectively and ensure that ESO's strategic objectives and business management logic are reflected in the remuneration system.

The Company's remuneration package consists of financial, non-financial and emotional rewards. The financial remuneration system comprises a fixed remuneration component, as specified in the employee's employment contract, paid each month, as well as a variable remuneration component upon the achievement of certain performance targets, and bonuses as provided for in the Collective Agreement (for overtime, night work, etc.).

Non-financial remuneration is an indirect form of employee remuneration used by the Company to promote the efforts, engagement and loyalty of its employees, to enhance the well-being of its employees and to enrich the Company's performance. These include various Company events, recognition and appreciation by rewarding employees who perform particularly well, health promotion, health insurance and employee development.

Emotional reward is a hard-to-measure but important factor for employee engagement, which includes the Company's reputation, organisational culture and values, career opportunities, and various internal communication programmes - giving employees the opportunity to share their experiences and ideas, ask questions, and get to know each other's daily activities.

Table 37. **Average salary of ESO employees**

	January-December 2021		January-December 2020	
Employee category	Average monthly salary paid (fixed remuneration before tax, EUR)	Variable remuneration paid is calculated as the average monthly variable remuneration (before tax, EUR)	Average monthly salary paid (fixed remuneration before tax, EUR)	Variable remuneration paid is calculated as the average monthly variable remuneration (before tax, EUR)
CEO	8 252	1 457	7 863	2 226
Key executives	6 843	1 436	6 519	1 882
Middle managers	3 232	283	3 086	428
Experts, specialists	1 859	148	1 753	129
Workers	1 670	106	1 564	122
Total	1 942	152	1 831	157

Average remuneration consists of fixed and variable components. Fixed remuneration consists of: payment for time worked, overtime, work on days off and public holidays, annual leave (with the following month's leave included in the salary of the month with which it was paid), additional paid leave, additional days off for child-raising, payment of additional days off in accordance with fringe benefit arrangements, bonuses during the reference period. Variable remuneration (RDA) is pro rata deducted for 1 month. (YKAD/12 + QKAD/3 + month KAD).

Collective agreement

On 22 December 2020, ESO updated and signed a collective employment agreement with social partners which ensures greater protection and more additional benefits to the employees of ESO that are not provided for in the Labour Code of the Republic of Lithuania. The objective of the collective employment agreement is to ensure effective operations of the Company and represent rights and legitimate interests of all employees of the Company. The agreement lays down employment, remuneration, social, economic and professional conditions, and guarantees that are not regulated by laws or other normative legal acts. Employees are provided with additional guarantees, such as payments in case of accident, sickness, death of a close family member, childbirth grant, additional days of paid leave after the birth of a child, marriage payment and other payments.

Trade unions

ESO has been developing a high-quality social dialogue with employee representatives and developing a modern social partnership at European level for many years. On 15 April 2019, ESO was the first in Lithuania to sign an agreement with all 7 trade unions operating in the company, which provides for the involvement of a trade union delegated employee representative on the supervisory board, while pursuing objectives of mutual interest. As of September 2019, the employee representative is a member of the Supervisory Board of the Company and thus contributes to the sustainable development and growth of the Company by ensuring representation of the rights or legal interests of all employees of the Company. In addition, quarterly meetings are held at the Company to discuss strategic projects implemented by the Company. Trade union representatives always participate in working groups, where employee-related issues are addressed (working conditions, remuneration and social issues).

Development of competences

ESO gives particular attention to the development of employees' competences. Development plans are drawn up based on the development strategy of Ignitis Group, which delivers autonomous and engaging, business-driven, flexible, innovative, and fast development. The Company creates a modern learning culture with the aim of enabling excellence to be developed everywhere, any time, and quickly:

- Employees are trained at the internal Practical Training Center in Panevėžys.
- Compulsory training is organized, which ensures the necessary competencies in the development and maintenance of electricity and gas distribution networks and work safety.
- Competence development programs involve in-house lecturers with specific knowledge and skills that can be shared with others, as well as invest in the training of these employees. Internal training platform *GROW Academy* is functioning at the Ignitis Group level;
- Exceptional vocational education programs are being developed to provide the necessary competencies to meet ESO strategic goals;
- A one-year intensive education program is designed specifically for ESO's executives.

Training programs are developed in close cooperation with training providers and training evaluation surveys are conducted. ESO has regular contacts with the manufacturers, equipment suppliers, who share their knowledge with employees, by introducing energy innovations.

Internship opportunities

ESO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and gain practical skills. During January– December 2021, 12 students completed internship at ESO across the territory of Lithuania. The Company provides students not only with the possibility to complete their mandatory internship, but also welcomes motivated and enthusiastic students who wish to voluntarily enrol in job training with the Company

Significant arrangements

The Company was not a party to any significant arrangements that would take effect, be amended or terminated in the event of changes in the Company's control situation. There were no arrangements between the Company and the members of its management bodies or its employees that would provide for payment of termination benefits in the event of their resignation or dismissal without a valid reason or in the event of termination of their employment as a result of changes in the Company's control situation.

Detrimental transactions

No detrimental transactions were concluded during the reporting period on behalf of the Company (transactions that are not consistent with the Company's objectives or usual market terms and conditions, infringe interests of the shareholders or other stakeholders etc.), which had or potentially may have a negative impact on the Company's performance and/or results of operation, nor were any transactions concluded resulting in conflict of interests between the responsibilities of the Company's management, majority shareholders or other related parties against the Company and their own private interests and/or other responsibilities.

MATERIAL EVENTS AT THE COMPANY

During the reporting period

Information on materials events from 1 July 2020 is available on the Company's website.

Table 38. **Information on material events announced by ESO from 01/01/2021 to 31/12/2021**

Date	Key event
2021-01-28	ESO preliminary financial results for 12 months of 2020
2021-02-09	ESO, subsidiary of AB “Ignitis grupė”, established a tender ranking of the procurement of smart metering infrastructure
2021-02-26	ESO preliminary financial results for 1 month of 2021
2021-03-04	NERC has coordinated ESO 2020 investment projects into electricity and natural gas sectors
2021-03-19	Regarding the resolutions of AB “Energijos skirstymo operatorius” Supervisory Board
2021-03-25	On ESO withdrawal from a limited partnership in the Platform for Financing Energy Efficiency
2021-03-30	ESO preliminary financial results for 2 months of 2021
2021-04-02	The Court allowed to transfer ESO shares to Ignitis Grupė
2021-04-14	After the successful proof of concept, the decision was made by ESO, a subsidiary company of AB “Ignitis grupė”, to conclude the contract with the supplier for the procurement of smart metering infrastructure
2021-04-15	Ownership rights of all ESO shares have been transferred to Ignitis Group
2021-04-29	ESO preliminary financial results for 3 months of 2021
2021-05-26	On 25 May 2021 Order of the Supreme Court in a civil case
2021-05-27	ESO preliminary financial results for 4 months of 2021
2021-06-29	ESO preliminary financial results for 5 months of 2021
2021-07-29	ESO preliminary financial results for 6 months of 2021
2021-08-27	Re-planning of the smart metering implementation programme
2021-08-31	ESO preliminary financial results for 7 months of 2021
2021-09-30	ESO preliminary financial results for 8 months of 2021
2021-10-07	Regarding the change of ESO's registered office address
2021-10-20	Information on the update of the Network Business Segment Methodology: ensuring regulatory sustainability
2021-10-28	ESO preliminary financial results for 9 months of 2021
2021-10-28	On the level of revenue for the natural gas service of the Networks business segment in 2022
2021-11-16	The National Energy Regulation Council announced electricity network prices for 2022
2021-11-19	The National Energy Regulation Council approved Natural Gas Distribution Prices for 2022
2021-11-30	ESO preliminary financial results for 10 months of 2021
2021-12-07	Updated 10-year investment plan of ESO

OTHER IMPORTANT INFORMATION

Alternative performance measures

Description of ESO's indicators is available on the Company's website.

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

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The employees of the company from which the Company outsources the accounting functions, make sure that the financial statements are prepared properly and that all data are collected in a timely and accurate manner. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the financial statements are monitored and managed.

Information about audit

Following the decision of the sole shareholder dated 7 September 2021, KPMG Baltics UAB was elected as the audit firm for the audit of the Company's financial statements for 2021–2022; and a fee established for the audit services of the financial statements for 2021–2022 is not in excess of EUR 189,000.00 (VAT excl.)

Other agreements with auditors

The Company has not entered into any additional arrangements with the entity that audited its financial statements.

Notice on the compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius

Taking into consideration the fact that securities of the Company are no longer traded on Nasdaq Vilnius stock exchange, compliance of the Company with the Nasdaq Corporate Governance standards is not specified. Nevertheless, the Company continues to operate in line with the highest governance standards, such as recommendations of the Organisation of Economic Co-operation and Development (OECD), the Governance Coordination Centre (GCC) and the principles of Good Governance. Additionally, subsequent to admission of securities of the parent company AB Ignitis grupė to trading on a regulated market in October 2020, the Good Governance practices are ensured at the level of the companies group AB Ignitis grupė and are specified in performance reports of AB Ignitis grupė (link).