



UAB Vilniaus Vandenys
Annual Report,
Independent Auditor's
Report and Financial
Statements for the year
ended 31 December 2022





This version of annual report, independent auditor's report and financial statements is a translation from the original, which was prepared in the Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of annual report, independent auditor's report and financial statements takes precedence over this translation.

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MANAGEMENT'S FOREWORD



With a radical change in the geopolitical situation, the Company, working in conditions of high economic uncertainty, had gained control over the emerging risks and ensured operational stability. And this is the most significant extra mile that the team of Vilniaus Vandenys went last year.

In 2022, Vilniaus Vandenys managed to meet the expectations of its shareholders by ensuring uninterrupted supply of services and high quality thereof. To continue implementation of the infrastructure projects that are strategically significant for Vilnius city and its people. To maintain the ambition through the consistent implementation of the infrastructure development and reconstruction, digitalization, efficiency improvement, customer experience enhancement and other plans.

The Company has contributed to the development of a greener and cleaner service area, where clean tap water is available in different parts of the city and to everyone working, studying, playing sports, spending their free time with closest ones in parks, squares. A glass of free pure tap water is now also offered in some of the country's hotels and catering establishments.

Vilniaus Vandenys were touched by the shareholders' call to lend a helping hand to Ukraine suffering from war, and responded by sending two vitally important shipments of sodium hypochlorite necessary for disinfection of water for the Ukrainian people facing a shortage of clean drinking water. Moreover, the Company contributed and is still contributing with the other support to the Ukrainian water management.

Despite the drastic increase in energy costs faced by all sectors in the country without any exception, the Company managed

to amortize a significant rise in prices for the services provided with timely and insightful decisions to invest and produce more own electricity. Furthermore, by using more "green" energy in production and technological activities, the Company reduced CO2 emissions so that we can all breathe cleaner air in the city.

The Company continued to make technological progress. In 2022, Vilniaus Vandenys made significant progress in the development of smart water supply, which will gradually reach the home of each customer.

Last year, the Company made a sound progress in the process of introducing good governance principles. In 2022, Vilniaus Vandenys built a solid base for transparency and accountability of activities, establishing and maintaining a sustainable relationship between shareholders, the Board, management and stakeholders. Last year, the Company's long-term strategy ensuring operational success and creating responsible water management was developed for the period until 2023 by the team in cooperation with the Board by drawing on their internal potential: expert knowledge collected and different competencies.

Therefore, it remains to wish for the Company in 2023 to maintain a consistent direction, soundness, gain even greater appreciation and trust of shareholders and customers. And with the same momentum, move forward with courage into future water management.

ADOMAS BUŽINSKAS

Chairman of the Board of Vilniaus Vandenys

CEO MESSAGE



A year of challenges. That's how I would describe the past year of 2022.

Our investments topped those in 2021 by as much as 67%. Last year, our investments amounted to almost EUR 51 million and were focused on modernization of infrastructure, improvement of service quality, and introduction of digital technologies. We have successfully and timely implemented the priority projects provided for in our project portfolio through responsible planning, tracking work deadlines, and rigorous quality evaluation of works performed. Here, a collegial thank you should be said to our employees and partners – contractors, employees of the municipalities in which we operate, without whom we would not have been able to do so.

We kept to the financial regime. In 2022, the Company's EBITDA reached EUR 2.2 million, however, after eliminating the growth of costs for objective reasons, i.e. the dramatic increase in the price of electricity (the Company's electricity costs in 2022 exceeded those in 2021 by as much as EUR 5.3 million), the negative impact of tax indexing (pollution tax and tax on natural resources) and negative inflation effect on other costs of the Company, the adjusted annual EBITDA amounted to EUR 9.9 million. In 2021, it amounted to EUR 11.8 million (after eliminating the gain on disposal of unused asset close to the Bernardine Gardens, the EBITDA for 2021 amounted to EUR 8.5 million). In turn, we took the following active steps: improved performance in all of the working fields, refrained from redundant functions, and started producing our own "green" energy few years ago.

We cooperated and demonstrated leadership. In 2022, Vilniaus Vandenys became a member of Vandens Jėga, an association of the country's three largest water suppliers. This association was founded to bring together and unite leading Lithuanian water suppliers seeking progress, empowerment, well-being of the entire sector, thus allowing to further improve and maintain the quality of services provided to consumers, meet all their expectations and develop a water management system that works in harmony with nature. The association, which started its activities in 2022, took active and immediate actions and made a strong contribution to the adoption of the updated Law on Drinking Water Supply and Wastewater Management in our country.

We were more environmentally friendly. And there are two arguments in support of this assertion. We reduced the volume of improperly managed biodegradable materials by 33 tons. In other words, last year we properly handled these materials by approx. 2 standard sea containers more than in 2021. We plan to increase this ambition every year. And further, we reduced the CO2 footprint by as much as three-fold: from 24,000 tons in 2021 to 8,000 tons in 2022.

We became more protective of ourselves and each other. By making our priorities explicit, focusing the efforts and responsible approach of our team, managers, and the Board members to work safety, last year all our colleagues returned home from work alive, healthy, and uninjured. This indicator will continue to be at the heart of our annual targets.

We were engaged in what we were doing. The number of our employees decreased last year, but with a smaller team we were able to do more work, and achieve annual targets. The employee engagement rate went up by 1 score from 65 in 2021 to 66 last year. Perhaps this is still a small, but significant step, indicating that our employees become increasingly involved in their work and confident in the result of collective efforts.

We worked for the customer. Meeting the expectations of our customers was the Company's top priority. Customer satisfaction and the Company's assessment (GCSI index) increased by 3 scores since 2021: from 76 to 79. This year we all faced many challenges, and thus we are particularly pleased that our efforts to ensure uninterrupted provision of quality services and customer service scored very high, well above the Lithuanian utilities average, standing out in a global context. We appreciate that. We have been and will be doing our best to further consistently grow the trust of our customers.

That's the year 2022. We can only congratulate the team that achieved a great result. Thank the Board for every kind of assistance. And at the same time in 2023, to wish ourselves to keep moving ahead: to care for ourselves more, to do our best for the environment surrounding us, not to set the quality bar low and to continue working for a customer with patience and professional expertise.

SAULIUS SAVICKAS
CEO of Vilniaus vandenys



ABOUT THE COMPANY

Vilniaus Vandenys is the largest water management company in Lithuania, whose shares are owned by Vilnius City Municipality, Vilnius, Švenčionys and Šalčininkai District Municipalities.

The main management bodies of the Company are General Meeting of Shareholders, the Board elected by the General Meeting of Shareholders for a term of office of four years, Audit Committee set up and functioning an advisory body to the Board, as well as CEO, a head of the Company appointed by the Board.

The Company holds a drinking water supply and wastewater management licence issued by the National Energy Regulatory Council (NERC), and falls into the first category of companies essential to national security due to the specifics of its activities and the provision of strategically important public services. The Company is a public-interest entity.

Vilniaus Vandenys supplies drinking water and manages wastewater for almost 278 thousand customers. Key performance indicators are the volumes of drinking water sold and wastewater collected and treated, therefore principal (sale) revenue generated by Vilniaus Vandenys comprises revenue earned from the provision of services of drinking water supply and wastewater management.

The Company carries out its activities focused on overarching objectives: to ensure the provision of drinking water and wastewater management services, to maintain high quality of supplied drinking water from underground wells and

wastewater management in compliance with the highest environmental requirements.

Vilniaus Vandenys is a progressive, efficiently managed leader in water management sector providing quality and reliable services. The Company is the first in the region to install a unified smart water supply network, to implement a hydraulic modelling system in its activities, and to rapidly develop renewable energy projects.

The Company has implemented and applied an integrated quality and environmental management system that meets the requirements of ISO 9001 and ISO 14001 standards, which shows that the environmental impact of the Company's activities is identified and managed, the Company's activities comply with legal and other environmental requirements. The quality management and environmental protection system is integrated into all business processes that are defined by the specifics of the work of departments to ensure their effective operation, monitoring and management. Each process is standardized, implemented and controlled continuously in light of customer needs.

Vilniaus Vandenys operate 33 wellfields, 6 wastewater treatment plants, approx. 1,811 water supply pipeline and 1,530 sewerage networks. Equity accounts for 66% of the Company's assets.

The Company attaches great importance to the development of organizational culture, invests in training of staff, offers internal career opportunities and additional benefits. The Survey carried out in the Company in 2022 showed a 66% achievement of employee engagement and a 75% achievement of empowerment in the Company. At the end of 2022, the Company had 621 employees.



278 000
customers



621
employees



33
wellfields



6
wastewater treatment plants



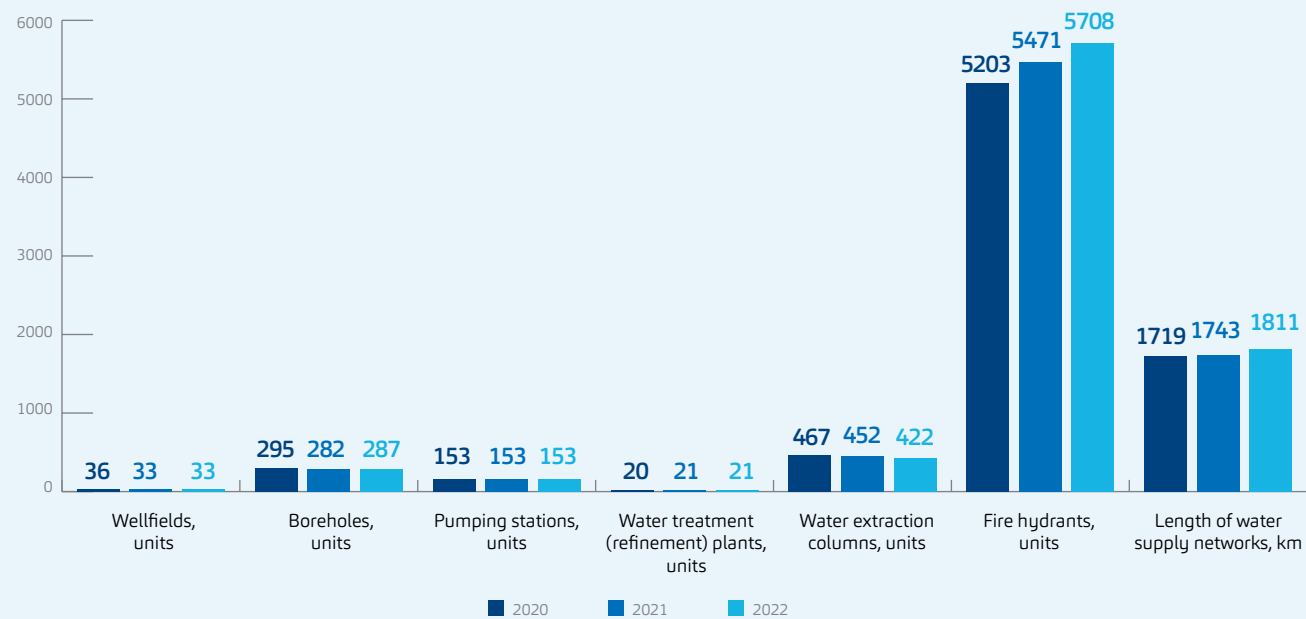
MAIN SERVICES

The main services provided by Vilniaus Vandenis include drinking water supply and wastewater management in the territory of Vilnius City Municipality, as well as in the municipal territories of Vilnius, Švenčionys, and Šalčininkai Districts.

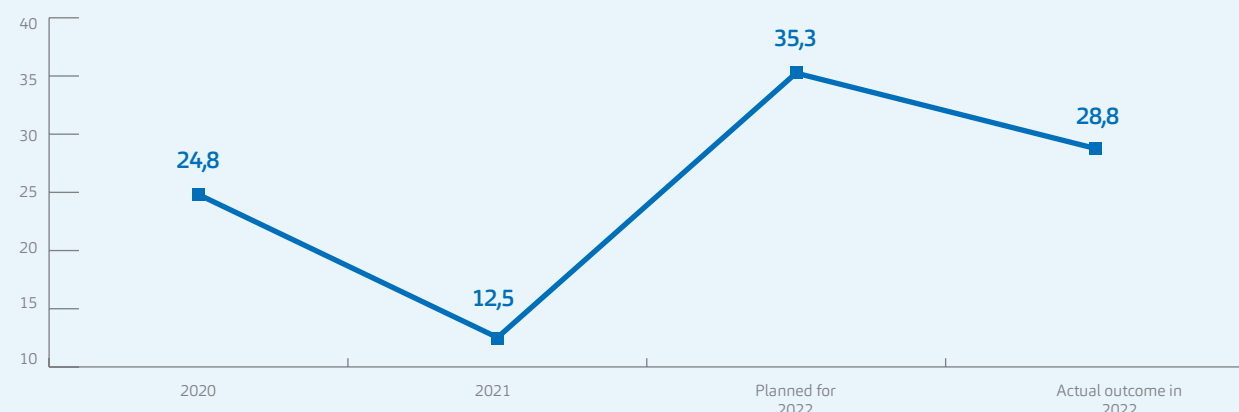
DRINKING WATER SUPPLY

Vilniaus Vandenis supplies only groundwater boreholes with the depth of 40–245 meters. The Company uses infrastructure for water abstraction, preparation and supply, and invests into its renewal and development every year.

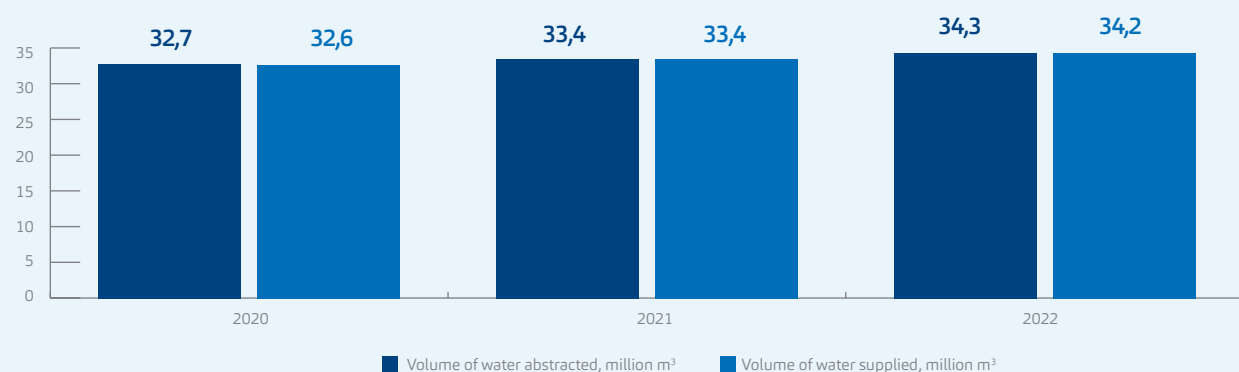
Infrastructure operated in the Company’s drinking water supply and wastewater management process in 2020-2022



Length of water supply networks in 2020-2022, km



Volume of water abstracted and supplied in 2020-2022, million m³

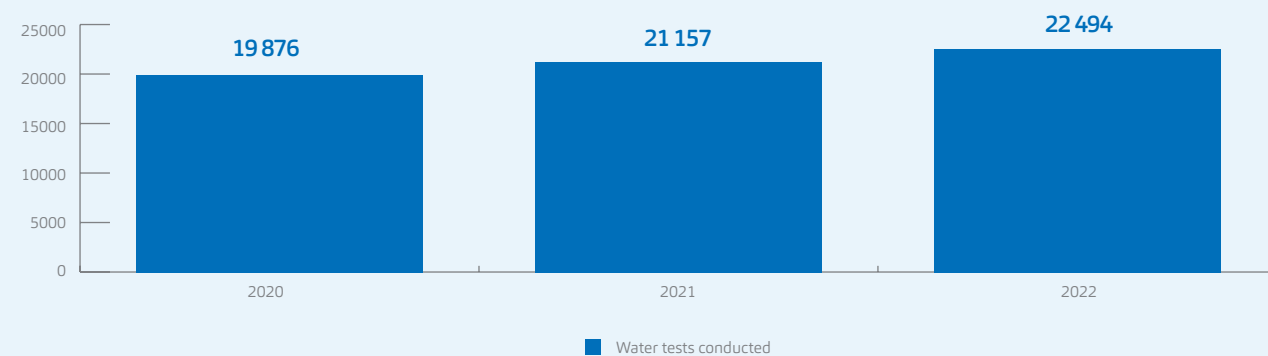


DRINKING WATER QUALITY

Drinking water supplied by the Company is clean and of high quality, because it is abstracted from underground wells, where the water is protected from external chemical and microbiological pollution. The groundwater, not many countries in the world can enjoy the same abundant resources of which, is saturated with various minerals useful to the human body.

In 2022, a total of 22,494 tests were carried out in the Company's water laboratory and that is 6% more than in 2021. In 2022, 42 water quality indicators were tested in the Company's wellfields.

Number of water tests conducted in the Company in 2020-2022

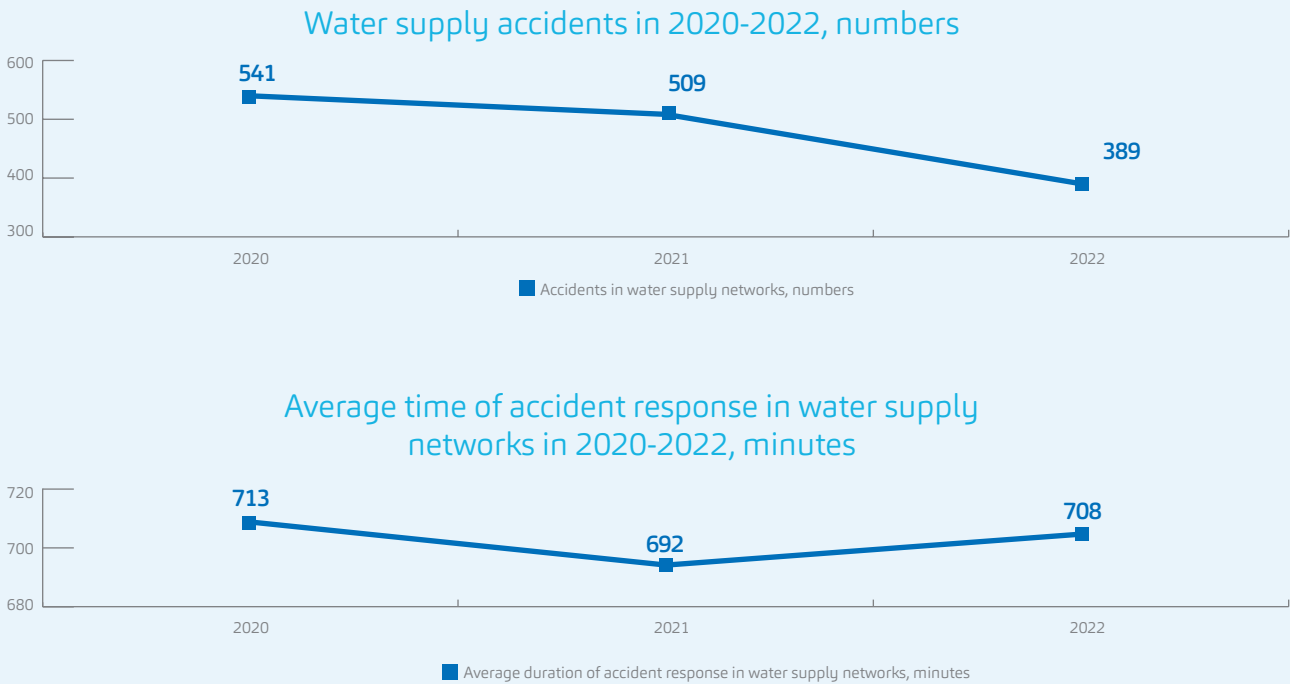


Information on the wellfield from which drinking water is supplied to a customer and its microbiological, chemical and sensory characteristics is publicly available on the Company's website (section Activities / Maps / Water quality map).

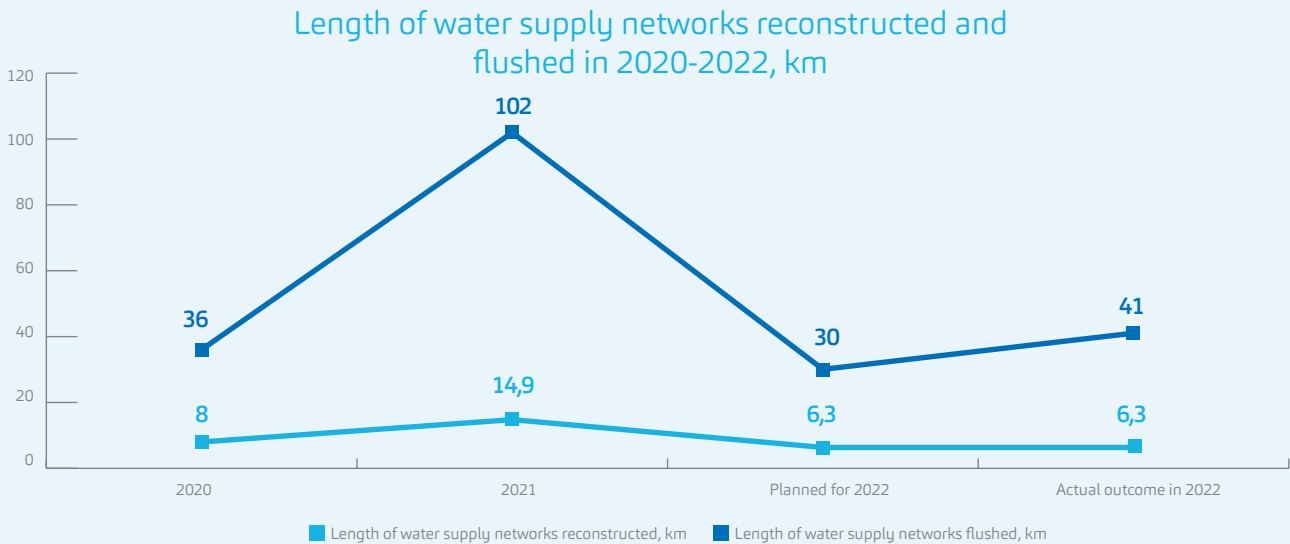


WATER SUPPLY CHALLENGES: WATER SUPPLY ACCIDENTS, RESPONSE AND PREVENTION

As part of its water supply activities, the Company also faces serious challenges, such as accidents (breakdowns) in the water supply networks. The most frequent reasons of accidents are wear and tear of the network (more than 60% of water supply and wastewater network is more than 30 years old), faults and negligence of developers, contractors when pipelines are damaged during the construction works (earthmoving, drilling, etc.).



In 2022, the Company continued infrastructure network and failure prevention activities: more frequent inspections were carried out based on scheduled inspection plans, network flushing (mainly in Ž. Paneriai and Naujamiestis residential quarters) and the status-based network ranking was conducted by means of which network reconstruction works were carried out.



In 2022, the Company performed the water supply network flushing based on both the current demand to a pre-defined plan. In 2022, the Company's employees flushed a total of 41 km of water supply networks (36 km in 2020, 102 in 2021 (this figure differs significantly due to the increased need for water supply network flushing in Naujamiestis residential quarters in 2021)). In 2022, the Company monitored water quality from the water abstraction point to the "water tap": flushed main, block water supply networks and, where appropriate, flushed inlets and stands inside the buildings, to ensure excellent water quality.

Additionally, in 2022, the Company, through network failure prevention measures, made good use of the hydraulic modelling information system installed in Vilnius city water supply network, which has been adapted for the assessment of opportunities for developing infrastructure and connecting newly developed quarters to satisfy the growing water needs of new users.

A water supply network segmentation project was pushed ahead in 2022 to reduce water losses and operatively identify accident sites. The zone ranking methodology was updated and the zoning of the Karoliniškės water supply area was launched (16 out of 30 invasive flow meters were installed).

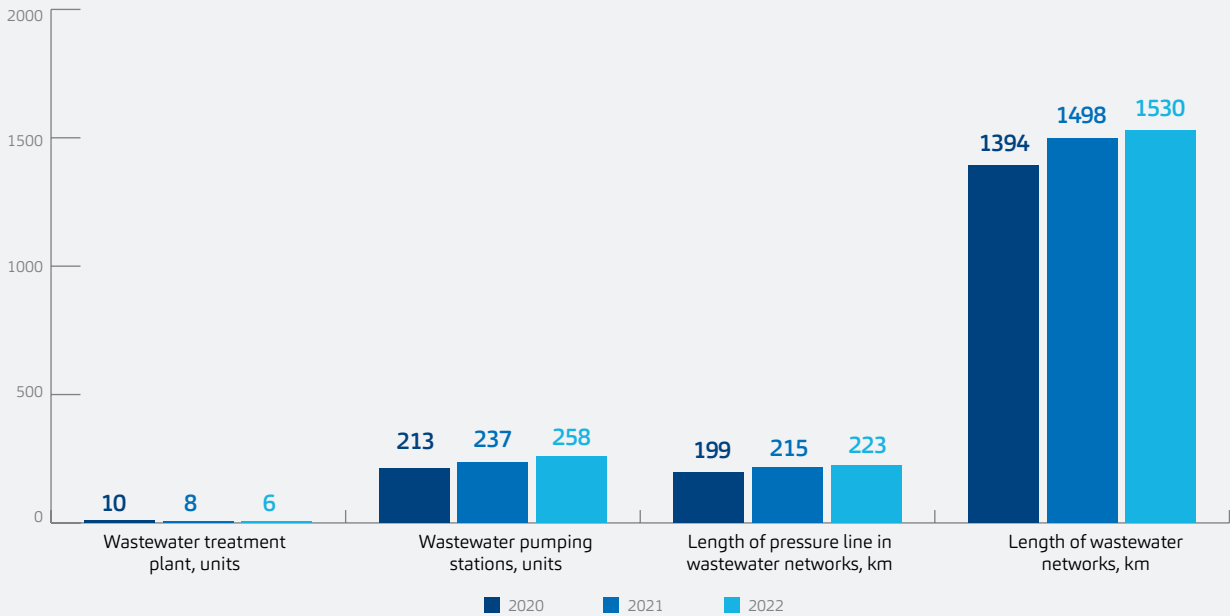


WASTE WATER COLLECTION AND MANAGEMENT

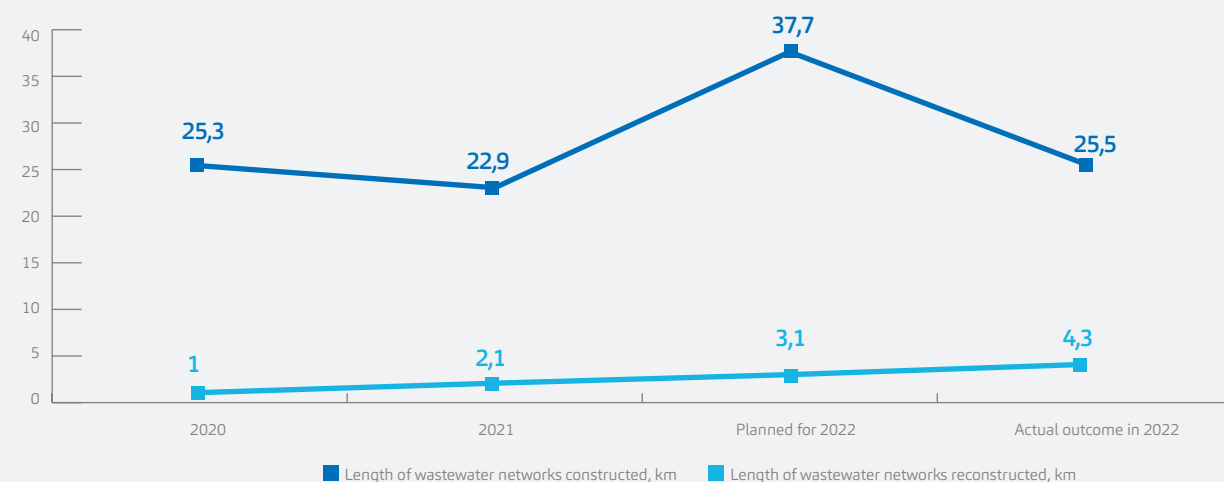
Vilniaus Vandenys collects and manages wastewater in accordance with the Wastewater Management Regulation. The Company is authorised for this activity. The Company uses infrastructure for wastewater collection and management, and invests into its renewal and development every year.

The Company's wastewater laboratory carries out testing against more than 40 wastewater quality indicators.

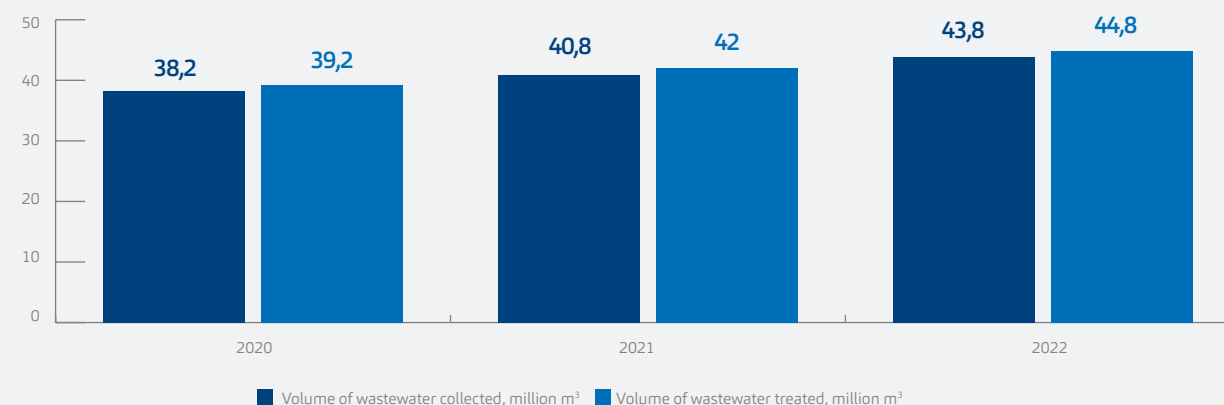
Company's infrastructure used for wastewater management purposes in 2020-2022



Length of wastewater networks constructed and reconstructed in 2020-2022, km



Volume of wastewater collected and treated in 2020-2022, million m³



In 2022, the Company continued reconstruction of Vilnius city (the 1st stage of reconstruction is scheduled for completion in 2023, the 2nd stage – in 2024) and Švenčionys wastewater treatment plants, which will result in substantial performance improvement in wastewater treatment plants: in addition to the total nitrogen and phosphorus purification indicators, new technologies will allow the retention of ultrafine plastic, fibre and other particles up to 50µm in diameter.

The Company also accepts and manages wastewater collected by companies transporting wastewater.

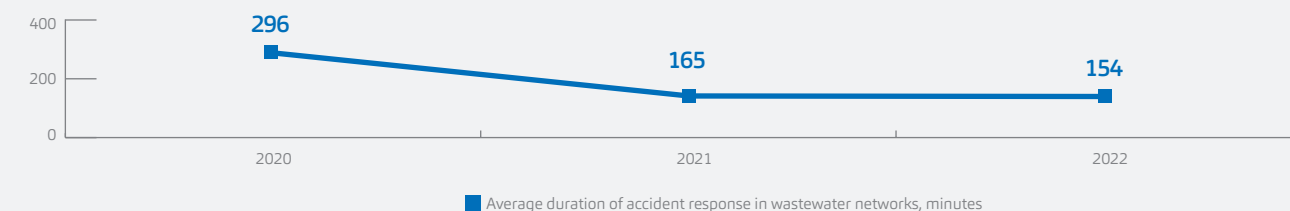
WASTEWATER MANAGEMENT CHALLENGES: WASTEWATER NETWORK ACCIDENTS, RESPONSE AND PREVENTION

As with water supply networks, the Company faces challenges: accidents and breakdowns caused by obsolescence of pipelines and blockage of pipes caused by irresponsible attitudes of residents, industry, services and, in particular, construction companies towards wastewater discharge.

Number of accidents in wastewater networks in 2020-2022

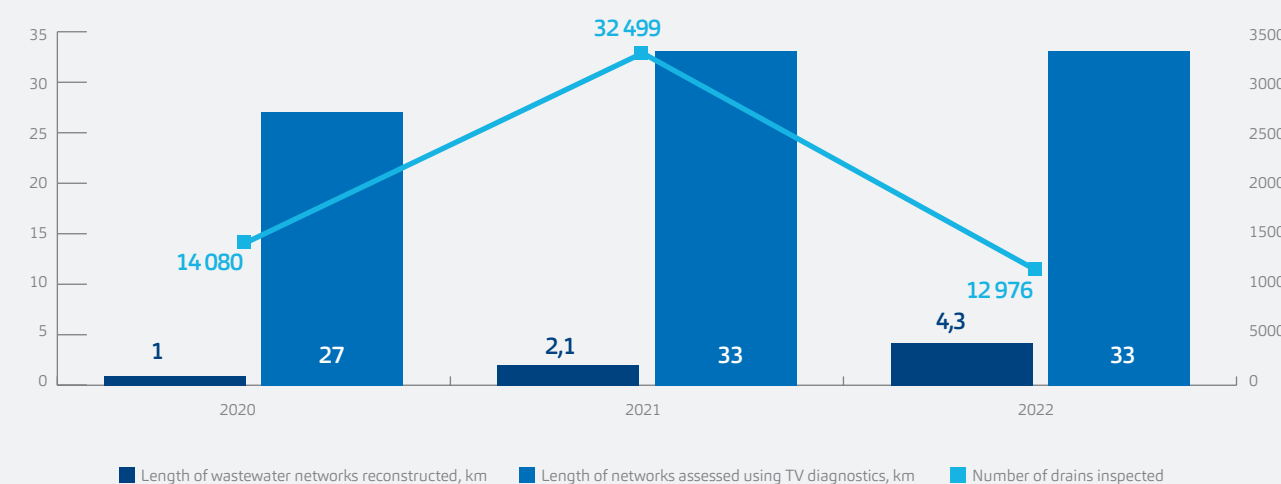


Average duration of accident response in 2020-2022, minutes



The Company pays attention not only to the response to such accidents and breakdowns but also on their prevention: modern video-assisted diagnostic equipment is used to assess the condition of wastewater networks, drains are subject to inspection.

Preventive actions to mitigate risk of accidents in wastewater systems in 2020-2022





COMPANY'S VALUES, STRATEGY

In 2022, the Company pursued the implementation of the Company's business strategy for 2020–2030.

Also, in 2022, the Company adopted a decision to update the Company's long-term strategy approved by the Board in 2019, therefore, work on new strategy development commenced in 2022.



THE MISSION
OF THE COMPANY:

Clean water and a
clean environment.



THE VISION
OF THE COMPANY:

A leader in sustainable and
innovative water management
services in the Baltic States,
committed to nature and
community.

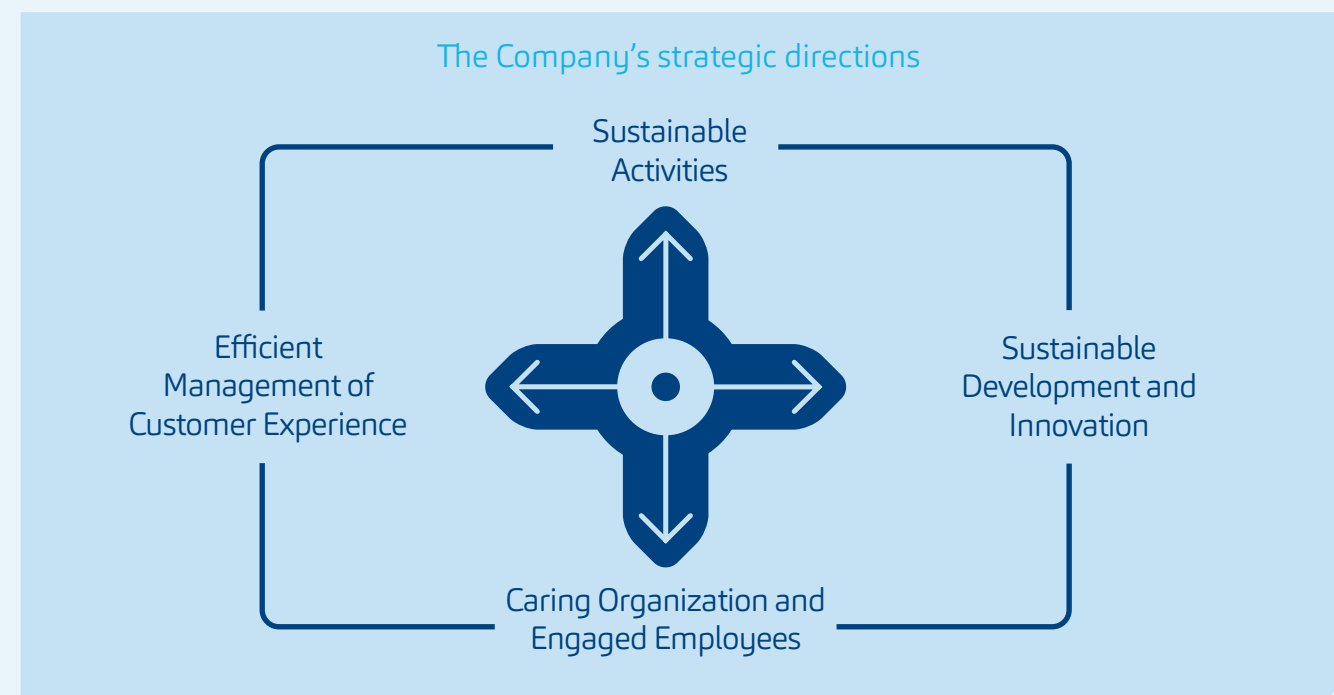


THE VALUES
OF THE COMPANY:

Responsibility,
collaboration and
professionalism.

THE COMPANY'S STRATEGIC DIRECTIONS AND OBJECTIVES

In 2022, the Company continued to maintain focus on four strategic directions of Vilniaus Vandenys that enabled it to pursue its objectives and targets in a focused manner.





Effective customer experience management.

For the implementation of this strategic direction, the Company draws on the experience and professionalism of its employees, the expertise of its partners, the latest technologies and financial resources in order to provide its clients with the highest quality of services, attentive customer service, efficient management and a positive client experience.



Environmentally sustainable activities.

This strategic direction shows the Company's commitment to environmental sustainability: to conserve natural resources, to use renewable energy sources in its operations, to prioritise green energy production, to continuously seek and invest in the introduction of environmentally friendly technologies in the water management sector. As part of its commitment to environmentally friendly and sustainable activities in cities and neighbourhoods, the Company is upgrading and expanding its infrastructure for drinking water supply and wastewater management.



Sustainable development and innovation.

Innovative solutions in water management are a crucial element that directly determines the quality of life and activity of a community. Through smart digitalisation, the Company consistently improves the quality of its services. And by implementing best practices and introducing advanced technologies, it keeps pace with the evolving society, sets an example for other companies, while optimising the allocation of the Company's resources and reducing operating costs.



A caring organisation and committed staff.

Employees are one of the most important components of the Company's success. Respectful behaviour, attention to development, career opportunities, care and the Company's daily efforts to ensure safe workplaces, reminding employees of the need to protect themselves, and the maintenance of a values-based organisational culture increase employee engagement and motivation, and foster a mutual orientation towards results and consistent value creation for both the Company and its employees.



IMPLEMENTATION OF THE COMPANY'S STRATEGIC DIRECTIONS AND OBJECTIVES IN 2022

The Company's Operational and Development Plan 2020–2022 (publicly available on the Company's website, under About Us/Management/Corporate Governance Documentation/Operational Plans) sets out in detail the measures and projects implemented to achieve the Company's strategic directions and objectives.

Indicators set out in the Company's Strategy 2020-2030

Indicator	Indicator size		
	2020	2022	2030
Length of water supply networks	1,697.93 km	1,811	1,850 km
Length of wastewater networks	1,346.24 km	1,530	1,500 km
Number of water improvement equipment	19 units	21 units	21 units
Number of water extraction columns	500 units	422 units	0 units
Number of customers	267 thousand	277.9 thousand	296 thousand
The Company's metrologically certified metering devices installed for customers	90%	87.4%	95%
One-stop customer service (Multichannel customer management with 360-degree customer view)	Not implemented	Not implemented	Implemented
Smooth connection of new customers in line with the principle "one-shop-stop" (the Company provides all necessary services)	5 units	8 units	8 units
Net Promoter Score (NPS)	76	79	80
Revenue from ancillary services, % of revenue	0,5%	1.87%	5%
Remote (smart) meter reading	0	In progress (8,486 remote readers were installed in wells and inlet devices)	95%
Number of ultrasonic meters	0	0 (project in progress)	95%
Water losses in multi-dwelling-units (difference between the amount of water supplied to the network and the amount sold to customers)	15%	8%	2%
Employee engagement	68%	66%	75%

In implementing the strategic directions and objectives, the Company set ambitious goals in 2022. Despite the challenges related to the unexpected macroeconomic situation, energy price developments, tax indexing, inflation, and other objective operational disruptions that could not be assessed and planned, the Company succeeded in meeting its objectives set in 2022 by as much as 94%.

The Company's objectives for 2022 and outcome

Strategic direction	Objective	Indicator	Weight %	Target value in 2022	Actual outcome in 2022	Objective percentage of achievement by set weight in 2022
Environmentally sustainable activities.	I. To reduce the negative environmental impacts ¹	To reduce the volume of improperly managed biodegradable materials to an acceptable level (weighting across the objective is 50%)	25%	1. 181 t BDS7	1. 172 t BDS7 (>100%)	25%
		CO2 footprint after CO2 footprint reduction (weighting across the objective is 50%)		2. 17 199 t CO2	2. 8 478 t CO2 (>100%)	
Sustainable development and innovation	II. To implement the project in the project portfolio on timely basis	The indicator of timely project implementation which shows the percentage of projects implemented during the current year or in a timely manner	20%	96%	Adjusted achievement 98% (70%)	14%
	III. To streamline costs	EBITDA	25%	≥ EUR 9 million	Adjusted EBITDA EUR 9.9 million (>100%)	25%
Effective customer experience management.	IV. Ensure customer satisfaction	Customer Satisfaction and Corporate Assessment Index (GCSI)	15%	77	79 (>100%)	15%
A caring organisation and committed staff.	V. To create value-based organizational culture	Zero accidents	15%	0	0 (100%)	15%
The Company's final percentage of objective achievement in 2022:						94 %

¹ Adjusted achievement means that although time limit for implementation of at least one strategic project had expired, the Company was able to catch up with it during the same 2022 year.
² Adjusted EBITDA means that the impact of the increase in electricity prices, the tax indexing (pollution tax and tax on natural resources) and negative inflation effect on other costs of the Company were eliminated from EBITDA.

1

Objective:
To reduce the negative environmental impacts.

The achievement of this objective is measured against two indicators (each with a weight of 50%): reduction of the volume of improperly managed biodegradable materials to an acceptable level and CO2 footprint after CO2 footprint reduction.

The Company reduces the negative environmental impacts (water, air) by:

- connecting consumers to the newly constructed wastewater networks, increasing the volume of properly managed/reducing the volume of improperly managed biodegradable organic substances (BOC7), thus reducing pollution of river basins (the plan for 2022 was implemented in a larger scale, 1428 consumers were connected);
- reducing CO2 footprint of the Company's operations and involving the public in CO2 footprint reduction projects.

Based on the approved calculation methodology, in 2022, the Company succeeded in reducing its CO2 footprint through the following measures: production of electricity from biogas, production of electricity in solar parks, purchase of green electricity, installation of remote reading equipment, outdoor drinking fountains.

2

Objective:
To implement the project in the project portfolio on timely basis.

The indicator of timely project implementation shows the percentage of projects implemented during the current year or in a timely manner. In order to implement the projects in a timely manner, the Company ensures the efficient use of its resources. This allows to focus on the achievement of project indicators. At the beginning of 2022, the Company set the target to implement 96% of the projects within the current year on the dates specified in the project implementation plans. All the planned projects were implemented within the estimated timeline, with the exception of 2 projects, however, although time limit for implementation the one strategic project had expired, the Company managed to catch up with the planned tasks by the end of 2022. The adjusted project completion is 98%. However, the Company achieved the objective for 2022 by 70%.

3

Objective:
To streamline costs.

Seeking to implement and achieve this objective, the Company relies on EBITDA (earnings before interest, taxes, depreciation, impairment and write-offs). In the long term, the Company plans to consistently increase its performance, therefore, the targeted EBITDA in 2022 was set at ≥ EUR 9 million. At the end of the year, the Company achieved EBITDA of EUR 2.2 million, however, after eliminating the impact of increased energy prices (the Company's electricity costs in 2022 accounted for 18% of its operating costs and amounted to EUR 8.9 million, or exceeded by as much as EUR 5.3 million in 2021), tax indexing and negative inflation effect on other costs of the Company, adjusted EBITDA was EUR 9.9 million.

4

Objective:
Ensure customer satisfaction.

The Company carries out customer satisfaction survey on services provided and quality of service for the sixth year in a row. Based on an international GCSI (Global Customer Satisfaction Index) methodology, the survey demonstrated further increase in the Company's customer satisfaction score: from 76 in 2021 to 79 in 2022. During the year, the Company successfully improved ratings by 3 points against all the components of this survey: overall satisfaction, compliance with expectations and comparison with the imagined ideal company. The overall customer satisfaction with the Company's services is even 12 points higher than the average rating of utilities provided in Lithuania.

5

Objective:
To create value-based organizational culture.

To achieve this goal, the Company aims to create a healthy working environment with zero accidents. For this objective, the Company employs continuous improvement of the safe working environment through employee education, application of individual and collective occupational safety and health measures, workplace inspections, etc. In 2022, the Company had an accident-free record.



COMPANY'S NEW LONG-TERM STRATEGY FOR 2023-2032

Following changes in internal and external environmental factors affecting the Company's activities (changes in the legal framework, trends prevailing in the water management sector, direction of the European Union's development, increased threats to cybersecurity, rising energy prices, inflation, etc.), the Company adopted a decision in 2022 to update its long-term strategy.

The Company's long-term strategy for 2023-2032 is focused on reducing the environmental impact of the Company's activities and continuously improving the experience of the Company's internal and external customers. The Company's new strategy outlines the most important directions in which the Company pursues strategic goals consistent with the UN Sustainable Development Goals. The Company's strategy sets out the following strategic directions: (1) environmentally sustainable activities; (2) effective customer experience management; (3) innovation, efficiency and financial sustainability growth; (4) a caring organisation and committed staff.

FULFILMENT OF THE MISSION, ASPIRATION TOWARDS THE VISION AND THE ENTIRE ACTIVITY OF THE COMPANY IS BUILT ON THE FOLLOWING VALUES:



RESPONSIBILITY



PROFESSIONALISM



COOPERATION

THE COMPANY'S NEW STRATEGY HIGHLIGHTS THE KEY OPERATIONAL OBJECTIVE, MISSION AND VISION:



THE KEY OPERATIONAL OBJECTIVE

is to supply water for a full-fledged life, to protect life and nature.



THE COMPANY'S MISSION

is to ensure the supply of quality water customers and effective wastewater treatment. The quality water determines the Company's performance so that all customers of the Company are provided with a high quality drinking water across the supply chain. The Company is continuously monitoring the impact of its activities on the environment and improving its performance not only to meet environmental requirements, but also to reduce environmental pollution.



THE COMPANY'S VISION

is sustainable, environment-friendly water management service provider committed to the community. The vision highlights the Company's aim to maximise the benefit for the Company's customers and society as a whole by systematically reducing the negative impact of the Company's activities to levels below those required by environmental legislation.

THE COMPANY'S STRATEGY PROVIDES AND UPDATES THE COMPANY'S STRATEGIC DIRECTIONS:



ENVIRONMENTALLY SUSTAINABLE ACTIVITIES.



EFFECTIVE CUSTOMER EXPERIENCE MANAGEMENT.



INNOVATION, EFFICIENCY AND FINANCIAL SUSTAINABILITY GROWTH.



A CARING ORGANISATION AND COMMITTED STAFF.

With a view to ensuring a balanced implementation of the strategic directions, the interests and expectations of stakeholders (society, customers, shareholders, partners, and employees) are taken into account.

The strategic goals are defined by considering the expectations of the shareholder, Vilnius City Municipality, for the Company, the satisfaction of the Company's customers, measured by the Global Customer Satisfaction Index, the Company's employee engagement survey, and etc. Key strategic performance indicators show how the Company fulfils its commitments to stakeholders by 2032.

Key strategic performance indicators set in the Company's strategy for 2023-2032

Key strategic performance indicator	2022	2027	2032
Volume of wastewater discharged into water bodies (t/m)	4,290 (3,520 t/m in 2020 before reconstruction)	2,200	1,650
CO2 emission (thousand tonnes)	12.1	1.4	0
Share of electricity generated (%) in the total electricity consumed	24.6	33.6	100
GCSI index	79	80	≥81
EBITDA, %	3,5 (adjusted EBITDA 19,4)	25.1	≤ 25%
Net debt/EBITDA (set value)	19.2 (adjusted ratio of 3.5 in 2022)	5.3	≤4.5
Employee engagement, %	66	70	75
Accidents in the Company	0	0	0

The Company's strategy, prepared in 2022, was approved by the Board of the Company at the end of the reporting period on 9 February 2023. The Company's strategy for 2023-2032 is publicly available on the Company's website under About Us/ Management/Corporate Governance Documentation.

COMPANY'S PERFORMANCE IMPROVEMENT

In 2022, the Company launched performance improvement implementation based on the LEAN Management System.

The purpose of this project is to actively engage the Company's employees in the performance improvement and problem solving process within the scope of their responsibilities, to develop performance management system enabling continuous improvement of the quality of functions, enhanced satisfaction of customers and other stakeholders, and improvement of operational processes.

At the start of the project, the Company conducted operational process assessment and selected around 20 different operational processes for improvement (Operation of water supply and pumping stations, Operation of water supply networks, New customer connection, Meter reading control, Customer query management and other processes).

In 2022 for the purpose of analysing and improving the selected processes the Company established process improvement teams, which achieved the set targets by analysing all the processes included in the project with a methodical approach. Teams learned and practically applied VACA, PDCA, etc. methods to process improvement. As part of the performance improvement system, the Company also launched the system of performance improvement suggestions (jap. Kaizen) in 2022.

At the end of 2022, the Company introduced the system of daily stand-up meetings (jap. Asaichi). During the ongoing four-level meetings, the Company discusses the performance indicators and challenges of departments, thus ensuring the immediate dissemination of information and a quick response to the problems encountered.

To measure the implementation of the LEAN Culture Implementation project, the Company uses the LEAN ROI indicator, which showed positive development (>0) in the very first year of the project (2022). Process improvement and standardisation resulted in cost savings of EUR 85 thousand for the Company in 2022.

This project will be continued in the Company in 2023.

SOLUTIONS FOR ROBOTISATION OF THE COMPANY'S DAILY OPERATIONS

In 2022, the Company focused on the implementation of IT solutions, not only to ensure cyber security in the Company, but also to automate processes, and to introduce systems enhancing customer experience.

The most important IT solutions implemented or launched in the Company in 2022:

- the procurement of FAVAKA, a financial, management and customer accounting system, took place, successful tenderer was selected;
- a cyber security assessment of the system used to monitor and control technological processes (SCADA) in wellfields was carried out by the National Cyber Security Centre (NKSC). The assessment report submitted accompanied by binding recommendations;
- Ivanti, a solution for IT service management processes and systems, was acquired and installed;
- application of remote meter reading equipment, ENERSIS data processing system and MS Navision customer accounting system for ultrasonic meters was carried out;
- the integration of the *Geodispecher* system and Maximo asset management system was carried out;
- the integration of Tasker and *Saperion* document archiving system was carried out;
- www.vv.lt website structure and design were updated, and version adapted for people with disabilities was installed;
- initiatives for customer experience enhancement, availability to check ultrasonic meter readings were introduced on <https://savitarna.vv.lt> customer self-service system;
- *Lansweeper*, an IT asset management system, was acquired and installed.



OVERVIEW OF ACTIVITIES

SCOPE OF SERVICE PROVISION

The dynamics of the volume of sales of drinking water and wastewater treatment services best reflects the changes in the Company's operating volumes which influence income earned by the Company.

The key performance indicators – the volume of drinking water sold and the volume of collected and treated wastewater – distributed unevenly through the activities of the Company: the volume of water sold increased by 3%, the volume of wastewater treatment services – by 1% in 2022, compared to 2021. The growth in the volume of drinking water sold and the volume of collected and treated wastewater was mainly influenced by the post-pandemic business recovery, and, during 2022, the business volumes gradually returned to normal and reached the pre-pandemic level.

Performance indicators, thousand m ³	2020.	2021	Estimated outcome in 2022	Actual outcome in 2022	Change compared to 2021	Change compared to estimated outcome in 2022
					%	%
Drinking water sold, thousand m³	27,977	28,220	28,816	29,008	3%	1%
To natural persons (consumption), thousand m ³	14,499	14,740	14,900	14,594	-1%	-2%
To legal persons (subscribers), thousand m ³	13,478	13,480	13,916	14,414	7%	4%
Wastewater treatment service sales, thousand m³	30,741	32,192	32,445	32,518	1%	0%
To natural persons (consumption), thousand m ³	14,171	14,465	14,508	14,360	-1%	-1%
To legal persons (subscribers), thousand m ³	16,569	17,728	17,937	18,157	2%	1%

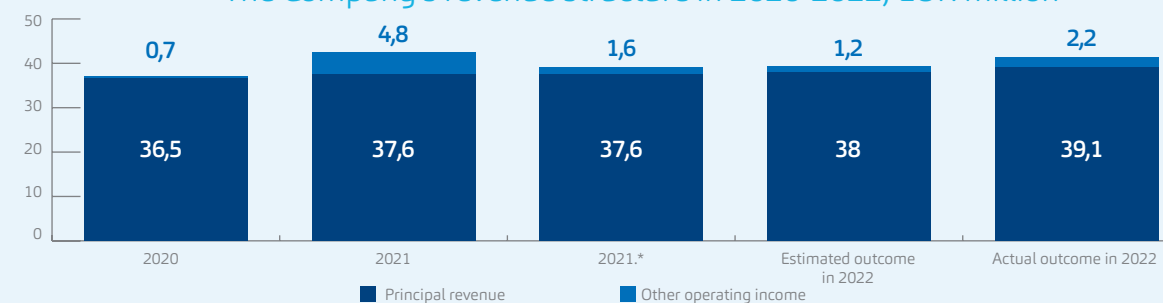
In 2022, the Company extracted 34.3 million m³ of drinking water, supplied 34.2 million m³ of water and used 1.7 m³ of water for technical purposes.

In 2022, the Company treated more wastewater than sold wastewater treatment services due to rainwater infiltration in the wastewater collection system, i.e. 44.8 million m³ of treated wastewater was accounted for in wastewater treatment plans, while only 32.5 million m³ of wastewater treatment services were sold.

SALES OF SERVICES

The Company's principal revenue comprises revenue earned from the provision of drinking water supply and wastewater treatment services. The Company earned EUR 39.1 million from regulated activity services sold in 2022. The Company's regulated activity revenue in 2022 increased by EUR 1.5 million compared to 2021. This was impacted by the tightened wastewater contamination control and a greater number of services provided to customers and by an average of 10% higher service prices effective from August 2022.

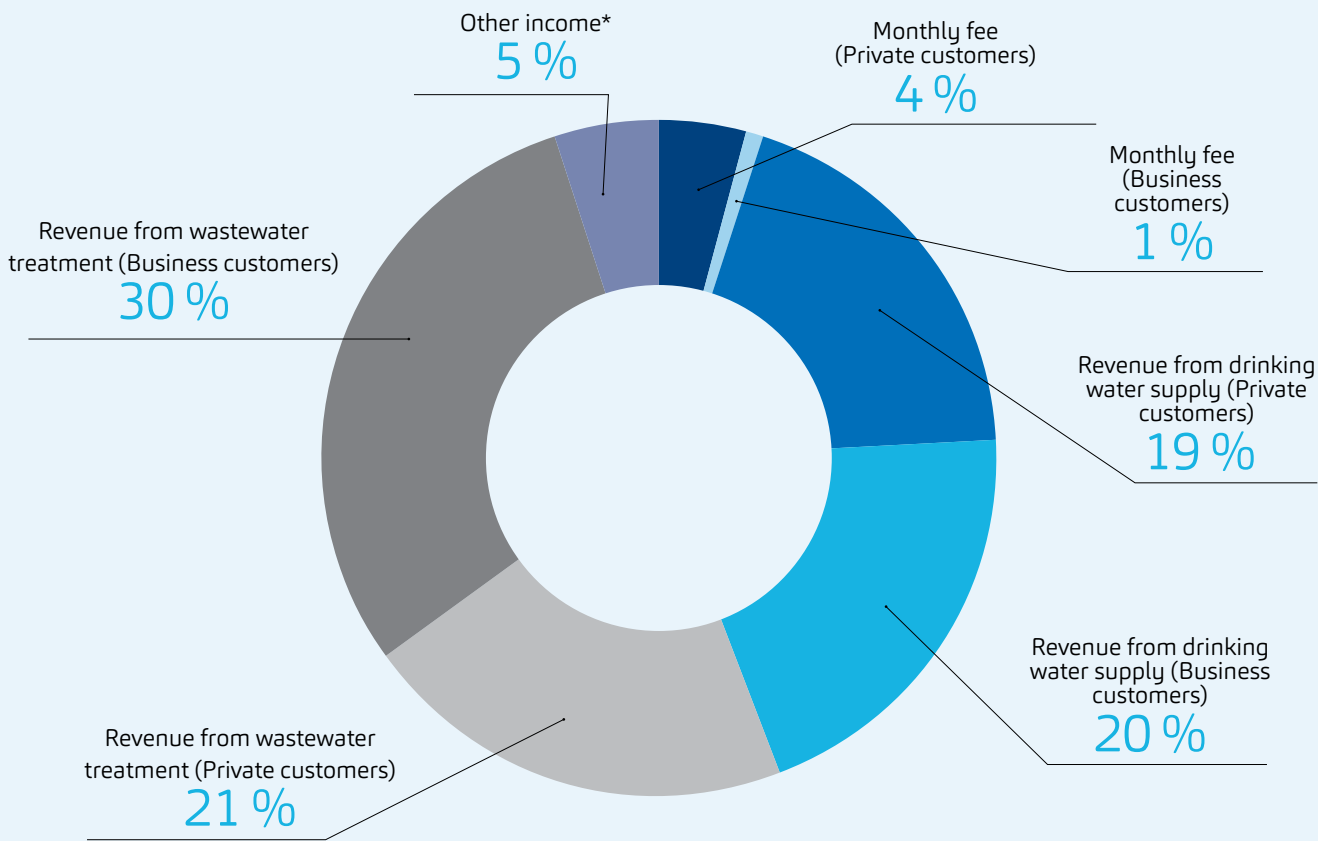
The Company's revenue structure in 2020-2022, EUR million



*Net of net gain of EUR 3,265 million on disposal of buildings on Maironio st.

In 2022, the Company's revenue decreased from EUR 42.4 to 41.2 million (by 3%) compared to 2021. The decrease in other income from EUR 4.8 million in 2021 to EUR 2.2 million in 2022 contributed to decrease in revenue. In 2021, the amount of other income included EUR 3.3 million of net gain on disposal of non-current assets due to sale of unused buildings of Vilniaus Vandenys in the centre of Vilnius (Maironio st.).

Breakdown of the Company's revenue in 2022



* Other income comprise income from unregulated activities, assets received free of charge, assets disposed, as well as rental and other income.

The Company's revenue from business customers* accounts for about 51%, from private customers** for 44%, and other income for 5% of the total Company's revenue.

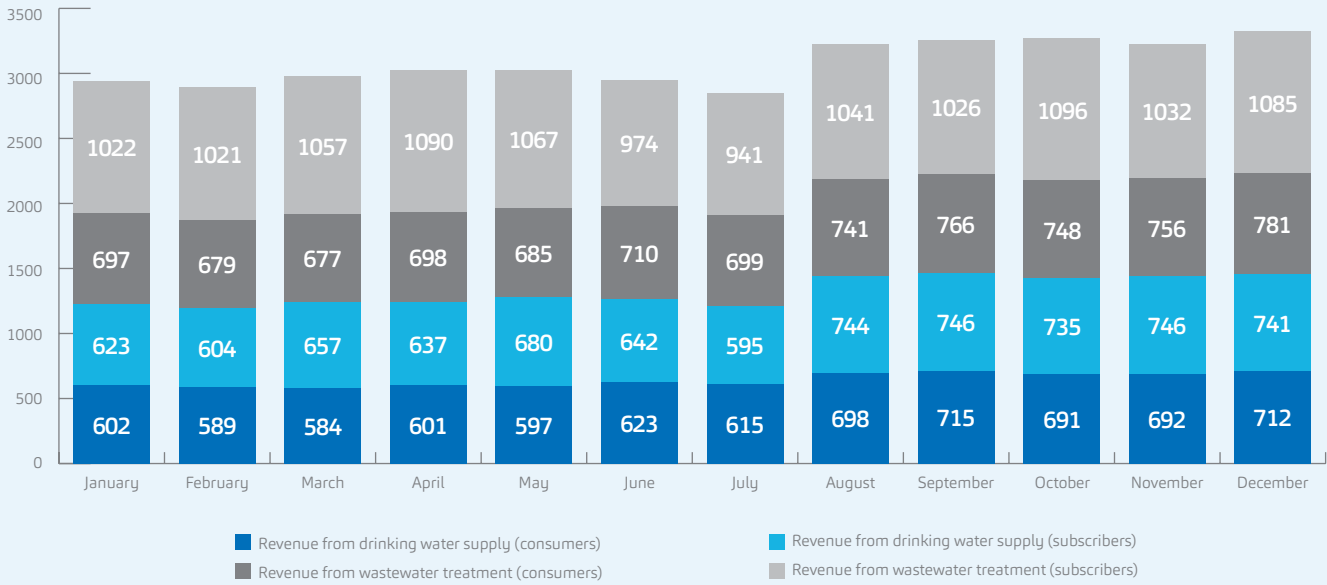


Company's sales revenue and their change in 2020-2022, EUR thousand

Sales revenue, thousand EUR	2020	2021	Estimated outcome in 2022	Actual outcome in 2022	Change compared to 2021	Change compared to estimated outcome in 2022
					%	%
SALES REVENUE	36,531	37,573	38,042	39,074	4%	3%
Revenue from the supply of drinking water, including:	14,561	14,780	15,536	15,869	7%	2%
Revenue from private customers (consumers)	7,556	7,614	7,735	7,720	1%	0%
Revenue from business customers (subscribers)	7,005	7,166	7,800	8,150	14%	4%
Revenue from centralised wastewater management, including:	18,752	20,027	20,442	21,091	5%	3%
Revenue from private customers (consumers)	8,121	8,407	8,598	8,638	3%	0%
Revenue from business customers (subscribers)	8,606	9,419	9,942	10,197	8%	3%
Revenue from business customers (subscribers) for increased pollution	2,025	2,201	1,902	2,255	2%	19%
Monthly fee income	3,194	2,737	2,064	2,074	-24%	0%
Change in income accruals	24	29	0	40	40%	

* The term "business customer" used in the Company's annual report corresponds to the term "subscribers" used in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania.
** The term "private customers" used in the Company's annual report corresponds to the term "consumers" used in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania.

The Company's sales revenue from water supply and wastewater treatment in 2022, EUR thousand EUR

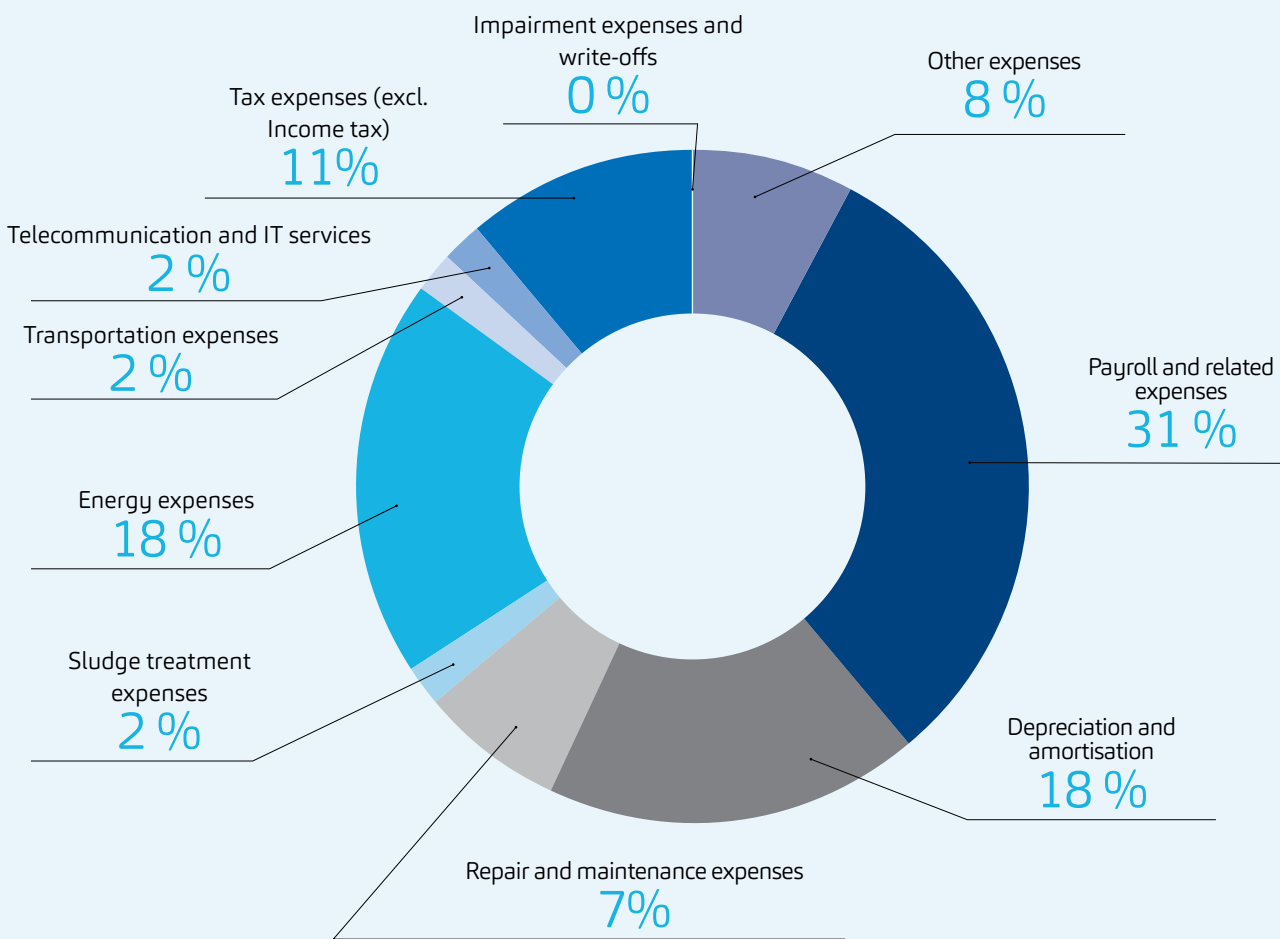


In terms of percentage, the Company's income from different activities remained almost stable in 2022. In the Company's revenue structure, revenue from drinking water supply accounted for 40.7%, revenue from wastewater management for 54%, and revenue from the monthly fee for 5.3% of the Company's total principal income.

OPERATING EXPENSES

In 2022, the Company's operating expenses amounted to EUR 48.2 million, whereas in 2021 only EUR 39.2 million.

Company's OPEX structure in 2022



In 2022, the Company's payroll and related tax expenses made up the major share of operating expenses accounting for 31% of the total operating expenses. In 2022, payroll expenses were higher by EUR 534 thousand compared to 2021.

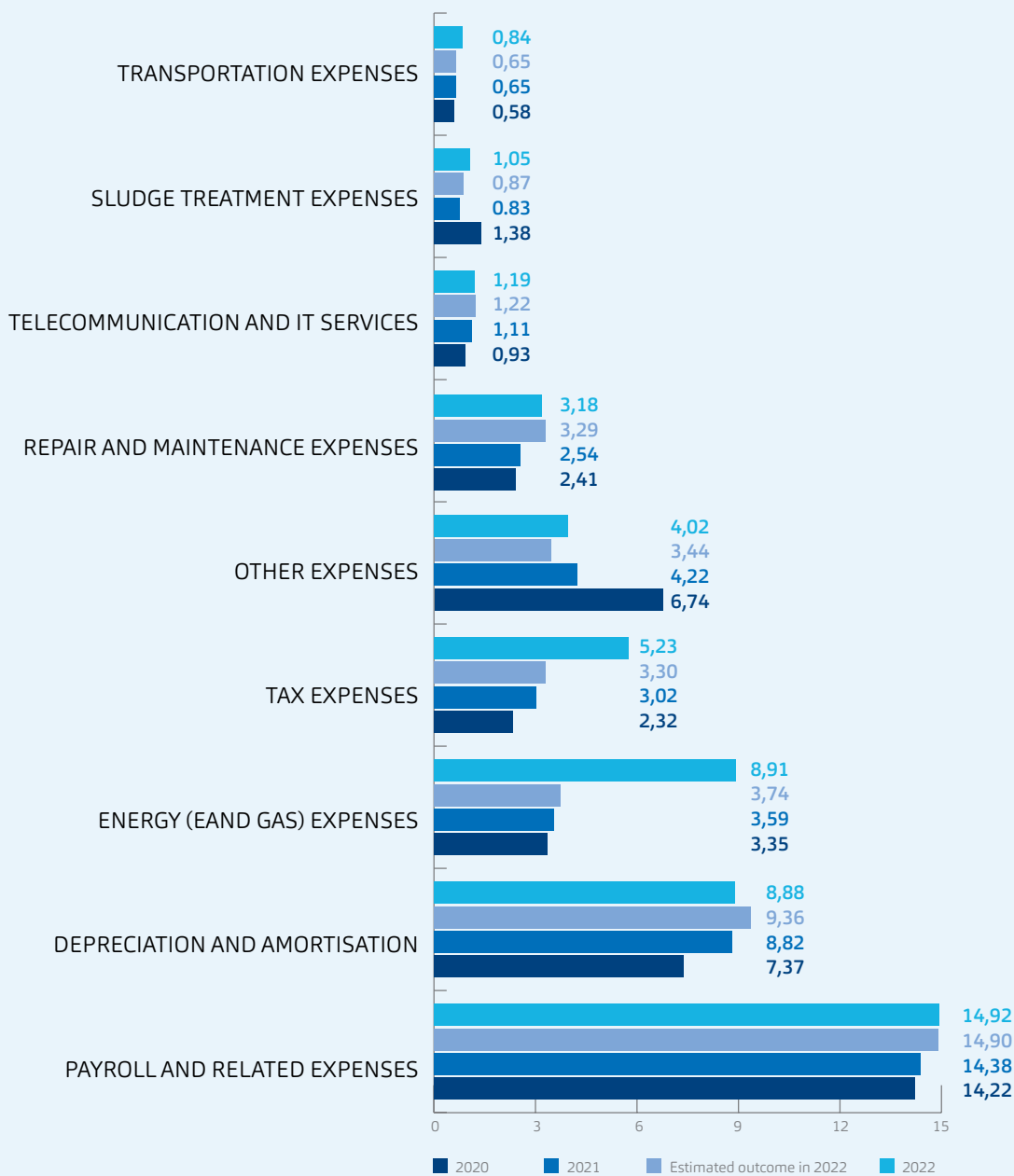
Property, plant and equipment amortisation expenses in 2022 exceeded those in 2021 by EUR 62 thousand and made up 18% of the Company's total operating expenses.

The Company's electricity costs in 2022, due to the sharp rise in electricity prices, accounted for 19% of its operating expenses and amounted to EUR 8.9 million (exceeded electricity costs in 2021 by as much as EUR 5.3 million).

In 2022, tax (other than payroll and income tax-related) expenses accounted for around 11% of the Company's total operating expenses, and increased by EUR 2.2 million compared to 2021. This change was due to increase in tax (pollution tax and tax on natural resources) indexing rates (depend on consumer price index).

In 2022, the Company paid EUR 16,201 million in taxes to the State Tax Inspectorate and the State Social Insurance Fund Board, representing approx. 34% of the Company's total expenses.

Company's OPEX in 2020–2022, EUR million



Repair and maintenance costs that comprise of technical materials and consumables, network diagnostics, cleaning and repair, dug-hole restoration after accidents, equipment servicing, etc. amounted to 7% of the Company's operating expenses in 2022 and increased by EUR 0.6 million compared to 2021.

In 2022, sludge treatment expenses made up 2% of the Company's total operating expenses and increased by EUR 0.2 million compared to 2021.

Telecommunication and IT service expenses in 2021 made up 2% of the Company's total operating expenses. Compared to 2021, they increased by EUR 77 thousand in 2022. During 2022, 92 IT system updates were installed in the Company.

In 2022, transport expenses made up 2% of the Company's operating expenses and, compared to 2021, increased by 29% or EUR 0.2 million. This was due to the rise in fuel prices and repair service fees.

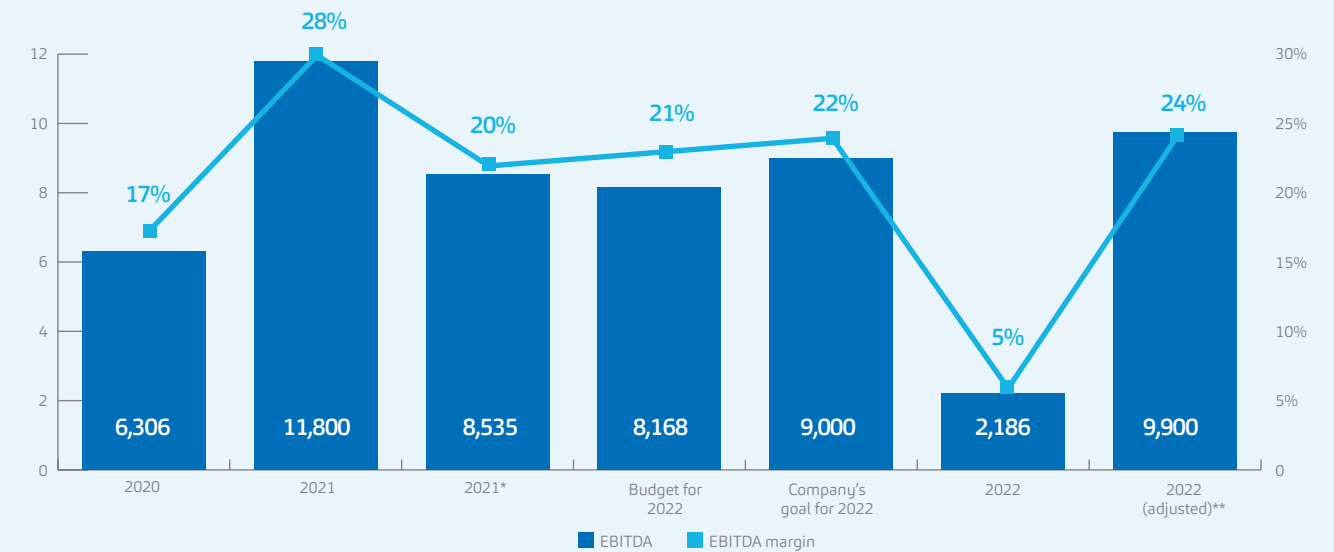
KEY FINANCIAL INDICATORS

Company's key financial indicators and their change in 2020-2022

Key financial indicators, thousand EUR	2020	2021	Estimated outcome in 2022	Actual outcome in 2022	Change compared to 2021	Change compared to estimated outcome in 2022
					%	%
Profit or loss statement indicators						
Total income	37,27	42,40	39,28	41,25	-3%	5%
Operating income (sales)	36,98	38,78	38,04	40,99	6%	8%
Operating expenses (OPEX) (1)	30,96	30,60	31,11	39,06	28%	26%
EBITDA (2)	6,31	11,80	8,17	2,19	-81%	-73%
Net profit	-1,99	3,12	-1,70	-6,00	-292%	253%
Investment scope, total (3)	18,03	33,58	51,84	48,27	44%	-7%
Indicators of assets, equity and liabilities						
Total assets	156,66	173,30	194,34	211,20	22%	9%
Equity	129,61	133,22	138,65	139,92	5%	1%
Non-current liabilities	11,00	18,80	34,71	40,44	115%	16%
Current liabilities	16,05	21,29	20,98	30,84	45%	47%
Profitability indicators						
EBITDA margin (4)	17%	28%	21%	5%	-81%	-75%
Net profit margin	-5%	7%	-4%	-14%	-297%	234%
Return on assets (ROA) (5)	-1%	1,8%	-0,9%	-3%	-258%	224%
Return on equity (ROE) (6)	-2%	2%	-1%	-4%	-283%	249%
Return on investment (ROI) (7)	-1%	2%	-1%	-3%	-261%	238%
Other financial indicators						
Equity level (8)	83%	77%	71%	66%	-14%	-7%
Debt to equity ratio (9)	8,0%	13,5%	23,2%	28,9%	113%	25%
Current ratio (10)	0,86	0,75	0,54	0,61	-19%	12%
Adjusted current ratio (11)	0,90	0,91		0,87	-5%	
Critical liquidity coefficient (12)	0,84	0,74	0,52	0,59	-20%	14%
Adjusted critical liquidity coefficient (13)	0,88	0,89		0,85	-5%	

(1) OPEX – operating expenses other than depreciation and amortisation, and impairment and write-offs.
(2) EBITDA (profit before interest, taxes, depreciation and amortisation) = Profit (loss) before tax + Finance expenses – Finance income – Dividend income + Depreciation and amortisation + Impairment loss + Asset write-offs;
(3) Investment scope, total = Non-current assets put into operation + Construction in progress + Prepayments, less assets received free of charge and in kind contribution made on increase of issued capital
(4) EBITDA margin = EBITDA/Revenue
(5) Return on assets (ROA) = Net profit (loss)/Total assets
(6) Return on equity (ROE) = Net profit (loss)/Equity
(7) Return on investment (ROI) = Net profit (loss)/(Equity + Non-current debts)
(8) Equity to total assets = Equity/Total assets
(9) Debt to equity ratio = Financial debts/Equity
(10) Current ratio = Current assets/Current liabilities
(11) Adjusted current ratio = Current assets/Current liabilities (less liability to the shareholders, grants receivable for settlements with contractors)
(12) Quick ratio = (Current assets - Inventories)/Current liabilities
(13) Adjusted quick ratio = Current assets - Inventories/Current liabilities (less liability to the shareholders, grants receivable for settlements with contractors)

Change in the Company's EBITDA (EUR million) indicator and EBITDA margin (%) in 2020–2022

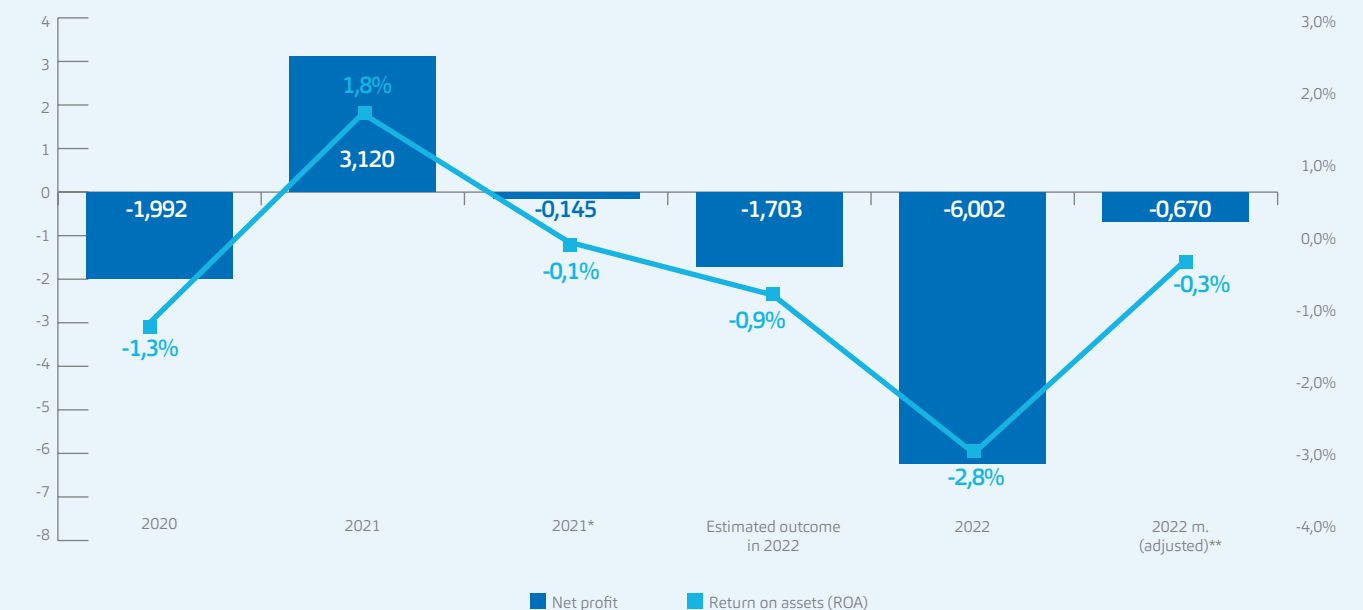


*Net of net gain of EUR 3,265 million on disposal of buildings on Maironio st.
** Net of increase in expenses due to increased electricity prices, tax indexing and negative inflation effect.

In 2022, the Company's EBITDA (profit before interest, tax, depreciation and amortization) amounted to EUR 2.2 million. Given the macroeconomic and geopolitical situation, and after eliminating the growth of costs for objective reasons (the annual effect of 5.45 million of increasing electricity prices, annual effect of EUR 1.07 million of tax indexing, and annual effect of EUR 1.21 million of inflation on other costs), the Company's adjusted** EBITDA amounted to EUR 9.9 million.

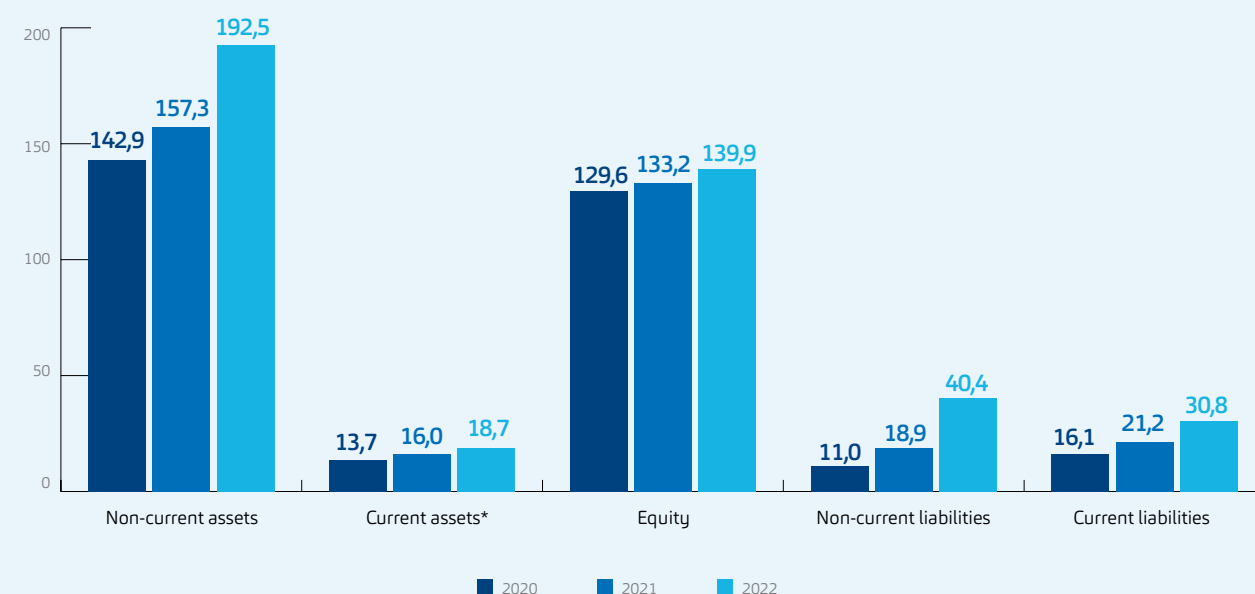
In 2022, the Company's activities were loss-making with a negative net result of EUR 6 million. The main loss drivers were an unexpected sharp jump in electricity prices, tax indexing and the negative impact of inflation.

Change in the Company's EBITDA (EUR million) indicator and Return on asset (%) in 2020–2022



*Net of net gain of EUR 3,265 million on disposal of buildings on Maironio st.

Changes in key balance sheet line items in 2020-2022, EUR million



*Together with the assets held-for-sale

At the end of 2022, the Company's assets amounted to EUR 211.2 million, and increased by 22% compared to 2021. This growth was driven by large-scale investments drifted towards the renovation of operated networks and stations, reconstruction of Vilnius city wastewater treatment plant, as well as wellfield areas, upgrades of sludge treatment equipment, replacement of water metering devices, etc.

Compared to 2021, the Company's current assets increased by 16.9% at the end of 2022, mainly due to increase in cash balance. Growth in the Company's equity in 2022 resulted from increase in issued capital: in 2022 the Company's equity accounted for 66% of its total assets.

On 20 June 2022, the Company signed a continuing agreement with the European Investment Bank (EIB) for the loan of EUR 30 million for the successful implementation of long-term investment projects.

The Company had no overdue trade payables at the end of 2022.

Compared to 2021, the Company's investment volumes increased by 44% during 2022. Investments were drifted towards the renovation of operated networks and stations, as well as wellfield areas, reconstruction of Vilnius city wastewater treatment plant, upgrades of sludge treatment equipment, replacement of water metering devices, etc.

In 2023, the Company expects to maintain the same level of capital investments by implementing all strategic projects at full scale. In 2023, the Company planned to spend EUR 47.87 million on investments, the largest of which will be allocated to the following projects: EUR 20.9 million for the reconstruction of the Vilnius wastewater treatment plant (Stages I and II), EUR 9.4 million for the development of networks in the agglomerations of Vilnius City, Vilnius, Švenčionėliai, Šalčininkai and Švenčionys Districts, EUR 5.2 million for further installation of ultrasonic metering devices with remote reading function, and EUR 1.2 million for the FAVAKA project.





PUBLIC PROCUREMENT

Public procurement of the Company is arranged and carried out in compliance with legal acts regulating water management activities and public procurement.

Company's goal and direction, in public procurement



The Company is a professional and responsible contracting entity



The Company conducts public procurement in open, transparent, simple (standardised) and sustainable manner

In 2022, as in 2021, the particular attention in public procurement the Company paid to the procurement process standardisation and sustainable procurements. Taking into account the Government's sustainability policy approach, the Company has introduced the minimum environmental criteria set by the Ministry of the Environment, eco-labels, environmental management systems and individual environmental requirements in its public procurement procedures in 2022. The Company achieved the target of more than 50% of green contracts in the total value of procurement.

Company's green course in public procurement in 2020-2022

Contracting entity	Value of Green contracts, % (in the total value of procurement)			
	2020	2021	Target for 2022	Actual outcome in 2022
UAB Vilniaus Vandenys	31%	20,3%	50%	68,6%

During 2022, the Company gave the priority to the Price and Quality Evaluation Criteria in the public procurement. In 2022, the Company set the target to execute at least 50% of public procurement according to price and quality criterion or cost criterion. The Company succeeded in meeting this objective in 2022.

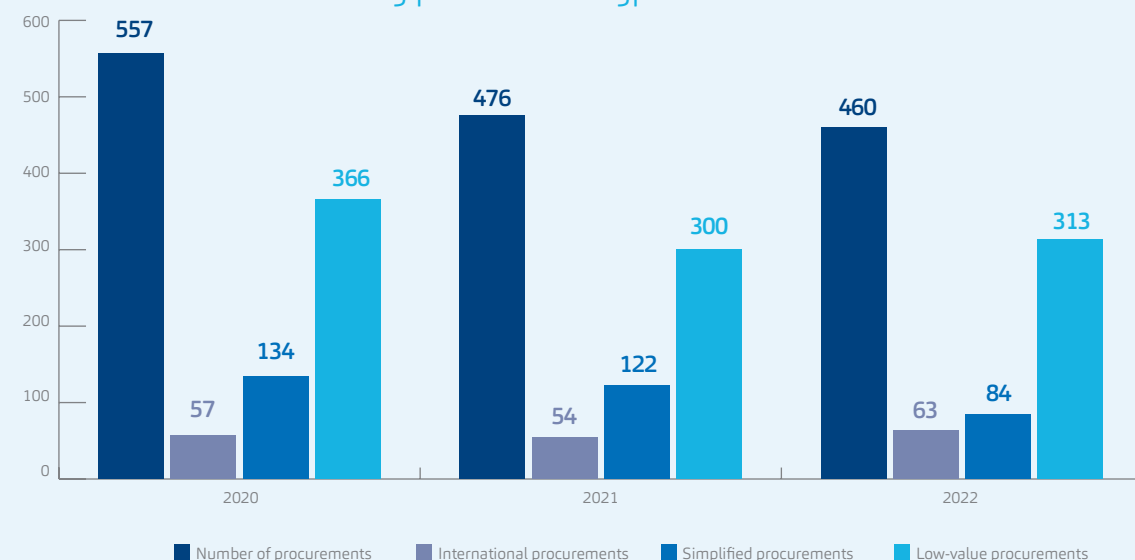
Company's procurement according price and quality criterion in 2020-2022

Contracting entity	Value of procurement procedures according to price and quality criterion or cost criterion, % (in the total value of procurement)			
	2020	2021	Target for 2022	Actual outcome in 2022
UAB Vilniaus Vandenys	42%	39,1%	50%	58,7%

In 2022, the Company made a total of 460 procurements (with a total estimated value of EUR 101.67 million, excl. VAT): 313 low-value procurements (of which 103 were low-value procurement with publication, totalled EUR 2.24 million, excl. VAT), 210 procurements made through negotiated procedure (totalled EUR 0.74 million, excl. VAT); 84 simplified procurements (totalled EUR 15.92 million, excl. VAT); 63 international procurements (totalled EUR 82.77 million, excl. VAT).

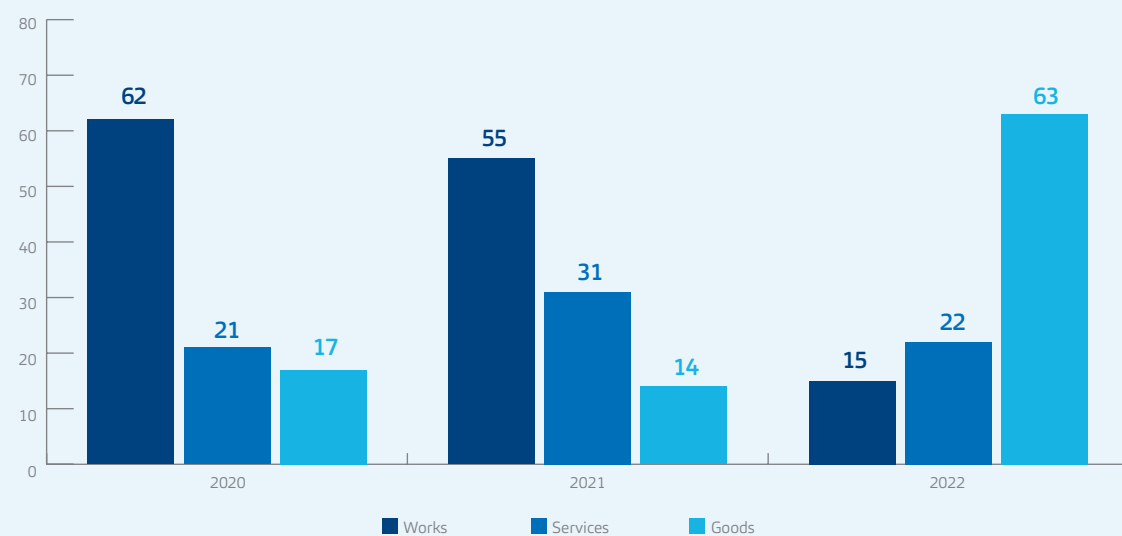
The public procurement process optimisation made by the Company in 2021 and the introduction of a preliminary procurement planning model enabled to reduce the number (volume) of procurements, and the re-examination of the procurement process carried out in 2022 helped to maintain a balanced and consistent procurement process/volume (i.e. to stabilise the quantity/number of procurements and even minimize slightly).

Number and breakdown of Company's procurements by procurement type in 2020-2022



Taking into account the planned value, procurement of works accounted for the largest share of the Company's procurements in 2021. Compared to 2020, only slight changes in this indicator are observed (in 2020: procurement of works accounted for 62%, services – 21%, goods – 17% of the total value of procurement). Meanwhile in 2022, there was a significant change in the Company's procurements by type of procurement objects, i.e. the Company's demand for goods has increased significantly in 2022.

Breakdown of procurements by the type of procurement object (units/%) 2020-2022

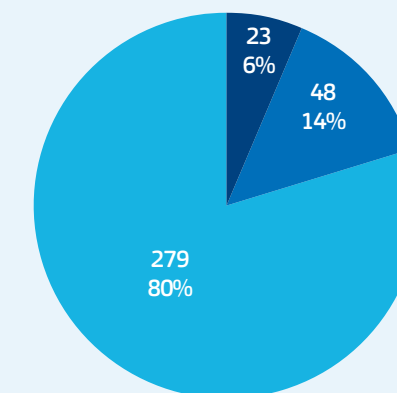


In 2022, the Company made virtually all of its purchases publicly available. Only low-value procurements were made through negotiated procedure (i.e. all procurements below EUR 3,000.00 (excl. VAT)) and/or negotiated procedure without publication of a contract notice taking into account the exemption provided for in the law. Public procurements had undoubtedly led not only to competition between suppliers, price flexibility, but also to the possibility for the Company to make budgetary savings. Additionally, the ratio of procurements through unannounced negotiations to procurements through public negotiations in 2022 remained largely unchanged (in 2021 and 2020, the procurements through unannounced negotiations accounted for less than 0.5 and 1%, respectively, of the total value of procurements).

Execution of the Procurement Plan for 2022 (units/%)

Total procurement planned for 2022
368 procurements
(EUR~**105,81 million**)

Procurements completed
Procurements in progress
No longer relevant



In summarising execution of the Company's public procurement plan in 2022, the actual procurements represented 80% of total planned procurements.

In summarising execution of the Company's procurement plan in 2022, the actual procurements represented 80% of total planned procurements.

Through the procurement, the Company aims to strengthen sustainable cooperation with suppliers and promote professional and fair business practices that incorporate environmental, social responsibility and business ethics objectives. In 2022, the Company was not involved any in court proceedings for public procurement disputes, a total of 29 claims were received, of which only 4 claims were found to be justified and satisfied in full, and 3 claims were satisfied partially.

Important (strategic) high-value purchases, completed in 2022 by awarding public contracts:

Type of procurement object	Procurement type	Number of tenderers	Contract reg. date	Contract value (excl. VAT), EUR million	Successful tenderer(s)
Electricity (II)	International procurement	1	15/09/2022	6,30	UAB Ignitis
Electricity (I)	International procurement	1	10/06/2022	4,88	UAB Ignitis
Wastewater sludge treatment services	International procurement	2	17/08/2022	4,66	UAB Bioineksas
Natural gas with related services	International procurement	3	25/11/2022	1,91	UAB Elenger
Ultrasonic cold water metering devices with built-in remote data transmission equipment (specific procurement)	International procurement	2	05/10/2022	1,28	UAB Axioma Servisas
Equipment for wastewater pumping station, including installation	International procurement	4	16/06/2022	1,15	Arginta UAB
Construction of wastewater networks in SB Riešutas (Vilnius)	Announced simplified procurement	5	16/12/2022	1,02	Žilinskis ir Co UAB
Dismantling and installation of cold water metering devices in flats and premises of apartment buildings	International procurement	1	20/10/2022	0,99	UAB Revika
Repair of special purpose structures in water supply and wastewater networks	Announced simplified procurement	4	19/12/2022	0,90	Statovita UAB
Fuel purchase in Vilnius City	International procurement	2	27/06/2022	0,90	UAB Viada LT
Repair of wells in water supply and wastewater networks (Stage I)	Announced simplified procurement	3	29/04/2022	0,90	UAB Kerista



At the end of the reporting period, the Company defined the areas/segments of public procurement on which it will focus in 2023:



Quality procurement:

ensuring the principle of value for money for at least 70% of all procurements.



Green procurement:

application of green criteria every (100%) procurement.



Professional procurement:

ensuring involvement of qualified and certified procurement experts – at least half of the certified employees of the Procurement Department.



Straightforward procurement:

standardisation of procurement initiation and execution procedures in the light of regulatory changes.



Launch social procurements in accordance with the procedure established by legal acts.





RISK AND NON-COMPLIANCE MANAGEMENT

RISK MANAGEMENT

Risk management has been a cornerstone of the Company's strategic planning for years. The main objective of the Company is to minimise the Company's potential risks and to prepare to act and ensure going concern even in the event of *force majeure*. A formalistic approach to risk management may possibly turn into costly lessons, therefore the Company carefully analyses the causes of the risks, determines the potential scale of the consequences based on financial losses, health problems, time perspective, reputational effects, etc.

In 2022, 5 critical, 17 high, 52 medium and 49 low risks were identified in the Company. The Company's risks of a very high importance and priority were related to environmental pollution, occupational safety and health, cybersecurity and the stable operation of IT systems.

Critical and high risks of the Company were included in the Company's Plan of Risk Management Measures for 2022, the risk management measures of which are designed to mitigate risks.

Company's critical and high risks identified in 2022 and measures for their management

Risk description	Risk management measures
Inadequate control of wastewater pollution	Renewed contracts with top 500 managers of stationary sources of pollution
Entry of wastewater of higher/unusual pollution into the wastewater collection system and treatment plant	Installation of flow measurement and automatic transported wastewater sampling systems Additional laboratory equipment acquired
Wastewater management process failures	Ongoing reconstruction of Vilnius wastewater treatment plant
Cyber security threats	Various network security measures are purchased and implemented
Workplace fatalities	Reconstruction of well covers or raised fire hydrants Practical occupational safety training of employees Long-term contracts signed for the purchase of personal protective equipment
Disruption of wastewater management infrastructure due to heavy rainfall or snow melt	Ongoing reconstruction of Vilnius wastewater treatment plant, balance tanks are scheduled for installation in 2027.
Not ensured network safety and security	Network infrastructure is renewed where possible
IT system failures	Installation of FAVAKA, a unified IT accounting system
Potential GDPR infringements in the Company's activities	Contract with an external company for consultations, inspections
Contamination of groundwater with radioactive, chemical substances	Procurement made for Astravets NPP impact study
Laboratory activities contradict the principles of impartiality, objectivity and transparency	Accreditation of laboratory

In 2022, the Company successfully implemented 92.6% of planned risk management measures designed to mitigate risks in 2022.

Risk management actions in the Company in 2022:

- Annual risk assessment. During this stage of the process, changes in external and internal factors, the weakest links between processes were analysed by taking into account complaints/operational failures/incidents that have been recorded in recent years, as well as anticipated future developments.
- Risk assessment of processes. In December 2022, the Company's Board approved the Company's risk assessment and Risk Management Plan for 2023.

In 2022, the Company's risk management process was improved through the following actions:

- updating the Risk Management Policy and the Description of the Risk Management Procedure;
- implementing visual representation of risks on the Risk map;
- implementing "5 whys" method of risk analysis for critical and high risks;
- re-assessing all critical and high risks (from the risk name, which accurately reflects the risk itself, to the identification of the risk management measure, which corresponds to the true root cause of the risk, thus facilitating risk mitigation).

The risk management process is planned to be further enhanced in 2023 through the following actions:

- applying "5 whys" method of risk analysis to all risks (including medium and low risks);
- maximising engagement of both risk owners and top managers in risk assessment from the very first stages;
- setting and measuring KRI for all high and critical risks;
- reporting KRI to the Board and Audit Committee on quarterly basis;
- launching monthly (before was quarterly) control of the Plan for Risk Management Measures and KRI.

The Company's Risk Management Policy (publicly available on the Company's website under About Us/Management/Corporate Governance Documentation, published document) defines the purpose of risk management, sets the basic principles of risk management and clearly outlines responsibilities for risk management. The Company manages risks in accordance with the best practices in the world and the guidelines of the group of ISO 31000 standards. Not only the Company's employees, but also the Board and the Audit Committee are involved in the risk management process.

Continuous communication, rigorous control of risk management plans, regular risk monitoring, evaluation of the effectiveness of risk management measures, adoption of solutions for new management measures, sharing of good practices have been and still are the key activities to ensure an appropriate response to events, i.e. cases that may have a negative impact on the achievement of the Company's objectives.

In 2022, the Company had a risk-free record.

NON-COMPLIANCE MANAGEMENT

Recording and addressing of non-compliances on timely basis ensures continuous improvement of quality of the Company's services and mitigation of risks and threats to the Company to suffer financial or reputational damage. Non-compliance management focuses not only on the earliest possible identification of action/process of poor quality, but also on the possibility of resolving it as soon as practicable, restoring activity to its original state before it causes a lot of damage, and taking long-term, sustainable measures to prevent disruption from happening again.

In order to meet ISO 9001:2015 and ISO 14001:2015 standards and improve performance, the Company continually improves the non-compliance management process.

In 2022, the Company continued to keep the Non-compliance Register, which was introduced in 2021. The Non-compliance Register is designed to record, coordinate and address the observed instances of non-compliance, which can be recorded by any employee of the Company.

Every instance of non-compliance recorded in the Non-compliance Register is subject to corrective measures: initial actions to stop and eliminate the non-compliance as soon as possible.

Every instance of non-compliance recorded in the Non-compliance Register is subject to corrective measures: initial actions to stop and eliminate the non-compliance as soon as possible, and corrective actions to remedy the cause of the non-compliance and to prevent the recurrence of non-compliance.

In 2022, a total of 63 instances of non-compliance were recorded in the Company, of which 9 were incomplete. In the first half of 2023, the Company plans to assess the recurring non-compliances in 2022 and develop a plan to address such recurring non-compliances.

Non-compliance management indicator	2021	2022
Number of non-compliance instances recorded	100	63
Process groups with the highest number of non-compliances	Production maintenance, support and operational management – 39 Accounting and settlement management – 11 Asset management and maintenance – 18 Provision of services – 13	Production maintenance, support and operational management – 21 Occupational health and safety, fire safety management – 15 Asset management and maintenance – 9 IT system and equipment management – 6
Number of non-compliance instances addressed	99	54

ENSURING PHYSICAL SECURITY

Due to the specifics of its activities and the provision of strategically important public services, the Company falls into the first category of companies essential to national security.

The Company was the first among the country's water management companies to prepare the Security Plan which was approved by the Government of the Republic of Lithuania. The Company currently has 433 protected facilities, which are divided into three levels of physical protection based on their significance to the Company's activities and potential risks: 4 high-risk facilities are assigned to security level 3, 25 medium-risk facilities to security level 2, and 404 low-risk facilities to security level 1.

In 2022, the Regulation on operations and physical safety was implemented through the following actions:

- conducting risk assessment of the Company's facilities;
- conducting checks on the Security Service response to an alarm triggered by panic buttons and security alarm systems;
- conducting incident investigations;
- performing employee briefings on the use security alarm systems;
- upgrading and installing security alarm systems;
- implementing additional measures during emergencies;
 - additional screening of personnel, contractors and suppliers having the direct access to the Company's information systems, databases, networks and other important information technologies and resources;
 - reviewing the levels of security of objects of importance to ensuring the national security;
 - checking response of physical safety services provided in the Company's facilities;
 - submitting the List of critical infrastructure facilities to the Vilnius city municipality administration;

- holding three meetings of the Company's representatives with the representatives of Ukrainian water management companies for obtaining valuable information on the organization of work, physical safety and protection of personnel during a military situation in the country.
- joint exercises on combating military hybrid threats, attended by the Company's representatives together with the intelligence services.

ENSURING CYBER SECURITY

The importance of cybersecurity continues to grow each year. The reason for this is the increasing number of software attacks in pursuit of ransom, the growing popularity of cyber and social-engineering attacks in the Internet of Things, and increasing demand for cloud computing services in response to hybrid work habits.

2022 was a year of exceptional cyber attacks by Russian-aligned groups targeting the public institutions and infrastructure sector.

Acting on lessons from the Russian war against Ukraine, in 2022, the Company paid special attention to ensuring cybersecurity. The main objective of the Company: to ensure the cybersecurity of the critical information infrastructure and the continuity of the Company's information systems. The Company is the operator of critical information infrastructure, therefore, in 2022, the National Cyber Security Centre under the Ministry of National Defence conducted an inspection of this infrastructure, on the basis of which a series of actions will be implemented in 2023, which will strengthen the cybersecurity of the Company's information systems, and will increase the legal capacity of information systems, the Company's activities, and will ensure compliance.

In 2022, the Company organised cybersecurity training for employees, implemented social engineering test practices increasing alertness of the Company's employees, implemented the necessary technical solutions enhancing the security of critical information infrastructure, eliminating the possibility of brute force attacks, allowing to monitor and analyse events and information flows, and enabling to respond promptly to cybersecurity threats.



PROJECT MANAGEMENT

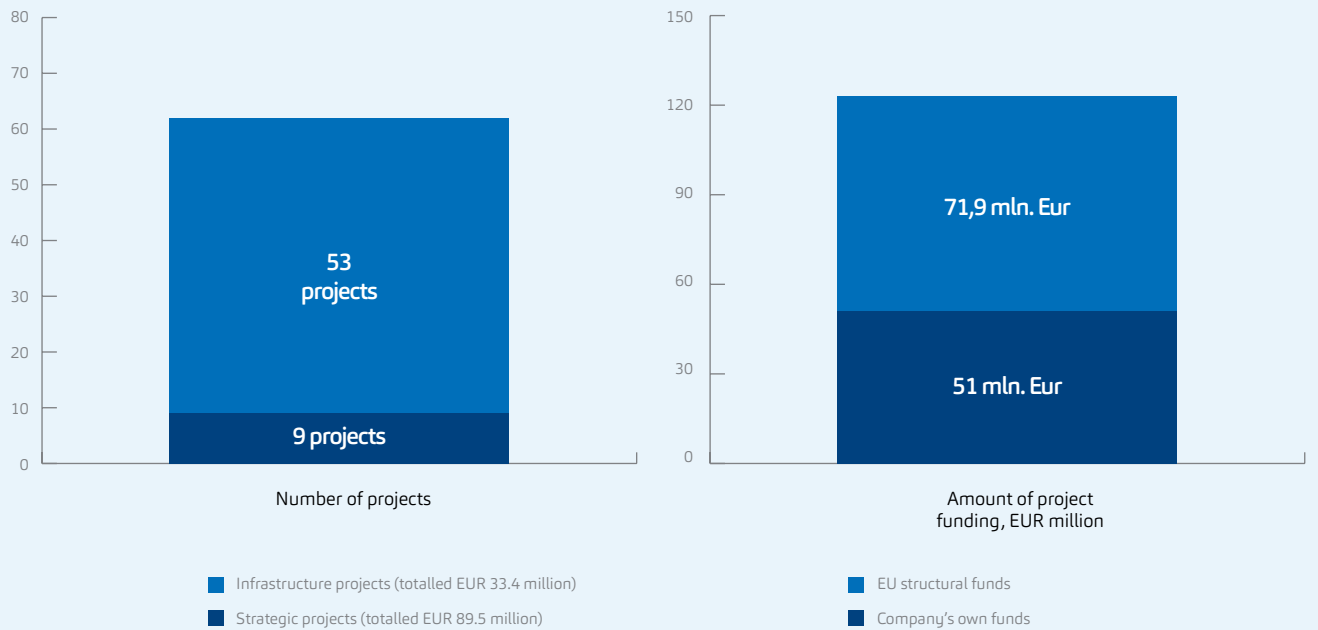
Management of any project in the Company is subject to the Project Management Policy requirements (publicly available on the Company's website under About Us/Management/Corporate Governance Documentation). Based on this policy, the Company's project management applies a single project management methodology ensuring systematic and standardised project management, involving management structure, roles of participants, phases, decision-making points and documentation. Using a single project management methodology, projects are managed and implemented in line with the planned schedule, scope and budget.

For the purpose of maximising the efficiency of projects managed, in 2022, the Company conducted the analysis of the Project Management Process Steps using the LEAN methodology. The project management process was improved by eliminating redundant costs, enhancing efficiency of working procedures and updating of the Description of the Project Management Procedure. Striving for continuous improvement and effective project management in the future, the Company will continue the ongoing monitoring of the Project Management process on the basis of the LEAN methodology.

COMPANY'S PROJECT PORTFOLIO

At the end of 2022, the Company's project portfolio contained a total of 62 projects (2021: 59) with the overall budget of more than EUR 122 million, 38 of these projects were funded with almost EUR 61 million received from the European Union Structural Funds.

The Company's project portfolio and project funding sources as at 31 December 2022



In 2022, the Company drew up a plan with 35 projects with separate project implementation stages planned and recorded for each project, to be achieved during 2022. At the beginning of 2022, the Company also set the target to implement 96% (in 2021 this target was set at 85%) of the projects within the timeframe set in the project implementation plans. In 2022, as many as 33 projects out of 35 projects were implemented within the timeframe set, and only two projects were implemented in deviation from the planned deadlines, however, the planned implementation deadline set for one strategic project was achieved in the same period in 2022, which resulted in the adjusted project portfolio implementation rate of 98%.

COMPANY'S STRATEGIC, DIGITISATION AND RENEWABLE ENERGY PROJECTS

In 2022, the Company implemented 9 strategic projects with a total budget of more than EUR 89 million in the period 2018-2030.

The Company's key strategic projects, the implementation of which was started/continued/completed in 2022:

Strategic project	Project budget	Project goal	Final project outcome	Progress in 2022
Reconstruction of Vilnius city wastewater treatment plant, Stage 1	EUR 35.69 million	To increase the quality of the wastewater treatment services provided to Vilnius City and Vilnius District by ensuring that the average annual concentrations of pollutants in discharged wastewater meet the requirements of legal acts.	Reconstruction of wastewater treatment plants, improvement of the wastewater treatment plant treatment indicators, prevention of wastewater entering the environment and improvement of the efficiency of the wastewater treatment plant.	Reconstruction activities during 2022: the reconstruction of 3 bioreactors (of 6) was completed, the construction of a new building for airblower and a gate building was completed, the construction of a new control room, primary sludge pumping station, sand pumping station, and new drainage channels was in progress, and the construction of an activated sludge pumping station was completed.
Reconstruction of Vilnius city wastewater treatment plant, Stage 2	EUR 11.2 million	To increase the quality of the wastewater treatment services provided to Vilnius City and Vilnius District by ensuring that the average annual concentrations of pollutants in discharged wastewater meet the HELCOM requirements.	Reconstruction of wastewater treatment plants was completed, previously unused technologies (tertiary treatment circuit) were deployed to facilitate removal of phosphorus from wastewater and prevent plastic particles from entering the treated wastewater.	In 2022, a contract for works was signed, a permit for the commencement of construction was obtained.
Smart network management (2nd Stage of 3): Installation of smart metering devices with remote reading function in consumer water supply inlets located in wells and basements of apartment buildings.	EUR 2.6 million	To remotely account for the amount of water supplied and consumed in segments, such as wells and water inlets located in basements of apartment buildings, in order for the Company to respond and eliminate accidents and losses in water supply mains, internal networks of apartment buildings in a timely manner, and to make effective use of human resources.	Introduction of remote reading of inlet water metering devices, which are installed in wells and basements of apartment buildings. The stage of manual reading recording has been eliminated from the process. Losses due to non-invoiced water reduced.	In 2022, this project was finally completed, with a total of about 8.5 thousand units of remote reading meters installed on cold water metering devices, located on water inlets in wells and basements of apartment buildings.



Smart network management (3rd Stage of 3): Installation of digital ultrasonic metering devices with remote reading function in apartments, private homes and commercial premises	EUR 30 million	To accurately account for the amount of water supplied and consumed, to eliminate the abuse of residents by providing meter readings, to identify in a timely manner the emergency situations occurring between the building's inlet metering device and apartment, as well as emergency situations occurring outside the metering device located in the apartment.	Installation of almost 360 thousand units of digital ultrasonic metering devices with remote reading function.	In 2022, a public procurement was held and the contract was awarded for the supply of 60 thousand units of metering devices.
Financial accounting, management accounting and customer accounting (FAVAKA)	EUR 4.3 million	To optimise the processes of financial accounting, management accounting, customer servicing and the provision of all services, as well as billing for services by acquiring a tool that will allow the activities to be organised more efficiently.	Introduction of a solution for financial accounting, management accounting, customer servicing and provision of services to customers.	In 2022, technical design, procurement documents for this project were drawn up, market consultation was conducted and procurement procedures were carried out.
Reconstruction of Švenčionys wastewater treatment plant	EUR 4.2 million	To increase the efficiency of wastewater treatment for Švenčionys city residents by ensuring that the average annual concentrations in wastewater do not exceed the requirements specified in the Nemunas River Basin District Management Plan.	Upon completion of the project, the wastewater treatment plants of Švenčionys city will be reconstructed to ensure continuous, reliable and high-quality wastewater management services for 2,468 residents.	In 2022, the construction of the following facilities was completed: a new technological building, sewage acceptance station, tertiary treatment equipment, new engineering networks.

In addition to very important strategic projects, the Company also pays great attention to the projects of digitization of the Company's operations and renewable energy.

Key digitization and renewable energy projects ongoing/ completed in 2022

Project	Project goal	Project benefit	Progress in 2022
Information system for the operation and management of infrastructure (AMS)	To digitise the assets managed by the Company and to ensure single and unified management of the asset maintenance and work planning.	The Company set up a unified and standardised technology asset management system tailored to the activities of the water management company. The new system will help the Company to optimise operations, improve the quality of services provided and facilitate more efficient processes related to the operation, maintenance and repair of technological assets.	The development of the Information System for the Operation And Management of Infrastructure continued in 2022. New system modules were incorporated and implemented, AMS-GIS was integrated: more than 150 thousand units of assets of a point and linear type were added to AMS through integration.
Portable stand-alone wastewater flow meters for preventing unauthorised connections (theft)	To reduce water theft and losses incurred by the Company by means of portable stand-alone wastewater flow meters.	Water theft is prevented and the Company's losses are reduced.	The project of installation of portable stand-alone wastewater flow meters for preventing unauthorised connections (theft) continued further in 2022. In 2022, additional 14 portable stand-alone wastewater flow meters were acquired to prevent incorrect wastewater metering data. In 2022, 5 such instances were recorded and the total amount of wastewater discharged into wastewater networks was subject to the fee, thus reducing the Company's water theft and losses.
Installation of solar power plants	To generate part of the electricity required for the needs of the Company by installing solar power plants on the roofs of the Company's stations and within its territories.	Use of natural resources for energy recovery, reduction of the Company's costs, storage of natural resources, reduction of fossil fuel and CO ₂ emissions.	In 2022, 4 photovoltaic power plants were mounted on the ground and 1 photovoltaic power plant on the roof of the Company's building with the total solar power capacity of 988 kW. During 2022, the solar power plants produced 508 MWh of electricity.



COMPANY'S CUSTOMERS

In 2022, the Company's customer base grew to 278 thousand (from 272 thousand in 2021). The main reason for the continuous increase in the customer base is the network and urban district development projects undertaken by the Company. Customers' in Vilnius city account for the majority of the Company's customer base.

Dynamics of the Company's customers in 2020-2022 (as at the reporting date)

Customer type	2020	2021	2022
Private	258,677	263,841	269,153
In apartment buildings (settlement based on meter readings)	235,322	239,282	243,330
In apartment buildings (settlement based on the feed-in point)	391	392	71
In single-family houses	22,964	24,167	25,752
Business	8,492	8,530	8,751
TOTAL clients	267,169	272,371	277,904

Breakdown of customers (natural persons) by service areas in 2020-2022 (as at the reporting date)

Area	2020	2021	2022
Vilnius city	249,400	254,504	259,741
Vilnius District	2,272	2,283	2,288
Šalčininkai district	3,038	3,074	3,184
Švenčionys district	3,967	3,980	3,940

CUSTOMER SURVEYS AND INTERVIEWS

In 2022, the Company consistently maintained high indicators of customer experience and satisfaction with the quality of services provided. The Company continued to invest in key customer service areas: cutting red tape, shortening and streamlining processes, and implementing smart solutions that allowed customers to access the services they need faster, easier, and in line with "one-stop-shop" principle.

The research on customer experience initiated/conducted by the Company show that improved user-friendliness of the self-service portal and meter reading submission, and a clear separation of responsibilities between the Company and the building administrator were well accepted by the Company's customer in 2022. In 2022, the Company paid great attention to the customer query management in the customer service area, therefore, the results of existing studies show the satisfaction of customers who contacted the Company regarding complaints grew over the year. In 2022, the Company's business customers, as the best aspects of the Company's services, identified not only clear and user-friendly procedures for invoicing, settlement and meter reading submission, but also advance notification of the planned works.

Seeking to assess the quality of its services and improve it, the Company initiates, participates in or conducts three different customer studies and surveys: Customer Satisfaction Survey (GCSI), Vilnius City Municipality Survey and Transactional New Customer Connection Survey (TNCC). Below is an overview of the results of each study/ survey in 2022.

1 Customer Satisfaction Survey (GCSI)

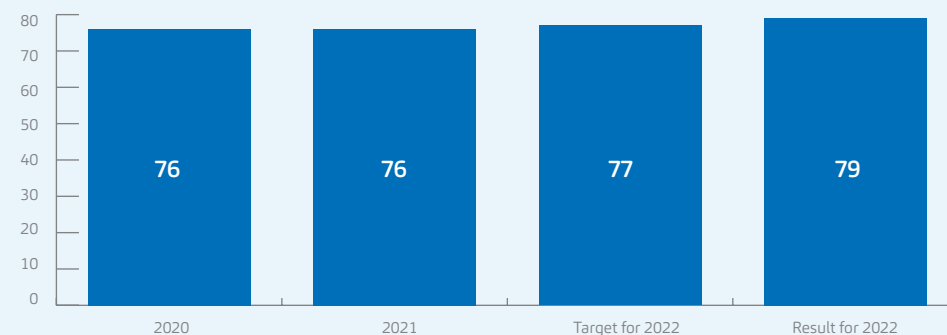
In 2022, the Company conducted a customer's satisfaction survey for the sixth time. It was based on the GCSI (Global Customer Satisfaction Index) methodology, which is recognised globally and perfectly suits the public sector and monopolistic markets. More than 2,000 private and 400 business customers were interviewed during the survey.

The survey demonstrated significant increase in the Company's customer satisfaction score: from 76 in 2021 to 79 in 2022. During the year, the Company successfully improved ratings by 3 points against all the components of this survey: overall satisfaction, compliance with expectations and comparison with the imagined ideal company. The overall customer satisfaction with the Company's services was even 12 points higher than the average rating of utilities provided in Lithuania.

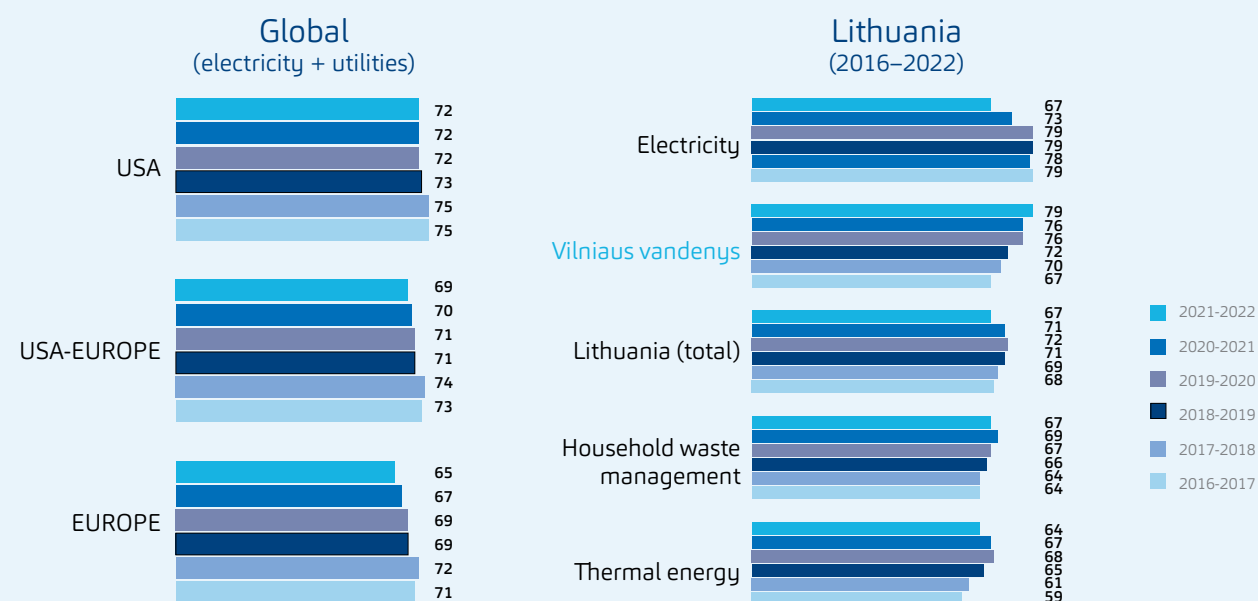
The overall average of the quality and service aspects of the services (20 aspects) on the 10-point scale was 8.6. During the year, assessments of most aspects of private customer service have improved.

The survey showed that the Company's customers feel and appreciate the actions and efforts to improve the quality of services and servicing. The change indicates a decreasing number of customers encountering problems, improving level of service and maintenance.

Results of GCSI survey in 2020-2022, scores



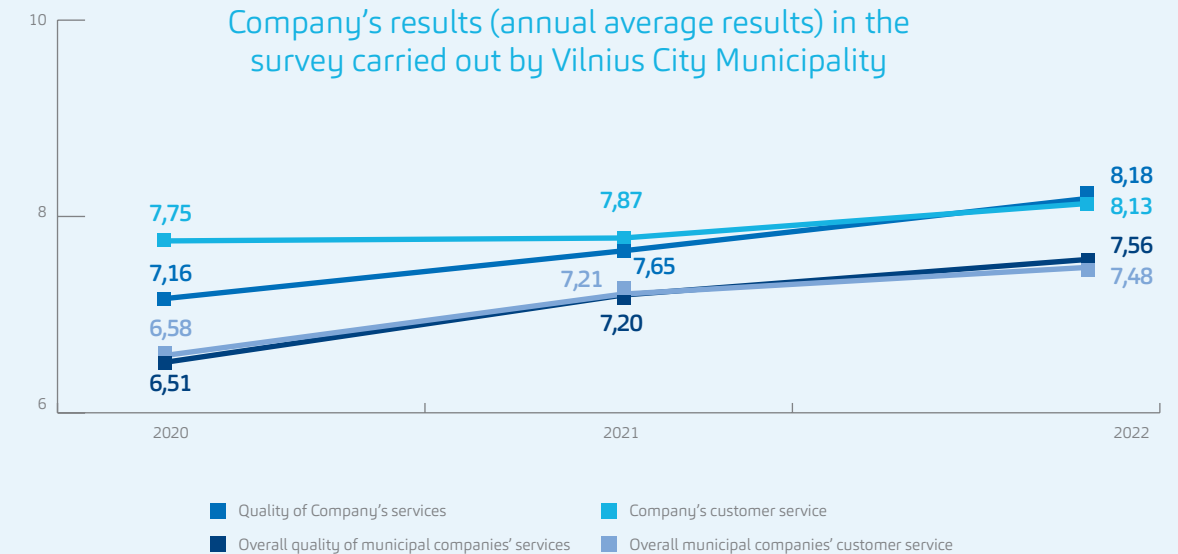
Comparison of GCSI (Global customer satisfaction index) rates



2 Vilnius City Municipality Survey

As from September 2017, the Company participates in the survey carried out by Vilnius City Municipality, which measures the rating of customer service and services of municipal companies. By actively encouraging customers to share their ratings and provide feedback (the survey tool is published on the Company's homepage, emails and payment notices to customers). In 2022, the average Company's service quality rating amounted to 8.13 points out of a possible 10 (+0.26 compared to 2021; +0.65 compared to the overall score of VCM companies in 2022), the service quality amounted to 8.18 points (+0.53 compared to 2021; +0.62 compared to the overall score of VCM companies in 2022).

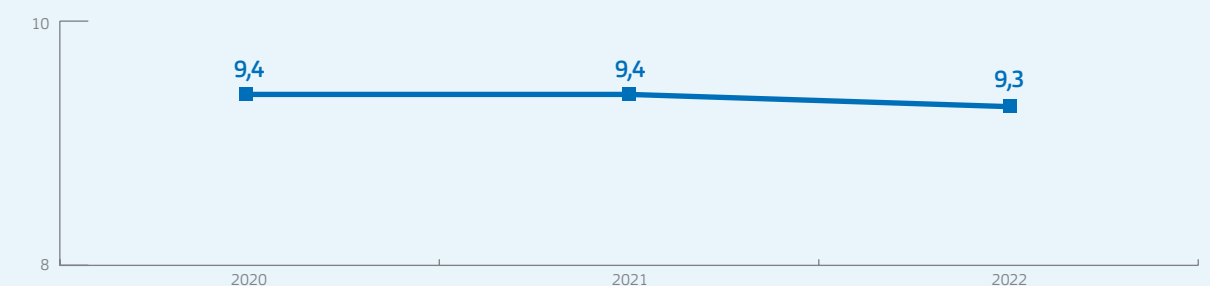
Company's results (annual average results) in the survey carried out by Vilnius City Municipality



3 Transactional New Customer Connection Survey (TNCC)

In 2022, the Transactional New Customer Connection Survey (TNCC) was also carried out in the Company to assess the stages of new customer connection. The survey indicates, here and now, all vulnerabilities the customers face for the Company to respond quickly and to improve the processes of connecting new customers. New customer process evaluation is carried out by telephone canvassing. By the efforts of the Company's employees, the annual rating of this study in 2022 was very good – 9.3 points out of a possible 10, despite the fact that this score fell slightly by 0.1 points compared to 2021. The slightly lower rating was due to a higher than usual number of new customer connection requests, which increased the time of new customer connection.

Results of GCSI survey in 2020-2022



The best aspects evaluated by customers in 2022 were as follows:

- Employees, who provided connection services, were helpful and demonstrates good manners – 9.8 points.
- The connection work carried out by the employees at the site was well organised – 9.5 points.
- The maintenance technicians inspected and accepted the work promptly, providing all the necessary information – 9.4 points.
- The employees with whom customers were associated throughout the connection process were helpful, showing a willingness to help – 9.5 points.

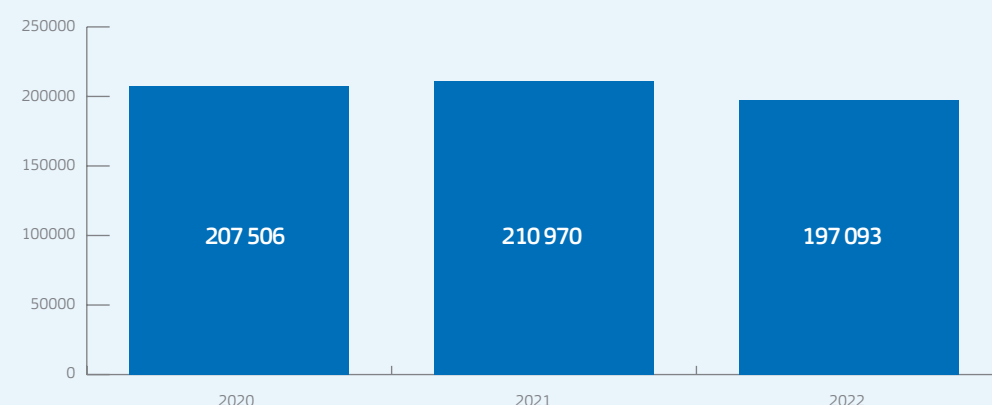
In order to improve customer experience and the Company's assessment from their point of view, a number of initiatives to increase customer satisfaction were implemented in 2022:

- The process of managing customer queries and handling complaints was further improved.
- SMS with active links to self-service portal.
- Extensive and continuous communication on social platforms, informative videos about the Company's activities, an employer image campaign.
- Extension of the interactive failure map and possibility to register failures on the Company's website.
- Renewal, simplification of memos for business and private builders, and additional promotion.
- Additional disclosure of the limits of liability between the Company and building administrators, uploading to self-service portal.
- Compensation arrangements for customers due to non-compliance with water quality standards.
- There has been continuous active communication and customer information on relevant issues.
- Two conferences with contractors and developers.
- Monitoring water quality from the water abstraction point to the water tap and, where appropriate, flushing inlets and stands inside the buildings.
- Compensation for brown water instances.

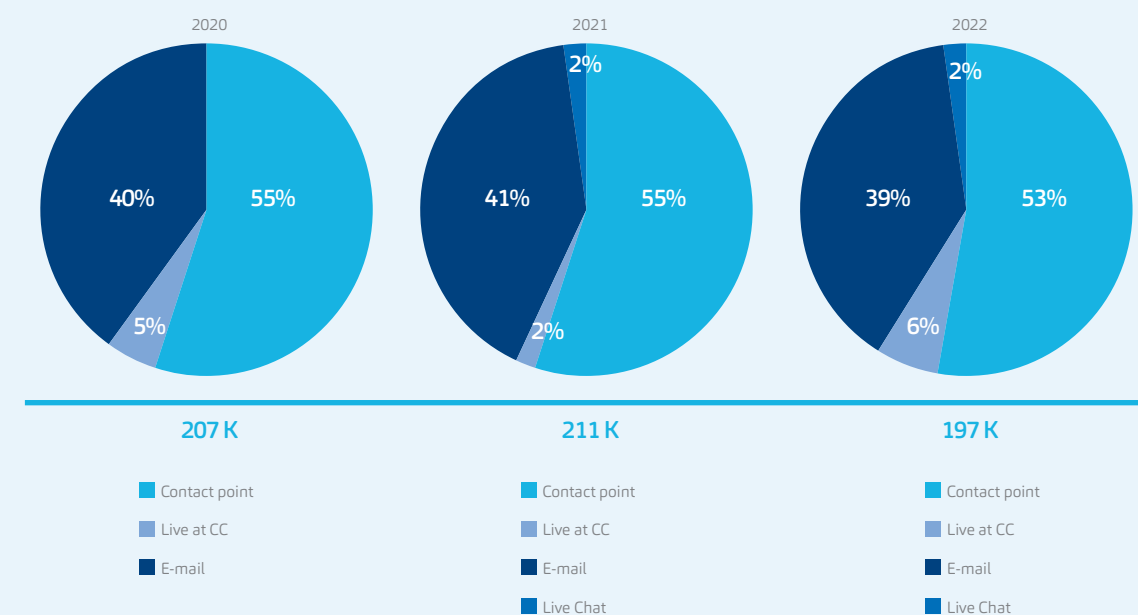
CUSTOMER QUERIES

In 2022, the Company addressed 197,093 customer queries by phone, in writing, and in customer service centres regarding various issues. In 2022, the Company received 6.6% less customer queries through all communication channels than in 2021.

Dynamics of the Company's customer queries in 2020-2022



Distribution of the Company's customer queries by communication channels in 2020-2022

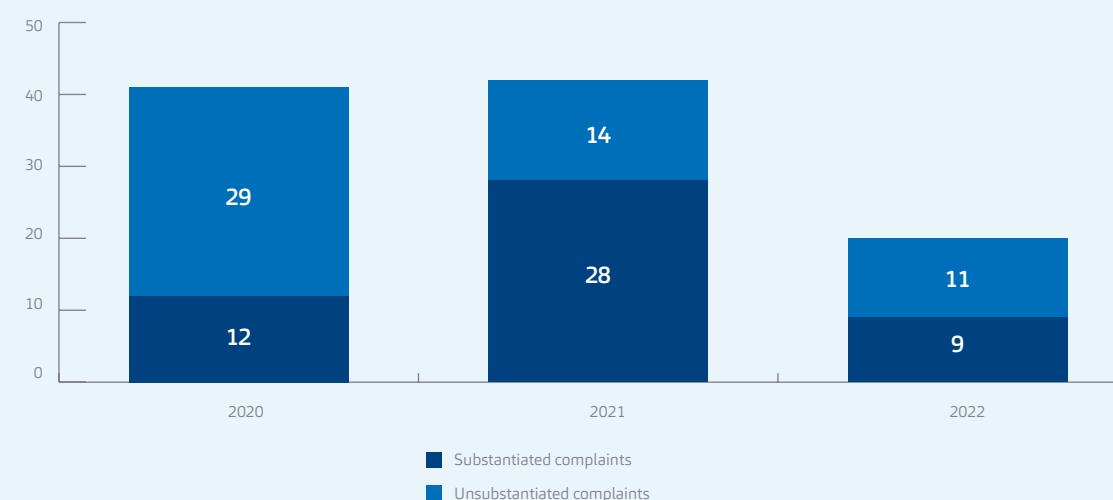


Major developments and trends in customer inquiries through different channels in 2022:

- In 2022, the Company received more live customer queries through the live contact with the Company (visited the Company's Customer Service Centers) – +4% compared to 2021. This was influenced by the closure of Customer Service Centres due to quarantine declared in the country at the beginning of 2021, meanwhile in 2022, customers were able to visit the Company's Customer Service Centres all year round without restrictions.
- Increasing number of customers have opted for remote service channels.

In 2022, the Company received 20 customer complaints in total. Compared to 2021, this indicator decreased by 52%. In 2022, the average time taken to resolve complaints was 10 calendar days, i.e. shorter by 3 days compared to 2021.

Customer complaint distribution in 2020-2022

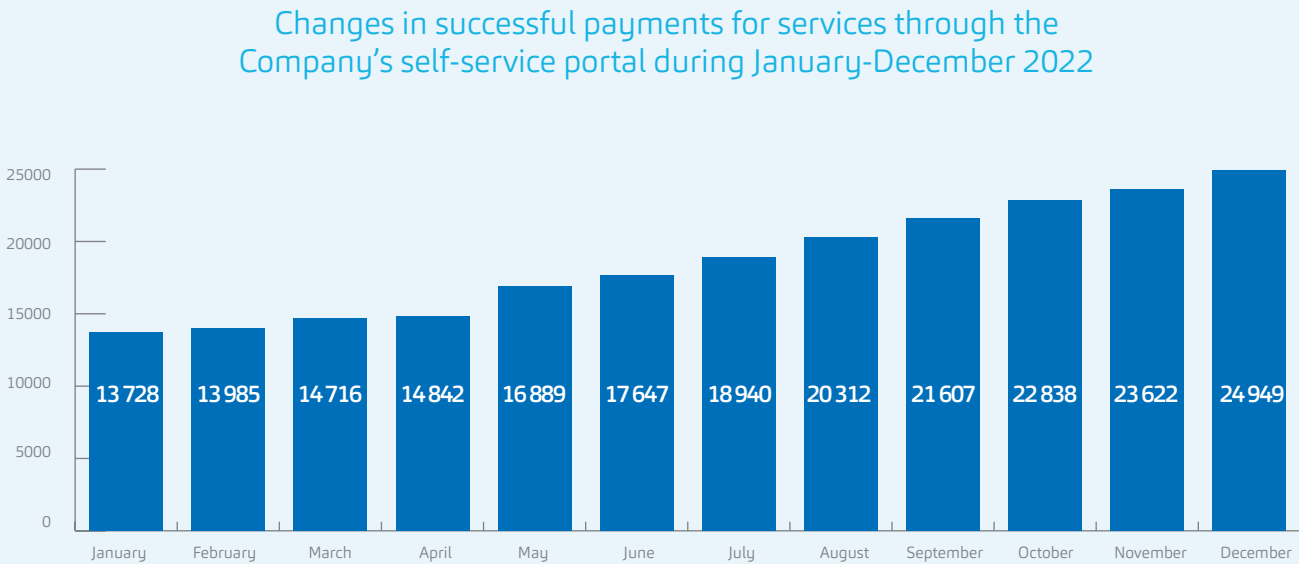


COMPANY'S CUSTOMER SELF-SERVICE SYSTEM

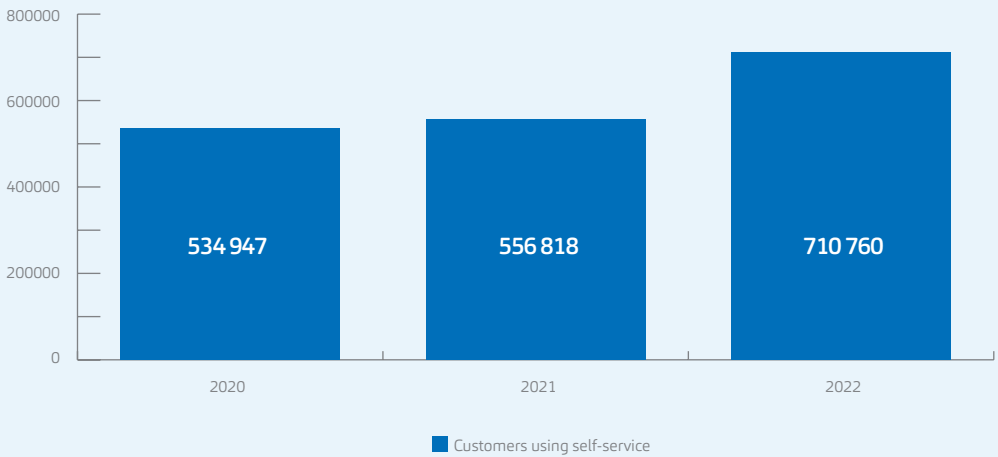
In 2022, the Company placed major emphasis on installation of user-friendly functionalities in customer self-service portal. Taking into account customer expectations, the following functionalities were introduced:

- To download of a report on consumption and payments for the last 12 months.
- To check information on whom to contact in case of an accident/failure and who is responsible for solving a particular problem or issue (with a link to an interactive map of water outages and failures on the Company's website).
- To check ultrasonic meter readings in the customer accounts on the Company's self-service portal, which was introduced taking into account one of the Company's strategic projects: installation of digital ultrasonic metering devices with remote reading function for the Company's customers. Customers are no longer required to submit the readings of the said metering devices.
- To sign contracts for the main services provided by the Company electronically in the self-service accounts of Company's business customers. Such functionality was also successfully implemented for the Company's private customers.
- To order the Company's commercial services on the self-service portal. This functionality was introduced in 2022 and is scheduled to be completed in Q1 2023.

The number of the Company's customers submitting readings on the Company's customer self-service portal increased by 21% in 2022 compared to 2021, as a result of continuous efforts by the Company in improving customer self-service system. In 2022, the traffic on the Company's self-service platform and the number of payments for services through self-service also increased significantly (by 82% during January-December 2022).



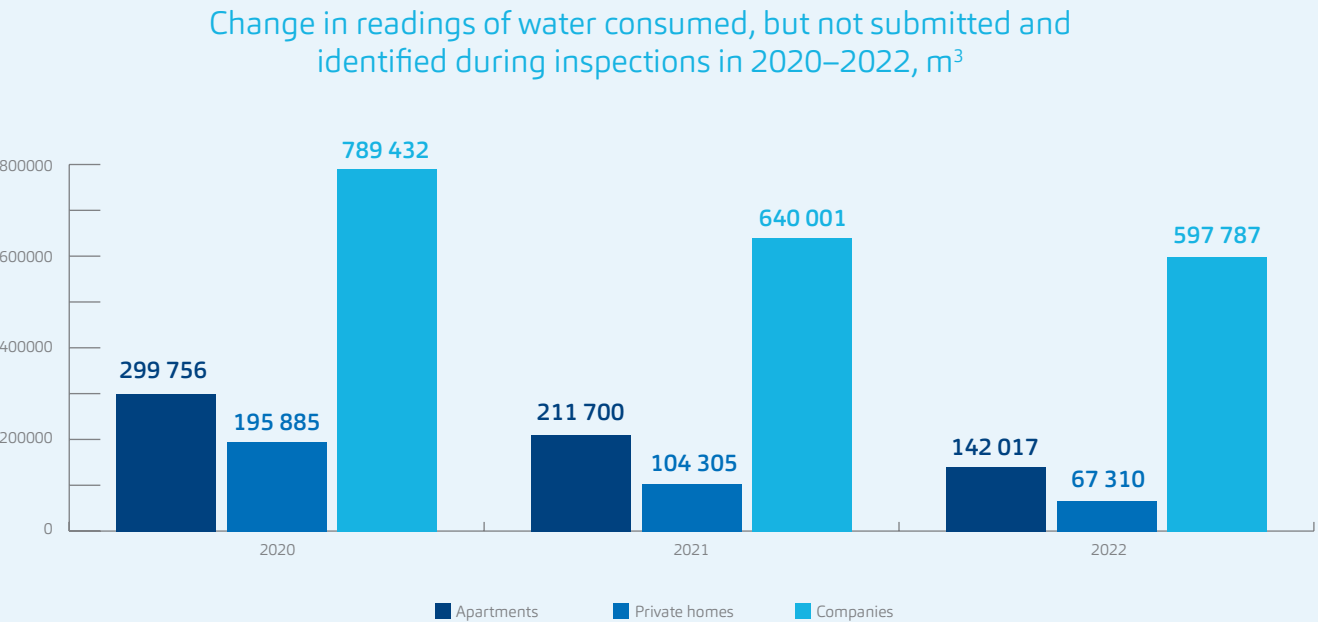
Change in number of customers using self-service in 2020-2022



METER READING CONTROL

In 2022, the Company inspected 92,821 object with the help of contractors (in 2021 – 45,939 objects, in 2020 – 55,591 object). These inspections are aimed at identifying customers who do not submit the meter readings of water consumption.

Customers who do not submit their meter readings are billed based on an average consumption during the last 12 months (average volume of consumed drinking water per capita per month during the last 12 months). The customers who do not submit their meter readings accounted for 17.5% in 2022, 19% in 2021 and as high as 22% in 2020.



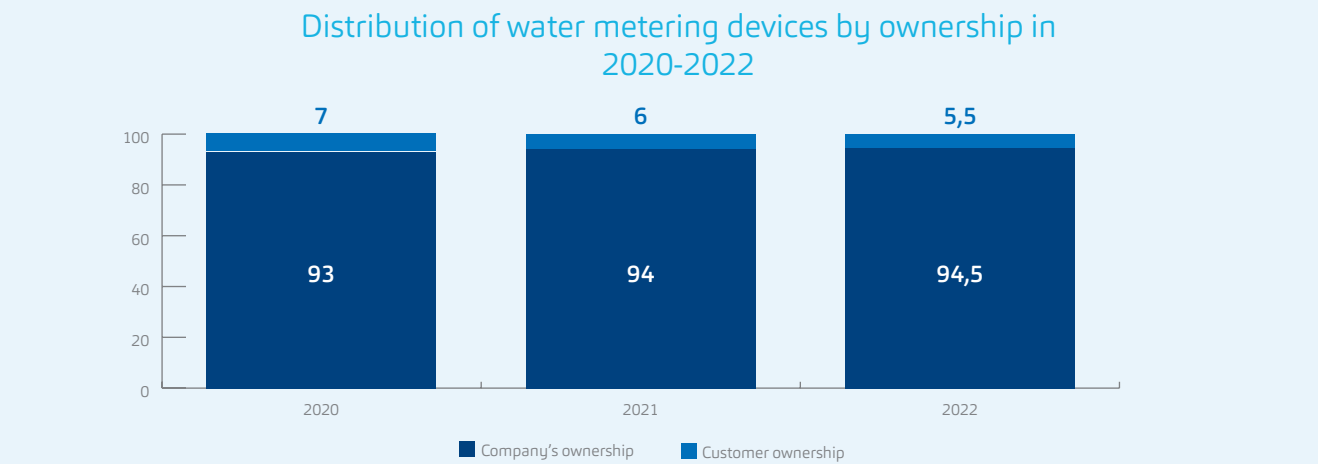
WASTEWATER CONTAMINATION CONTROL

During 2022, 1,973 wastewater pollution inspections were carried out (2021: 2,507) and 2,234 samples were collected (2021: 2,691) by the Company's employees to determine the pollutants discharged into the Company's networks, of which 142 samples were received from wastewater carriers. Additionally, the Company's employees carried out 653 non-routine wastewater pollution inspections during 2022.

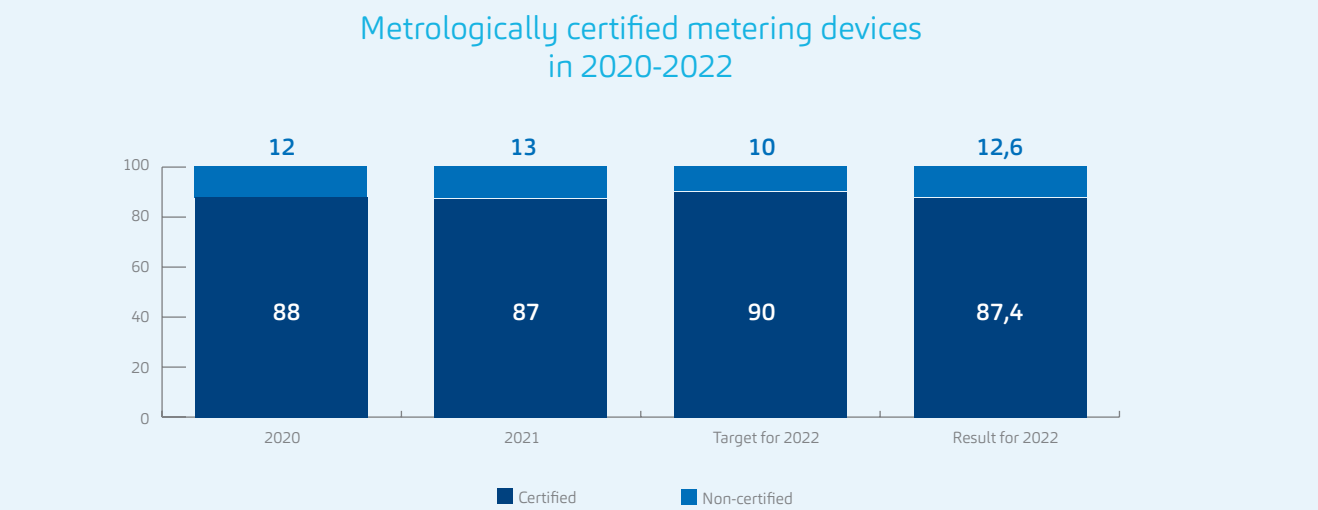
The inspections identified 744 incidents of abnormal contamination. As part of the active wastewater pollution control efforts, EUR 2.255 million of income were earned in 2022 (in 2021 – EUR -2.21 million, in 2020 – EUR 2.03 million) from the charge on the increased and specific emission loads.

WATER METERING DEVICES

During 2022, the Company operated 359,051 unit of water metering devices. The service area for these devices comprised Vilnius, Nemenčinė, Pabradė, Švenčionys, Švenčionėliai, Šalčininkai ir Eišiškės. At the end of 2022, there were 94.5% of water meters owned by the water supplier, i.e. Vilniaus Vandenys, in the territory serviced by the Company.



In 2022, the number of meters without metrological inspection was reduced from 13.48% to 12.6%. In 2022, a total of 66,833 water metering devices were replaced.



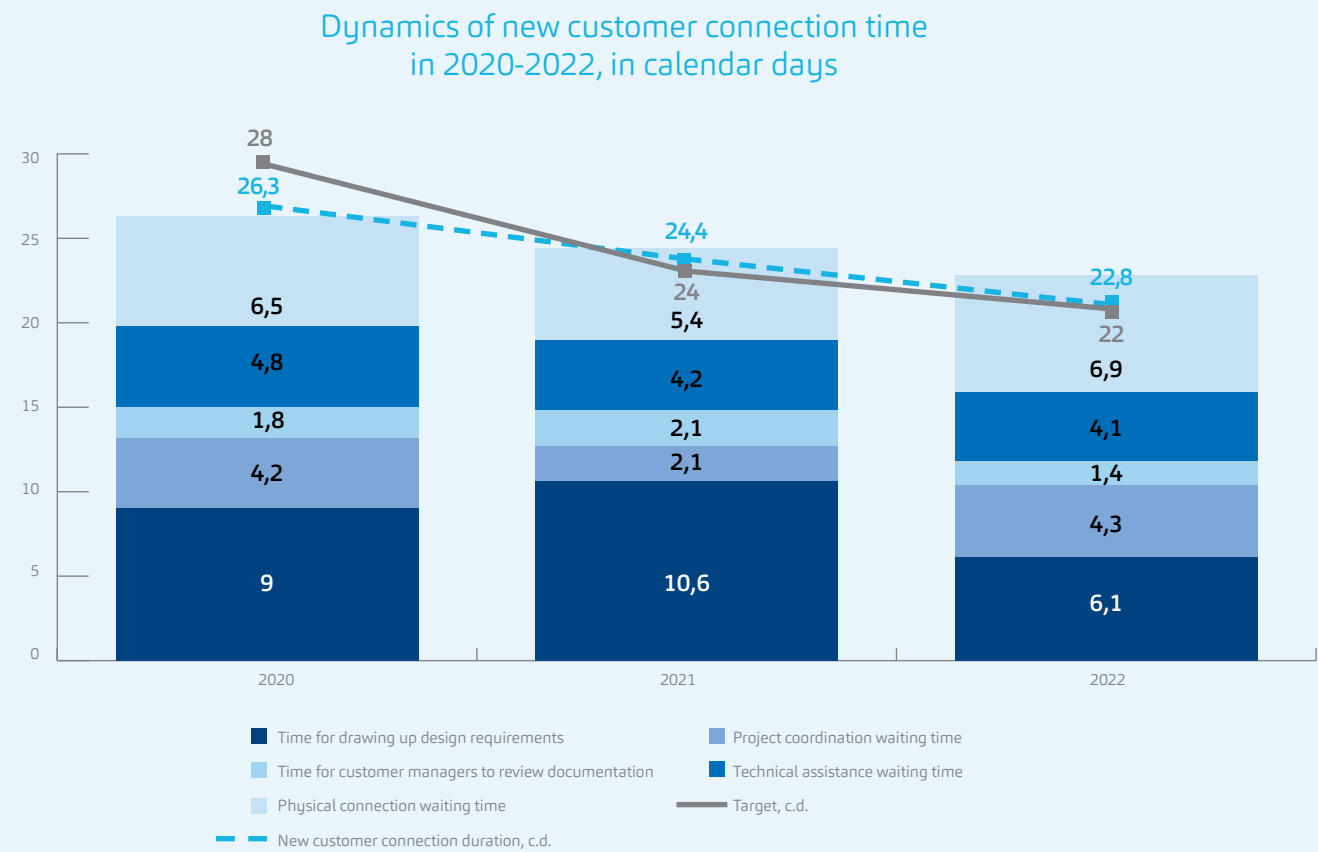
As part of one of the most important strategic projects “Installation of Smart Water Supply Network” in 2022, the Company installed 332 (thus increasing their number to 8,486 units) remote metering devices and inlet water metering devices, which remotely send data to the information system collecting data and transmitting to the Company's internal systems.

The purpose of remote reading of inlet metering data and installation of data transmission system is to reduce water loss, identify water users in apartment buildings disorderly submitting metering data, and localise emergency situations in internal networks and mains of apartment buildings.

In 2022, the project for installation of ultrasonic metering devices with remote reading function was launched by acquiring the first ultrasonic metering devices and scheduling the installation in apartments and private homes from the beginning of 2023.

CONNECTING NEW CUSTOMERS TO THE NETWORKS

In 2022, the Company continued to work in this direction to ensure higher quality of service and faster deadlines for the completion of works. In 2022, the total time of new customer connection, excluding the duration of the actions to be carried out by the customer himself, was 22.8 calendar days (1.6 calendar days shorter than in 2021).



Below are the Company's achievements during 2022 in improving new customer experience:

- The time for drawing up design requirements reduced by 42% up to 4.3 calendar days compared to 2021 (10.6 calendar days).
- The time for reviewing design requirements reduced by 32% up to 1.4 calendar days compared to 2021 (2.1 calendar days).
- From June 2022, call of the Company's specialists to the facilities for the acceptance of works and for the connection of the network is arranged during the first first contact via telephone.

SERVICE PACKAGE

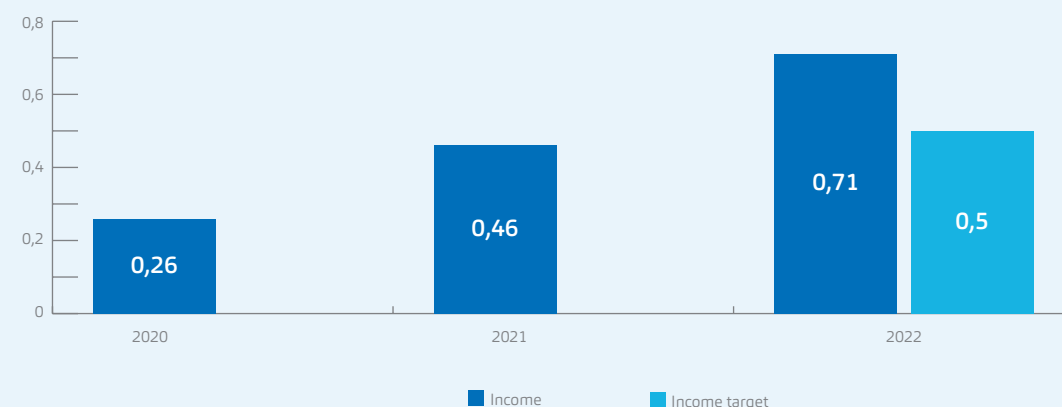
The Company constantly seeks to offer its customers appropriate and high-quality services, therefore, not only adds new options to its service package, but also pays great attention to the improvement of existing services.

In 2022, the Company reviewed and updated 10 commercial services provided by the Company. The review involved simplification and optimisation of service provision processes, and other changes enabling provision of services faster, easier and of better quality.

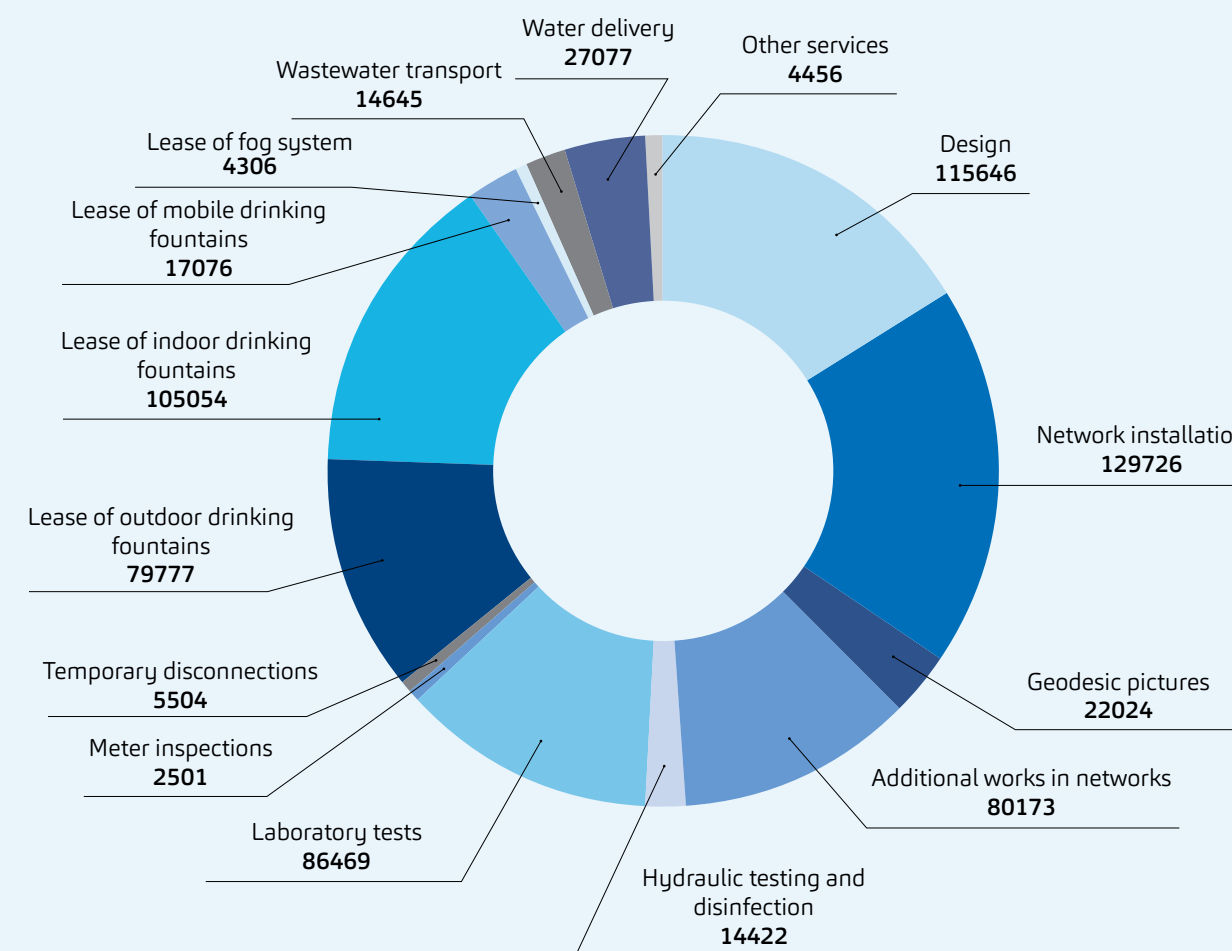
Moreover, seeking to ensure high quality of services, the Company conducted customer satisfaction survey for the Company's auxiliary services in 2022. This survey is conducted by telephone canvassing with the aim of assessing customer experience after ordering services. The survey indicates real-time vulnerabilities that are below customer expectations for the Company to respond quickly. The overall annual rating of the Company's auxiliary services offered in 2022 was at 9.38 points (out of a possible 10). In 2021 it scored 9 points.

In 2022, the Company's package of auxiliary/commercial services offered to private and business customers consisted of: Water supply/wastewater network design; Water supply/wastewater network installation; Preparation of a control geodesic picture; Water delivery; Wastewater transport; Hydraulic testing of water supply networks; Disinfection of water supply networks combined with water testing; Additional works in networks; Water testing; Wastewater, ground water, sludge and soil testing; Non-routine metrological inspection of drinking water meters; Drinking water disconnection; Lease of mobile columns-drinking fountains; Lease of fog system; Lease of outdoor columns-drinking fountains; Lease of indoor columns-drinking fountains.

Company's income from commercial services
in 2020-2022, EUR million



Breakdown of the Company's annual income from
commercial services, EUR



CORPORATE GOVERNANCE REPORT

According to the Company's Articles of Association (publicly available on the Company's website under About us/Management/Corporate Governance Documentation), the Company's governing bodies are the General Meeting of Shareholders, the Board, a collegial governing body, and the CEO, a single-person governing body.

Vilnius City Municipality, Vilnius District Municipality, Švenčionys District Municipality and Šalčininkai District Municipality are the shareholders of the Company, who delegate their representatives to the Company's collective supervisory and management bodies.



GENERAL MEETING OF SHAREHOLDERS, BOARD AND AUDIT COMMITTEE

The General Meeting of Shareholders is the supreme management body of the Company. The General Meeting of Shareholders consists of representatives delegated by municipalities of Vilnius City (ownership interest – 90.79% as at 31 December 2022), Vilnius District (4.06%), Švenčionys District (3.37%) and Šalčininkai District (1.78%).





The general meeting of shareholders has the exclusive right to elect members of the subsidiary body and to revoke its members. In 2022, 10 General Meetings of Shareholders were conveyed.

The Company’s Board consists of 7 members elected by the General Meeting of Shareholders for a term of office of four years. The Board elects its Chairman from among its members.

The Board of the Company acts in accordance with the Rules of Procedure of the Board (publicly available on the Company’s website under About us/Management/Board members).

In 2022, the composition of the Company’s Board changed when Laura Joffe, an Independent Member of the Board, resigned on 06/05/2022 (assumed the duties of independent member of the Board from 06/12/2019), and Edvardas Varoneckas, a Member of Board, resigned on 17/11/2022 (assumed the duties of the member of the Board from 06/09/2019). They were replaced by Vitalijus Orlovas, an Independent Member of the Board, and Ilja Karužis, the Member of the Board, on 18/11/2022.

As at 31 December 2022, the Board consisted of the following members:

Member of the Board	Board member’s position in the Company	Other positions held	Education
 Adomas Bužinskas	Chairman of the Board	Deputy Chief Executive Officer at Vilnius City Municipality Chairman of the Board at AB Vilniaus Šilumos Tinklai Member of the Board at VŠĮ KK Statyba Lithuanian Armed forces, Private First Class	Vilnius University, Bachelor’s degree in Politics Baltic Institute of Corporate Governance, Board member education program (certificate)
 Rytis Ambrazevičius	Independent member of the Board	President at Baltic Institute of Corporate Governance Member of the Board at European Confederation of Directors’ Associations (ecoDa)	Kaunas University of Technology, Bachelor’s degree in Engineering Vilnius University’s Vilnius International School, Master in Business Administration, International Trade, Marketing Baltic Institute of Corporate Governance, Board member education program (certificate) Baltic Institute of Corporate Governance, Board chair education program (certificate) Swiss Board School, University of St Gallen, Effective Direction and Control of International Companies and Organisations

 Robertas Šerėnas	Independent member of the Board	Director/partner at UAB LEANERS International adviser on organisational management Member of the Board at Vilniaus atliekų Sistemos Administratorius (VASA)	Vilnius Gediminas Technical University, Bachelor’s degree in Management Vilnius Gediminas Technical University, Master’s degree in Management and Business Administration International Consortium for Agile (ICAgile), ICAgile Certified Professional
 Jurgita Petrauskienė	Independent member of the Board	Member of the Board at UAB Ecoservice (part of Eco Baltia Group) Member of the Supervisory Board at AS Eco Baltia	Vilnius Gediminas Technical University, Bachelor’s degree in Transport Economics and Management Vilnius Gediminas Technical University, Master’s degree in Business Management Baltic Institute of Corporate Governance, Board member education program (certificate) Baltic Institute of Corporate Governance, Board chair education program (certificate) ecoDa, European Board Diploma (certificate)
 Miroslav Romanovski	Member of the Board	Head of Local Maintenance Department of Vilnius City Municipality Administration	Vilnius Gediminas Technical University, Bachelor’s degree
 Ilja Karužis	Member of the Board	Head of the Energy Division at Vilnius City Municipality Member of the Board at SĮ Vilniaus atliekų Sistemos Administratorius (SĮ VASA)	Vilnius Gediminas Technical University, Master’s degree in Civil Engineering Baltic Institute of Corporate Governance, Board member education program (certificate) Qualification certificate entitling to work as design project manager and as supervisor of the technical project Qualification certificate entitling to work as construction manager and as construction supervisor
 Vitalijus Orlovas	Independent member of the Board	Director at UAB Affidea Lietuva Member of the Board at AB Vilniaus Šilumos Tinklai Member of the Board at Association of Lithuanian Private Health Care Organisations	Vilnius University’s Life Sciences Centre, Bachelor’s degree in Biology Vilnius University’s Vilnius International School, Bachelor’s degree in International Business Management Vilnius University’s Vilnius International School, Master’s degree in International Business Management The London School of Economics and Political Science (LSE), Leadership Academy Program in Health Economics Harvard Business School Executive Education, Leading High Performance Healthcare Organizations

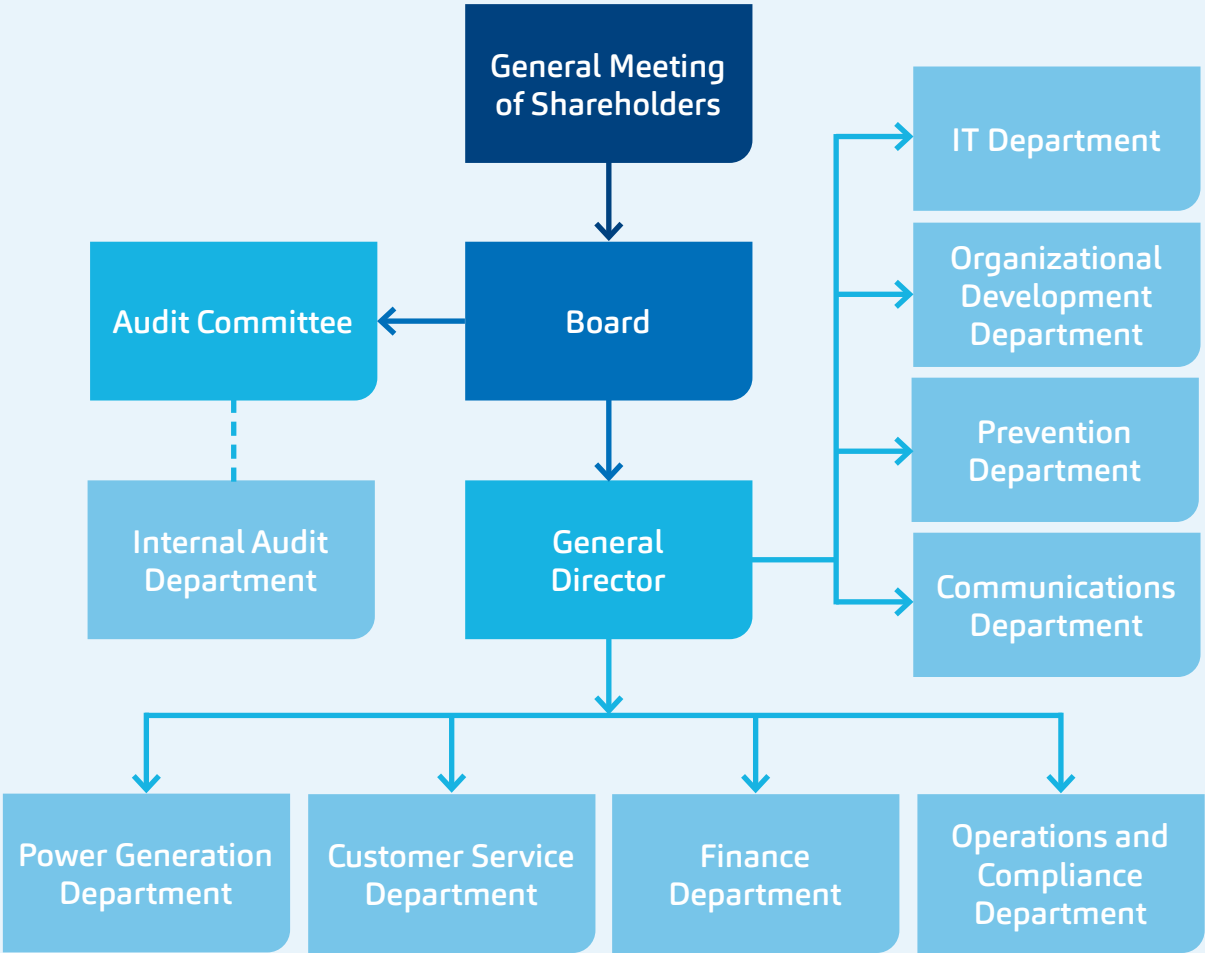
Members of the Board declare their interests in accordance with the procedure laid down by the Law on the Balance of Public and Private Interests of the Republic of Lithuania.

Candidates for independent board members meet the independence criteria established in 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 Company or its Subsidiary approved under the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015.

The Board has formed an Audit Committee from among its members by appointing three independent members of the Board.

The Company's Internal Audit Function is directly accountable to the Board. The Internal Audit Division plans and coordinates its activities with the Board of the Company and the Audit Committee.

Company's governance structure in 2022



SUMMARY OF THE BOARD'S ACTIVITY REPORT FOR 2022



In 2022, 15 meetings of the Board took place in the Company.

he Board has implemented all the measures provided for in the Preliminary Action Plan 2022:

1. Consideration and approval of the Company's operational objectives.
2. Consideration and approval of the Company's annual budget;
3. Monitoring the implementation of the Plan for the Company's risk Management Measures and approval.
4. Analysis and evaluation of the Company's annual report, profit/loss distribution project and submission to the General Meeting of Shareholders together with feedback and proposals thereon and the Company's annual report.
5. Monitoring the implementation of the Company's most important ongoing projects.
6. Supervision and control of implementation of policies approved by the Board, supervision and control of implementation of other documents approved by the Board. Approval of policies.
7. Review of the Company's organizational structure.
8. Procurement approval.
9. Monitoring of the procurement process parameters.
10. Monitoring of the Company's business strategy, performance plan and financial indicators.
11. Monitoring of the activities of the Audit Committee.
12. Monitoring the implementation of internal audit activities and recommendations.
13. Review and approval of the annual internal audit plan.

As from 06/09/2019, a remuneration for members of the Board was fixed at EUR 1,200 per month (before taxes), as from 06/06/2022 fixed at EUR 3,107 (before taxes), as from 13/09/2022 remuneration of civil servants serving as members of the Board was fixed at EUR 2,263 (before taxes).

Remuneration paid to the members of the Board during 2020-2022 for carrying out duties as the members of the Board

Member of the Board*	Date of signature of the performance agreement by the member of the Board	End of term of office	Remuneration in 2020, EUR	Remuneration in 2021, EUR	Remuneration in 2022, EUR
Adomas Bužinskas*	06/09/2019	April 2023**	14,400.00	14,400.00	23,226.53
Miroslav Romanovski*	06/09/2019	April 2023**	14,400.00	14,400.00	23,226.53
Rytis Ambrazevičius	06/12/2019	April 2023**	14,400.00	14,400.00	26,859.43
Jurgita Petrauskienė	06/12/2019	April 2023**	14,400.00	14,400.00	26,859.43
Robertas Šerėnas	06/12/2019	April 2023**	14,400.00	14,400.00	26,859.43
Laura Joffé	06/12/2019	06/05/2022	14,400.00	14,400.00	5072.73
Edvardas Varoneckas*	06/09/2019	17/11/2022	14,400.00	14,400.00	19945.18
Ilja Karužis	18/11/2022	April 2023**			3,281.35
Vitalijus Orlovas	18/11/2022	April 2023**			4374.65
			100,800.00	100,800.00	159,705.26

* The members of the Board who are civil servants were not paid remuneration for carrying out duties as the members of the Board. Remuneration (before taxes) for carrying out duties as the member of the Board was paid to the relevant municipalities until 04/08/2022. As from 05/08/2022, civil servants receive remuneration in person in accordance with the amended Resolution of the Government of the Republic of Lithuania "On approval of the description of the procedure for payment of remuneration to members of collegial bodies of state and municipally owned enterprises".

** Article 33(5) of the Law on Companies of the Republic of Lithuania: The board shall perform its functions for the period laid down in the articles of association or until a new board is elected and commences its activities, but not for longer than an annual general meeting of shareholders to be convened during the final year of its term of office. The ordinary general meeting of shareholders is scheduled to be convened on 26 April 2023.

BOARD APPROVED OPERATING POLICIES

In carrying out its activities and implementing the objectives raised by the shareholders, the Company has established the basic operating principles and rules applicable in certain areas, which are defined in the Company's policies. All together they contribute to consistent and transparent operation of the Company, targeted and operational workforce and successful implementation of projects providing benefits to its customers and wider society.



Taking into account adopted policies in force, the Company constantly reviews and improves the Company's internal processes, monitors the implementation of policies, i.e. the Company's Board of Directors, Audit Committee and the Board are periodically made aware of matters relating to implementation of policies.



Board approved operating policies applicable in the Company in 2022


Company operating policy	Policy objective	Policy implementation in 2022
 <p>UAB Vilniaus Vandenys Policy for Occupational Safety and Health: Zero-Tolerance for Accidents at Work</p>	The Policy is designed to ensure safe and healthy working conditions for employees in their workplaces, to prevent work-related injuries and occupational diseases of employees and to develop a global culture of fostering a safe and healthy environment in the Company, obliging every employee to pursue and contribute to this.	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Arranging employee trainings and exercises. - Increasing the efficiency of employee briefing process. - Providing employees with safe work equipment, involving employees in the selection of safe work equipment; - Giving attention to organisation, performance and control of work. - Maintaining the Accident Register based on "5 whys" principle/method. - Incorporating the Occupational Safety and Health Compliance Indicator in the annual and quarterly targets set for employees. - Giving attention to organisation, performance and control of work, and identification and mitigation of root causes of infringements/non-compliances.
 <p>UAB Vilniaus vandenys Policy for the Management of Transactions with Related Parties</p>	The policy is intended to govern the procedures for concluding, supervising and disclosing the Company's transactions with related parties, which would allow to properly assess the information provided by the Company in the financial statements and other reports, as well as conflicts of interest related to such transactions, and minimize the potential adverse effect of such transactions on the Company and its shareholders and parties unrelated to the transaction.	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - In 2022, the policy was implemented in accordance with international accounting standards: IAS 1 Presentation of Financial Statements, IAS 24 Related Party Disclosures, and the Law on Financial Statements of Entities of the Republic of Lithuania. - As part of this policy, related party relationships and transactions are identified at the reporting date and disclosed in the notes to the financial statements.
 <p>UAB Vilniaus vandenys Corruption Prevention Policy</p>	This policy is set to establish the main principles and requirements for corruption prevention and sets guidelines for ensuring compliance with them, thereby creating the prerequisites and conditions for the implementation of the highest standards of responsible and transparent conduct.	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Approving the Conflict of Interest Management Policy, rules. - Approving the Description of the Procedure for Reporting Breaches through Internal Information Channels. - Approving the Trust Line Regulations. - Approving the Description of the Procedure for Offering and Accepting Gifts. - The list of posts for sending queries to the Special Investigations Service of the Republic of Lithuania was updated in line with the amended the Law on the Prevention of Corruption of the Republic of Lithuania.

 <p>UAB Vilniaus vandenys Social Responsibility Policy</p>	<p>This policy is set to establish the social responsibility directions and guidelines for creating and developing sustainable business culture and practice of UAB Vilniaus Vandenys.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Launching public initiatives to promote the reduction of plastic consumption and the proper management of wastewater. - Implementing different initiatives in the Company to promote employee engagement (tree planting initiative, walking challenge, etc.). - Publishing the Company's open data on the Company's website (approved policies, different quarterly reports). - Tracking implementation of Green Index and Social Responsibility Index.
 <p>UAB Vilniaus vandenys Compliance Policy</p>	<p>This Policy is set to establish the Company's compliance guidelines and direction, to define and clarify the compliance objectives, guiding principles, parts (components) and participants of the compliance system, and their functions and responsibilities.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Approving UAB Vilniaus Vandenys' Annual Plan for Checking Compliance with the Legislative Requirements in 2022. - Conducting checks and providing recommendations for improving processes. - Monitoring of non-compliances and providing recommendations on recurring non-compliances.
 <p>UAB Vilniaus vandenys Project Management Policy</p>	<p>This policy is aimed at standardising the Company's project management principles, ensuring effective monitoring and control of the projects implemented, timely decision-making and implementation of projects within the set time limits and budget, and achieving economic or other benefits.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Building the Company's project portfolio in 2022, which was one of the Company's annual goal, the implementation outcome of which is constantly monitored and reported to the Board for information. The portfolio implementation rate 2022 was 98%. - Making a clear separation of main functions of the project team members, designing a tool for monitoring the employee engagement in projects, and developing a register for keeping lessons learned. - Installing and implementing project management information system (PMIS). - Approving project budget monitoring methodology, preparing project schedule and budget monitoring reports.
 <p>UAB Vilniaus vandenys Human Resources Policy</p>	<p>This Policy is set to define the objectives and general principles guiding the Company in the field of people management by designing, maintaining and continuously improving the value and governance-based organization to ensure the implementation of strategic directions while maintaining sustainable key performance and efficiency indicators.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Updating the Human Resource Planning process. - Updating the Description of the Employee Performance Management Procedure. - Updating the staffing table. - Updating the Description of the Procedure for Determining and Revising the Principal Employee Remuneration Component and remuneration limits. - Updating the Description of the Procedure for Applying, Determining and Paying the Annual Variable Employee Remuneration Component. - Updating the Description of the Procedure for Setting Quarterly Targets and Applying Employee Variable Remuneration Component. - Updating the candidate attraction and selection process.

 <p>UAB Vilniaus vandenys Supplier Code of Conduct</p>	<p>The Code is intended to define the general conduct of suppliers of UAB Vilniaus Vandenys, the observance of which creates the preconditions and conditions for the implementation of the highest standards of responsible business conduct in the socially responsible supply chain (from raw materials to settlement).</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Updating the standard forms of contracts and incorporating the obligation for the Contractor to adhere to the Supplier Code of Conduct approved by the Company, as well as to the occupational safety and health requirements. - Supplementing the procurement procedures with the environmental, sustainability and consistency requirements applicable to the suppliers tendering for the Company's public contracts. - Ensuring supplier compliance with mandatory environmental management standards (ISO 14001 or EMAS standard) during procurement of works. - Conducting checks of 21 contractor of the Company. - Introducing Rules of Conflict of Interest Management of Vilniaus Vandenys to every contracting party of the Company. - In international procurement, requesting a supplier to provide information on the goods/materials offered, their components and/or origin of services (to prevent a threat to national security).
 <p>UAB Vilniaus vandenys Budget and financial accounting guidelines</p>	<p>The Policy is set to establish guidelines for UAB Vilniaus Vandenys to maintain open, honest and constructive dialogue with stakeholders and to regularly submit reports on financial and non-financial activities, and to plan, control and use the Company's financial resources in rational manner.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - The accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. - In early 2022, a decision was made to update the Company's long-term business strategy due to changes in the environmental factors affecting the Company's activities. The updated long-term business strategy of UAB Vilniaus Vandenys for 2023–2032 was agreed in the Management Council and submitted to the Board for approval on 09/02/2023. - The Business and Development Plan (BDP) for 2020-2022 was reviewed in 2021 and the updated BDP was adopted in accordance with the existing procedure applicable to the municipal councils. On 23/11/2022, BDP for 2023-2027 was presented to the Audit Committee, and approved by the Board on 08/12/2022. - Reports on the implementation of the budget for 2022 are prepared on a monthly basis, and are submitted to the Company's management and presented to the Audit Committee and the Management Council. The budget for 2023 was approved by the Board in its meeting on 8 December 2022.

 <p>UAB Vilniaus vandenys Confidential Information Management Policy</p>	<p>The Policy is designed to establish a system for the identification, use and protection of confidential information, ensure the protection of information by establishing principles of confidential information protection, concepts used in the Policy and other documents ensuring the protection of confidential information, the system of management of information protection.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Conducting 16 confidential information security checks (a number of minor weaknesses were identified, and preventive training was provided to staff).
 <p>UAB Vilniaus vandenys Personal Data Processing and Security Policy and its implementing rules</p>	<p>The Rules are intended to establish the Company's personal data processing and security policy and its implementing rules to ensure the Company's compliance with the provisions of GDPR, the law and other regulations laying down the requirements for personal data processing and security, and the implementation of and adherence to with these provisions in the Company.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Approving UAB Vilniaus Vandenys' Annual Plan for Compliance with Personal Data Security Requirements in 2022. - Conducting personal data security checks. - Reviewing agreements on data processing/management, and providing 1 related recommendation and 1 finding for improvement of personal data management processes.
 <p>UAB Vilniaus vandenys Policy for Operation of Infrastructure and Development Planning</p>	<p>This Policy is designed to develop guidelines for the efficient management of infrastructure in order to ensure the safe and uninterrupted provision of services.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Conducting the status-based network ranking. - Conducting ranking of development objects in White Zones. - Conducting ranking of infrastructure reconstruction objects, and selecting priority objects to be reconstructed in the near future against main criteria of existing infrastructure, to ensure for customers the uninterrupted provision of services and their quality. - Conducting rating of the reconstruction of technological automation equipment: a total of 330 units were rated, of which 12 were included in the investment plan for 2023.
 <p>UAB Vilniaus vandenys Procurement Policy</p>	<p>The Policy aims at establishing the basic mandatory guidelines for the organising and conducting public procurement in the Company in accordance with the law and other regulations, and achieving the Company's strategic objectives.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Assessing bids and awarding contracts mainly (58.7%) on the basis of a price-quality or cost-evaluation criterion. - Giving attention to green procurement, with green criteria applied to 68.6% of procurements. - Improving the internal control system for the management of the contracts awarded to ensure competitiveness, transparency and impartiality.

 <p>UAB Vilniaus vandenys Quality Management Policy</p>	<p>The Policy defines the purpose, principles and responsibilities of the Company's quality management to ensure the proper functioning of the quality management system.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Launching the performance improvement project (LEAN) to improve the provision of services to customers, customer service, business processes and the quality management system. - Holding the Value Game sessions (9 sessions were held) to build a value-based organizational culture in the Company. <ol style="list-style-type: none"> 1) Conducting the ISO 9001 and 14001 audit. 2) Updating 89 descriptions of operational process procedure during 2022 according to the plan for documenting operational processes for 2022.
 <p>UAB Vilniaus vandenys Environmental Protection Policy</p>	<p>The Policy defines the purpose, principles and responsibilities of the Company's environmental protection to ensure the proper functioning of the environmental protection system.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Integrating environmental protection objectives and targets into the Company's plans. - Reducing the discharge of biodegradable waste into the environment, implementing circular economy principles and reducing CO2 emissions. - Giving attention to pollution prevention, assessment of incidents and pollution risks, and measures to mitigate or prevent these factors. - Actively communicating with stakeholders (educational projects and sustainability initiatives).
 <p>UAB Vilniaus vandenys Conflict of Interest Management Policy</p>	<p>The Policy is aimed at creating consistent and good practice-embedded policy for management of interests in the Company to ensure objectivity and impartiality of the decision-making process, and to create an environment unfavourable to corruption and increase confidence.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Checking declarations of private interests of the heads of structural divisions, employees and heads directly subordinate to the Company's CEO according to the Action Plan for the Prevention of Corruption for 2022. - Two requests for withdrawal were submitted in 2022 to avoid conflicts of interest.
 <p>UAB Vilniaus vandenys Risk Management Policy</p>	<p>The Policy is aimed at defining the purpose, principles and responsibilities of the Company's risk management, and maintaining a unified risk management system.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Holding internal and external risk management training and risk management practice sharing meetings with other companies. - Improving risk management process: the risk assessment methodology was updated and extended, critical and high risks were subject to in-depth assessment using the "5 whys" method, involving senior management of the Company. Drawing up the Plan for Risk Management Measures using information from the "5 whys" method.

 <p>UAB Vilniaus vandenys Cyber and Information Security Policy</p>	<p>The Policy is aimed at establishing the principles of cyber and information security management, identifying effective directions for ensuring security to manage cyber threat, information security risks, and regulatory compliance.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Holding cybersecurity training for staff. - Implementing social engineering testing practice to increase the alertness of the Company's employees. - Implementing the necessary technical solutions enhancing the security of critical information infrastructure, eliminating the possibility of brute force attacks, allowing to monitor and analyse events and information flows, and enabling to respond promptly to cybersecurity threats.
 <p>UAB Vilniaus vandenys Innovation Policy</p>	<p>The Policy is aimed at defining the innovation direction and guidelines to follow when establishing and developing the Company's innovative activities.</p>	<p>In 2022, the policy implementation involved the following:</p> <ul style="list-style-type: none"> - Holding meetings with the representatives of other companies to identify the good practice-embedded directions, guidelines and implementation methodologies are used in the market. - Developing innovation spaces on the Company's intranet containing all relevant information. - Preparing a draft Description of Innovation Procedures.
 <p>UAB Vilniaus vandenys Dividend Policy</p>	<p>The Policy provides for a dividend calculation mechanism ensuring the balance between the short-term goals of shareholders to maximise returns and the Company's sustainable grow, ensuring the implementation of set strategic goals and the provision of services of the highest quality and of optimal price.</p>	<p>In 2022, no dividend was paid for 2021 because, if dividends were paid, the Company's cash balances would not meet the estimated threshold for the total average costs of the Company for three months and the values of liquidity ratios (current liquidity and critical liquidity) as at 31/12/2021, the required value of which is defined in the dividend policy, would not be considered.</p>

AUDIT COMMITTEE

The Company's Audit Committee work is guided by The Rules of Procedure of the Audit Committee (publicly available on the Company's website under About us/Management/Members of Audit Committee) and it is accountable to the Board of the Company. The term of office of the Members of the Audit Committee coincides with the term of the Members of the Board. The Audit Committee consists of three members.

In 2022, the composition of the Company's Audit Committee changed when Laura Joffe, the member of the Audit Committee, resigned on 06/05/2022 (assumed the duties of the Member of the Audit Committee from 13/12/2019), and was replaced by Robertas Šerėnas, a new (independent) member of the Audit Committee from 01/07/2022.

As at 31 December 2022, the Audit committee of Vilnius Vandenys was consisted of the following members:

Rytis Ambrazevičius, an independent Member of the Board, Chairman of the Company's Audit Committee.

Jurgita Petrauskienė, an independent Member of the Board, Member of the Company's Audit Committee.

Robertas Šerėnas, an independent Member of the Board, Chairman of the Company's Audit Committee.

The Company's Audit Committee has developed guidelines for the evaluation of its activities on the basis of recommendations developed by the Public Enterprise Monitoring and Forecasting Agency in order to follow best governance practices and the highest standards of corporate governance. The guidelines aim to identify areas for improvement by organising the work of the Audit Committee and to identify actions for the efficiency of the work of the Audit Committee.

SUMMARY OF THE AUDIT COMMITTEE'S ACTIVITIES IN 2022

The Audit Committee held 12 meetings in 2022, during one of which the activities of the Audit Committee for 2021 were evaluated. All three members of the Audit Committee were in attendance in all meetings, the quorum was present. The notice of the meetings being convened and agendas are submitted to the members of the Audit Committee in writing. All meetings were convened by the decision of Rytis Ambrazevičius, the Chairman of the Audit Committee.

In implementing Action Plan for 2022, the Audit Committee achieved the following objectives in 2022:

Monitoring of the Company's business planning and financial position

- The Company's financial and operational reports were regularly consulted, deviations from plans and reason thereof, forecasts for future periods, compliance with covenants, key financial risks and expected management measures were discussed.
- Drawing up of the Company's business and development plan for 2023-2027 was monitored, the compatibility of the plan with covenants, cash flow projections was discussed. At the initiative of the Audit Committee, criteria were developed and agreed for, inter alia, making decisions on the deferral for a particular period, reduction or withdrawal of investments. An agreement was reached on the need to update the operational and development plan in response to changes in the Company's strategy.
- In order to facilitate the coordination of the Company's budget in the Board in 2023, the preparation process was subject to oversight and discussions of budgeting assumptions, risks and their management.

Monitoring the financial reporting and audit process

- After taking note of the financial statements for the year ended 31 December 2021, the audit procedures, conclusions, findings and recommendations were discussed with representatives of the Company and the audit firm Ernst & young Baltic UAB.
- The procurement of audit of financial statements for 2022-2024 was reviewed, the selection results and service provision conditions set were agreed, and a recommendation on the appointment of an audit firm UAB Ernst & Young Baltic was made.
- The financial statement audit plan was discussed with the representatives of UAB Ernst & Young Baltic and the Company in 2022, and answers to the auditors' questions were provided.
- The Inspection Report on Regulated Activities for the year ended 31 December 2021 was consulted, changes in regulatory environment, allocation of costs of commercial services in regulatory accounting was discussed. The introduction of additional control measures for commercial services in the Company was initiated.

Monitoring the effectiveness of the Company's internal control and risk management systems

- Monitoring the implementation of the plan for risk management measures on periodic bases, and discussing the risk assessment and updates to the plan for risk management measures with the Company's representatives. Reviewing the risk assessment methodology based on the recommendations of the Audit Committee in order to achieve a more targeted impact and more efficient use of the Company's resources, adjusting risk management measures.
- Gaining understanding of the structure, functions, responsibilities and objectives of the Company's services and relevant departments. The Audit Committee submitted proposals on the separation of quality assurance functions and the development of guidelines for setting targets.
- Discussing with the Company's representatives the following projects: Managing Conflicts of Interest, Governance, Business Continuity, Risk Management Policies, or their updates. Policies revised based on the proposed corrections submitted by the Audit Committee were approved by the Board.
- Discussing with the Company's representatives a draft update of the Code of Ethics, which was approved by the Board following the corrections proposed by the Audit Committee. At the end of the year, the Audit Committee took note of the progress made in implementing the Code of Ethics.
- Understanding obtained on the functionalities of the Company's Trust Line. Seeking to improve the effectiveness of the Trust Line, the operational rules were updated at the initiative of the Audit Committee by integrating additional control measures.
- Initiating development of the Company's Investment Policy and discussing development guidelines.
- Discussing compliance, environmental requirements, human resource planning, commercial service management and other processes responsible process owners. Sharing insights on possibilities for improvement of operations. Policies revised based on the proposed corrections submitted by the Audit Committee were approved by the Board.
- Discussing the results of the cyber security assessment of the system used to monitor and control technological processes (SCADA) in wellfields with the representatives of the National Cyber Security Centre (NKSC); additional measures are required to ensure cybersecurity.

Assessment of the efficiency of the internal audit process

- Before submitting to the Board for approval, objectives and budget of the Internal Audit Function for 2022, Internal Audit Action Plan for 2023 agreed.
- Monitoring the implementation of the Internal Audit Action Plan for 2022, discussing the results of internal audits conducted, and recommendation implementation plans with the Company's representatives.
- Discussing changes to the Description of Internal Audit Procedure, and submitting proposals for the improvement.

Effectiveness of the Audit Committee activities

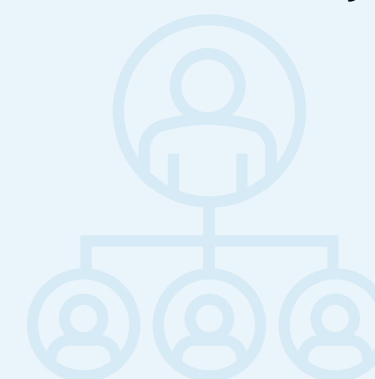
In ensuring the effective functioning of the Audit Committee, the action plan for improving the Audit Committee's performance was drawn up during its performance evaluation session on 20 January 2022. When implementing the plan:

- Seeking to improve risk management awareness, risk management training was held and attended by the Board and management members on 13/10/2022. Additionally, discussing with representatives of the Company the risk assessment and the Risk Management Plan for 2023 in each meeting of the Audit Committee from 09/08/2022.
- Attending meetings with representatives of the Latvian water management company to improve understanding of water management business.
- For the purpose of supervising the Company's control system, gaining understanding of the structure, functions and responsibilities of the Company's services, discussing the Company's internal and external audit reports, and recommendation implementation plans during the Audit Committee meetings.
- Giving priority to other activities (participation in the Company's strategy development process, etc.) over training on control system management tools, experience sharing in the field of compliance management and meetings with infrastructure management companies by scheduling implementation of these measures in 2023.

Remuneration paid to the members of the Audit Committee during 2020 -2022 for the performance of the duties of the members of the Audit Committee was as follows:

Member of the Audit committee*	Date of signature of the performance agreement by the member of Audit Committee	End of term of office	Remuneration in 2020, EUR	Remuneration in 2021, EUR	Remuneration in 2022, EUR
Laura Joffé	13/12/2019	06/05/2022	9,600.00	9,600.00	3,381.82
Rytis Ambrazevičius	13/12/2019		9,600.00	9,600.00	20,880.00
Jurgita Petrauskienė	13/12/2019		9,600.00	9,600.00	16,866.00
Robertas Šerėnas	01/07/2022				12,866.00
			28,800.00	28,800.00	53,993.82

The remuneration of the members of the Audit Committee is determined by the decision of the Board (Min. No PR-V22-7 of 12/05/2022, Par. 3.8).



ORGANISATIONAL STRUCTURE OF THE COMPANY

CEO acts as a single-person management body of the Company, elected, recalled and dismissed by the Board of the Company.

On 12 May 2022, Saulius Savickas (assumed the duties from 13 May 2022) was elected and appointed as CEO of the Company by decision of the Board, and, with effect from 3 January 2022, he assumed the role of acting Director-General and the Head of Customer Service. Until 2 January 2022 (from 24 December 2022), Egidijus Anulis, Head of Operations and Compliance Department, assumed the role of Director-General of the Company.

Saulius Savickas, CEO of the Company, also serves as a member of the Board at Water Management Association Vandens Jėga. CEO of the Company graduated from Vilnius Gediminas Technical University with a Bachelor's degree in Management.

The remuneration of CEO consists of a monthly salary of EUR 9,050 (before tax) and a variable component of up to 30%, calculated on the basis of the salary estimated for accounting period (the Company's financial year). The variable component is paid once a year, after the end of reporting period and after the audited financial statements are authorised for issue. The variable component is set by the Board of the Company in accordance with the Company's Human Resources Policy. The variable component is dependent on achievement of objectives in previous years.

The Company's new organisational structure became operational on 1 May 2022. Structural changes were made with the aim of flattening the organizational structure, leaving as few hierarchical units as possible, reducing the number of departments, enhancing the interaction between complementarity departments and optimising the Company's activities by reviewing the number of posts.

The Company's new organisational structure operational as from 1 May 2022:



4 Services

(Customer Service, Production Service, Finance Service, Operations and Compliance Service. Number of services during organizational structure changes remained unchanged).



4 Departments

(before organizational structure changes, the Company had 7 departments).



31 Division

(before organizational structure changes, the Company had 32 divisions and 5 groups).

Structural units of the Company directly subordinate to the CEO: Customer Service, Production Service, Finance Service, Operations and Compliance Service, Organizational Development Division, IT Division, Prevention Division, Communications Division, CEO Advisor on the Company's Activities Management.

As at 31 December 2022, the Company's management consisted of the following members:



Saulius Savickas
CEO



Simonas Klimavičius
Head of Finance



Viktoras Matonis
Head of Production



Martynas Augaitis
Head of Customer Service



Egidijus Anulis
Head of Operations and Compliance

Average monthly salary by employee categories:

Job title	2020		2021		2022	
	Number of employees	Average remuneration	Number of employees	Average remuneration	Number of employees	Average remuneration
Top management	5	6,669	4	6,445	5	6975
Mid-level executives	38	3,584	43	3,515	33	3662
Senior specialists	80	2,327	89	2,334	95	2526
Specialists	265	1,612	257	1,657	247	1774
Workers	307	1,300	266	1,329	241	1432

* The number of employees on the last day of the year.
Top management – the CEO and directors of units.
Middle management – heads of departments, divisions and groups.
Senior specialists – employee category consisting of highly qualified employees with excellent knowledge of their job specifics appointed to be in charge of a group of employees (specialists or workers).
Specialists – employee category consisting of employees who know their job well and have a certain profession.
Workers – category of employees who perform work assigned by others, making decisions exclusively in relation to the work that they do.

The Company operates in all geographical territories indicated in the licence issued by the National Energy Regulatory Council, but it does not have any independent divisions and branches.

AUDIT OF FINANCIAL STATEMENTS

Each year, after the end of the reporting year period (reporting period runs from 1 January to 31 December), the Company conducts audit of its financial statements in accordance with the procedure established by laws, attaining a high level of transparency. For the purpose of audit, each year the Company appoints independent audit firm, selected through public procurement procedure. The appointment of an audit firm is subject to the approval of the General Meeting of Shareholders.

In 2022, following the end of the contract with the firm providing financial audit services, a new procurement for selection of the contractor providing financial audit services was held (the procurement of financial audit services was announced on 17/11/2021).

In the context of the procurement of financial audit services, on 2022.02.11 the Procurement Commission decided to determine ERNST & YOUNG Baltic as a successful tenderer and to award a contract for a maximum of EUR 111,000.00 (excl. VAT) (The subject of the contract is audit of financial statements of UAB Vilniaus Vandenys for the financial years ended 31 December 2022, 31 December 2023, and 31 December 2024, prepared in accordance with International Financial Reporting Standards approved by the International Accounting Standards Board.). Audit will be accompanied by all other services specified in the requirements of the technical specification and provided for each reporting period.

No other services were acquired under this contract from the audit firm Ernst & Young Baltic in 2022.



PREVENTION OF CORRUPTION IN THE COMPANY

In carrying out its activities and providing public services to residents, the Company attains a high level of transparency and attaches great importance to the prevention of corruption. In its activities, the Company is guided by the basic principles and requirements set in the Company's Corruption Prevention Policy.

2022 The following corruption prevention measures were implemented in the Company:

- Corruption resilience level in the Company is set at 0.8. The indicator of 0.8 and more is considered as very high.
- The Company's corruption tolerance index is set at 80.6.
- A check of private interests of heads of structural divisions who is required to submit a declaration of private interests to the Chief Official Ethics Commission, was conducted according to the Action Plan for the Prevention of Corruption for 2022.
- All employees (who have an obligation to declare private interests in accordance with the Company's Rules of Employee Conflict of Interest Management) were also checked for the submission of declarations.
- The Company's Action Plan for the Prevention of Corruption in 2023-2025 was drawn up and approved.
- Under the Law on Prevention of Corruption of the Republic of Lithuania, to ensure assessment of corruption risks in the Company in a continuous and efficient manner, i.e. to identify, analyse and assess corruption risks at a frequency specified, and to select, design, implement and monitor corrective actions based on the corruption risk identified, analysed and assessed, a Corruption Prevention Register/Map was developed and approved in 2022.
- For the purpose of ensuring transparency and implementation of anti-corruption assessment of public procurement to ensure a high quality of materials procured and materials used in the construction of equipment and networks, without restricting competition, the Company's public procurement documents and contracts awarded by public procurement, as well as procurements involving only one supplier, were subject to inspection in 2022.
- To strengthen the anti-corruption competencies in the Prevention Division, the Company's employees participated in training, remote events of the Integrity Academy.
- Checks were conducted in the Company to identify illegal connections to the water and wastewater networks.
- Compliance with confidentiality requirements, control of purchased goods and services, fraud risk mitigation, checks were conducted in the Company.

Implementation of the Action Plan for the Prevention of Corruption for 2021-2022 through successful achievement of corruption prevention indicators in 2022:

Corruption prevention actions	2020	2021	2022
Review, update of internal legislation	2	2	6
Maintenance engineers' task completion checks	4	10	22
Commercial service checks	1	10	22
Company's divisions, vehicles, task completion and compliance with task assigned checks	5	10	10
Check of goods/services procured against technical specification	5	5	8
Check of persons according to the requirements of the Law on the Prevention of Corruption	1	3	42
Check of persons according to the National security compliance requirements	4	12	32
Confidential information security checks	6	10	16
Notifications received through Trust Line	1	9	39
Declaration of employee interests checks	1	61	68
Corruption prevention trainings, briefings	1	6	10

REGULATORY ENVIRONMENT

SETTING SERVICE PRICES

The prices for the Company's main drinking water supply and wastewater treatment services are set in accordance with the Methodology for Setting Prices of Drinking Water Supply and Wastewater Treatment Services approved by the National Energy Regulatory Authority (NERC), and the principles of non-discrimination, cost recovery and the "polluter pays" principle. The prices of drinking water supply and wastewater treatment services are calculated on the basis of costs for separate parts of the drinking water supply and wastewater treatment activities, in accordance with approved drinking water supply and wastewater management infrastructure development plans and plans of operations of drinking water suppliers and wastewater managers. The calculation of prices considers the estimated necessary service provisions costs, the value of the assets used in the licensed activity, the return on investment that corresponds to the criterion of reasonableness, the necessary costs of implementation of the plan of operations and the influence thereof on price increase. Service provision efficiency indicators are set.

On 27 October 2022, the Parliament of the Republic of Lithuania adopted a new wording of the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania, which entered into force on 16 November 2022. From 16 November 2022, NERC sets basic/recalculated basic prices of the drinking water supply and wastewater management services, which enter into force not earlier than 30 calendar days after their publication and apply from the first day of the following month (following the month in which the prices enter into force). The basic prices are set for a five-year regulatory period and are recalculated each year. The prices equal to base prices are applied in the first year of validity of base prices. If the average change in electricity and/or gas tariffs and rates exceeds 30%, NERC, upon the request of the drinking water supplier and waste water manager, establishes an additional component due to the change in electricity and/or gas costs, which is valid until the expiry of the basic price of drinking water supply and waste water management services of that year, which is recalculated each year.

NERC controls the setting of the prices of drinking water supply and wastewater treatment services applied by drinking water suppliers and wastewater managers in accordance with the Methodology for Setting Prices of Drinking Water Supply and Wastewater Treatment Services and the pricing principles laid down in the Law on Drinking Water Supply and Wastewater Treatment, and makes sure that the prices cover the necessary costs of supply of drinking water and wastewater treatment services as well as other related necessary expenses.



CHANGES IN PROCESS OF THE COMPANY’S MAIN SERVICES IN 2022

On 1 August 2022, by a decision of the National Energy regulatory Council (NERC), new rates for the Company’s services entered into force for the Company’s customers, the changes of which were mainly due to the increase in the costs of technological materials and fuels, changes in pollution taxes, non-current assets depreciation costs affected by the investments made and other inevitable changes in the necessary costs.

For private customers living in multi-family homes, the price of drinking water supply and wastewater management services increased by EUR 10.1 to EUR 1.20 (excl. VAT) per cubic meter. After VAT, this rate was EUR 1.45 per cubic meter. For customers living in private homes the price per cubic meter increased by EUR 1.18 (excl. VAT) or EUR 1.43 (incl. VAT) – also more than one-tenth.

For business customers, the price of drinking water supply and wastewater management services increased by 9.7% to EUR 1.24 (excl. VAT) per cubic meter or EUR 1.50 (incl. VAT) per cubic meter.

At the end of 2022, the Company announced changes in the prices of services provided to customers after the reporting period, as from 1 January 2023, which were approved by the National Energy regulatory Council (NERC) on 25 November 2022. From 1 January 2023, the Company’s customers will pay EUR 0.47 (excl. VAT) per cubic metre more for the supply of drinking water and wastewater treatment or EUR 0.57 (incl. VAT) per cubic meter more.

Since 1 January 2023, the price of drinking water supply and wastewater treatment services has been recalculated due to a significant increase in electricity prices and the resulting increase in electricity costs necessary for the provision of drinking water supply and wastewater treatment services. After recalculation of service prices, the amount paid by consumers for drinking water supply and wastewater management services in the apartments will account 0.65% of the average family income, i.e. will not exceed 4.0% of the average family income.



Change in service prices, approved by NERC in 2022

Prices of drinking water supply and wastewater treatment services, Eur/m3 (excl. VAT)	Until 31/07/2022	From 01/08/2022	From 01/01/2023
Apartments	1.09	1.20	1.67
Private homes	1.07	1.18	1.65
Hot water suppliers	1.05	1.16	1.63
Business customers	1.13	1.24	1.71

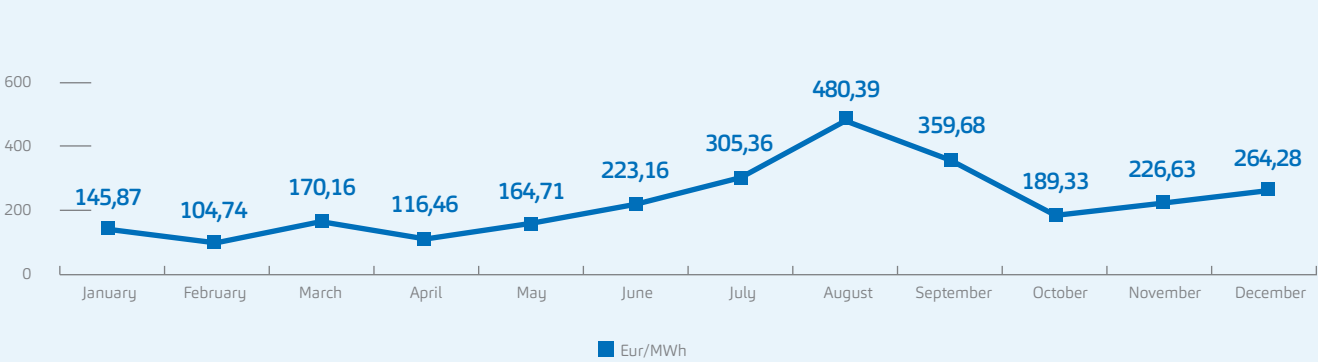
IMPACT OF GEOPOLITICAL AND MACROECONOMIC ENVIRONMENT, BUSINESS AND TRENDS

In 2022, the Company faced serious challenges due to the unpredictably difficult macroeconomic situation, sharp increases in electricity prices, the negative impact of tax (tax on natural resources and pollution tax) indexing and record-high inflation rates in the country, mainly driven by the global geopolitical situation.

On 24 February 2022, Russian Federation started the invasion to Ukraine Republic. Shortly, the European Union and rest of the world, including global bodies, took measures to respond to the aggression of the Russian Federation against the Republic of Ukraine: restrictions on goods, services, transit, economic relations and other restrictive sanctions packages were introduced. Immediately after the Russian invasion of Ukraine and the announcement of the first sanctions against the Russian Federation, the Company’s management assessed whether the introduced restrictions could affect the Company’s ability to continue as going concern. Following this, the Company assessed that these restrictive sanctions will not have a significant impact on the Company’s ability to continue as a going concern, since the sanctions imposed does not have a direct adverse effect on the Company.

From April 2022 Lithuania and Europe as a whole recorded a rapid and strong rise in electricity prices, which reached its peak in August (in Lithuania, the average price in August in 2019-2021 was around EUR 59.87/MWh, while in August 2022, the electricity price reached EUR 480,39/MWh, i.e. more than 5 times the average price). The main reason behind the change in the price of electricity was the restriction of natural gas streams through the Nord Stream 1 pipeline. Overall, Russia’s invasion of Ukraine in 2022 caused one of the most pronounced and longest-lasting energy crises in the world. For the Company that uses as much as 99% of its total electricity consumption for technological purposes (water abstraction and wastewater treatment), the unpredictable rise in prices of energy resources resulted in an increase of EUR 5.5 million in the Company’s electricity costs compared to 2021 (electricity costs accounted for 18% of the Company’s total operating costs in 2022 (8% in 2021)).

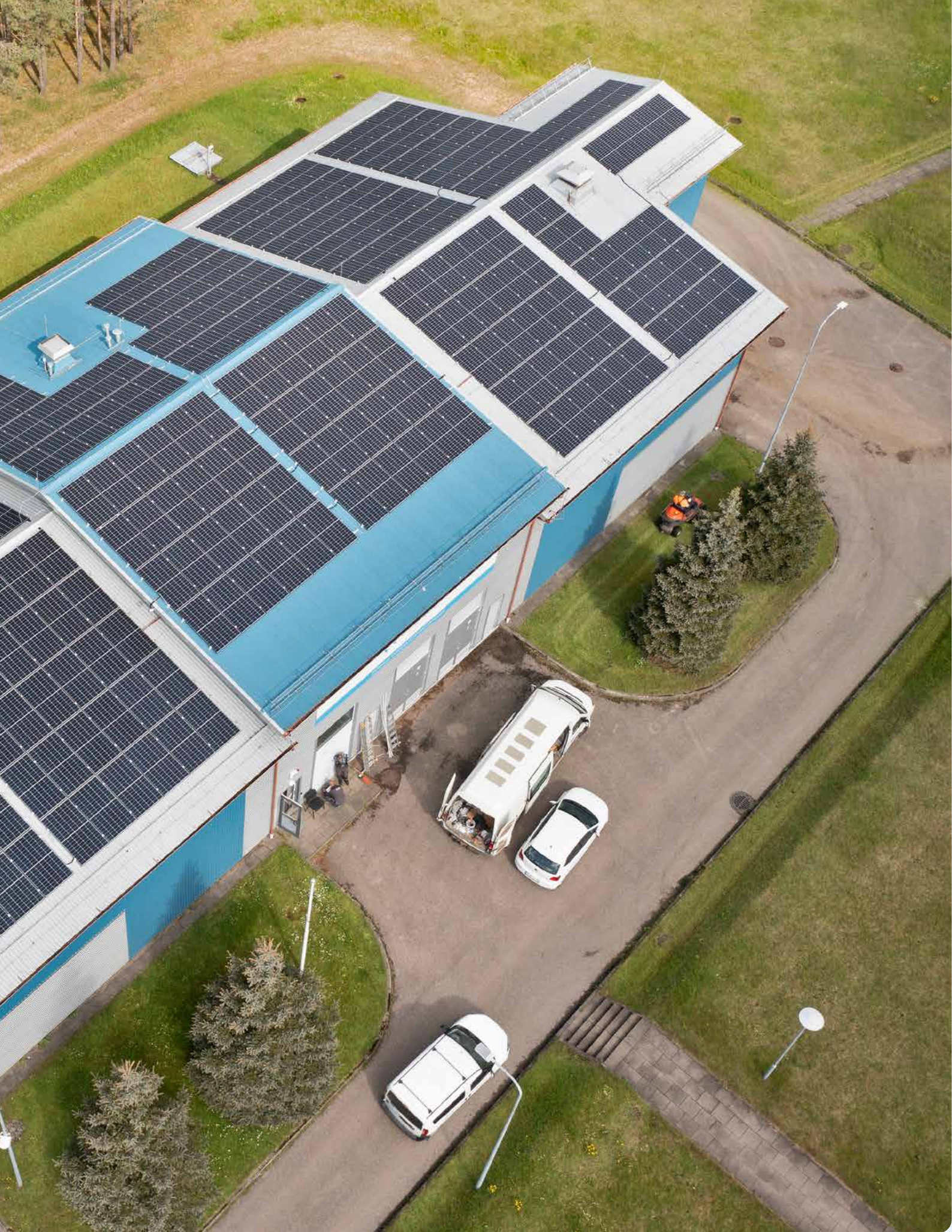
Change in wholesale electricity prices in Lithuania in 2022, Eur/MWh



The only Company’s leverage for the increase in prices of electricity (the Company produces 24.6% of its total electricity consumption on its own, but this leverage was not sufficient as compared to the amount of electricity needed to ensure the continuity of the Company’s operations) became the renewable energy solutions used in its activities and further expanded (photovoltaic plants, sludge from wastewater treatment and its conversion into energy, etc.).

In September 2022, Lithuania also recorded the highest national inflation rate over this century. Annual inflation in the country reached 24.1% in September. These inflation rates were also driven by demand and supply shifts caused by the COVID-19 pandemic, the Russian Federation’s war against the Republic of Ukraine and restricted purchases of energy resources and other raw materials from Russia, particularly strong demand and poor supply performance, and the fall in the euro against the US dollar. The unpredictably high inflation in the country undoubtedly contributed to the increase in the Company’s costs for goods, services or repairs and investment projects.

Although the business environment in 2022 caused serious challenges for the Company due to the above-mentioned reasons, it is expected that the market situation will gradually return to normal levels in 2023 without peaking to the negative levels of 2022, but it is certainly likely that the factors will continue to have some negative effects on the Company results in 2023.



INVESTMENTS

In order to ensure availability of water supply and wastewater treatment services to residents as well as their compliance with quality, environmental and health requirements, the Company constantly invests in the development and modernisation of infrastructure.

The objects to be modernized are selected in accordance with the Company's Methodology for Rating Objects of Reconstruction of Water Supply, Wastewater Networks and Stations. The development of block networks/mains is carried out in accordance with the Methodology for Ranking Infrastructure Development Objects.

During 2020–2022, the Company realised the Operational and Development Plan, under which the total investment over three years amounted to EUR 96,865 million.

The Company's investments under the Company's Operations and Development Plan for 2020-2022

Strategic direction	Strategic objective	2020	2021	Plan for 2022	Plan/ Actual outcome in 2022	Actual outcome in 2022	2020-2022 TOTAL
Environmentally sustainable activities	Ensure conservation of natural resources and go beyond environmental requirements	8,305	23,949	40,448	-891	39,556	71,811
	Upgrade infrastructure	4,929	4,178	5,456	13	5,470	14,576
	Develop renewable energy and the circular economy	3	420	797	24	821	1,243
Sustainable development and innovation	Innovate	1,202	609	611	-215	396	2,208
	To streamline costs	205	851	3072	-122	2,950	4,006
	Effectively manage assets and digitize operations	329	232	105	291	396	957
Effective customer experience management	Improve customer experience	187	97	545	-387	158	441
	Expand basket of services	127	229	85	203	288	644
	Improve process management	11	18	721	229	950	979
TOTAL		15,297	30,583	51,839	-855	50,985	96,865

In 2022, the Company implemented network development projects, based on the Methodology for Ranking Infrastructure Development Objects and other projects provided for in the Operational and Development Plan, selected in 2019, 2020, and 2021.

Majority of network development projects run for several years due to the complexity and scale of the projects. In 2022, the Company completed projects with a total network length of 28.84 km of water supply and 25.46 km of wastewater collection, allowing 1,200 households to connect to the water supply network and 1,428 – to the wastewater network.

For the modernisation of the existing water supply and wastewater networks in 2022, the Company allocated EUR 4.651 million of the Company's investments. The reconstruction projects completed in 2022 with the following outcome: 6.3 km of water supply, 4.3 km of wastewater networks.

In addition to expanding and modernizing networks, the Company invests in water improvement facilities to provide high-quality water to consumers. In 2022, the Company carried out reconstruction of wellfield in Žemiejai Paneriai (the investments for this project in 2022 amounted to EUR 0.4 million).

The reconstruction of Vilnius wastewater treatment plant launched in 2020, is another important project implemented by the Company in 2022, for which large investments were allocated: EUR 16,341 million for the Stage 1 and EUR 1 million for Stage 2 to be further implemented in 2022.

Striving to provide the highest quality of services, meet the highest environmental standards and enable even more residents to join the newly established networks, calls on public authorities to support the implementation of its projects through EU structural funds.

Currently, the Company has signed 11 agreements with the Environmental Projects Management Agency and Public Investment Development Agency UAB regarding the implementation of the following projects, part of which will be financed through the European Union Structural Funds for 2014–2020: 4 contracts were completed in 2022.

The Company also continued its project to install solar photovoltaic plants on the roofs and near its buildings in 2022, with a total investment of EUR 820,722 million in 2022.

The Company has been actively moving towards energy independence: in 2022 produced 24.6% of its own electricity requirement, and thus will continue to pursue the long-term strategy objective in 2023.

In addition to the EU funding, the Company also invokes other sources of financing for the smooth implementation of the investments provided for in the Action and Development Plan for 2020–2022. The European Investment Bank (EIB) has granted a loan of EUR 50 million for the improvement of infrastructure (development and reconstruction of networks, renovation of wastewater management plants, construction of water improvement facilities, modernisation of operations, etc.).





SOCIAL RESPONSIBILITY

SOCIAL RESPONSIBILITY POLICY

Activities of the Company of Vilniaus Vandenys are integral part of nature: the Company extracts a vital resource – water – from the natural sources and supplies it to the society, and discharges treated wastewater back the natural environment. By supplying water or treating wastewater, the Company aims to act in harmony with the surrounding environment, therefore it is implementing technologies that reduce pollution and conserve natural resources, consistently increases the use of renewable resources in its activities, applies modern human resource management, supports or initiates transparent, ethical and responsible business initiatives.

In its activities, the Company follows the Social Responsibility Policy approved by the Board (publicly available on the Company's website, under About Us/Management/Corporate Governance Documentation).

The Company's Social Responsibility Policy is based on the Company's core objectives set out in the Company's Operational Strategy for 2020-2030, the Company's Operational and Development Plan for 2020-2022 (both documents are available on the Company's website) and the Plan for Corporate Communications and Affairs, which is updated annually.

In addition, the Company's social responsibility policy is defined based on: the United Nations Global Compact (UN Global Compact) promoting corporate social responsibility; Sustainable Development Goals (SDGs) set by the World Business Council for Sustainable Development (WBCSD); European Green Deal approved by the European Commission in 2021; the National Sustainable Development Strategy approved by the Government of the Republic of Lithuania; the expectations expressed by the Company's shareholder; the integrated ISO 9001:2015 and ISO 14001:2015 quality and environmental management systems; and the Company's mission, vision, and values.

COMPANY'S INTERNATIONAL IMAGE

In implementing its Social Responsibility Policy, Vilniaus Vandenys keeps pace with, or even outperforms, the largest water supply and wastewater management companies in other foreign countries (according to SDG score), and also builds on the recommendations of the Governance Coordination Centre on operational sustainability (social responsibility) and the content of the report.

In 2022, as part of the implementation of the Company's new Operational Strategy for 2023-2032, the Company acquired the independent consultancy services for the Company's comparison with 13 other water management companies across Europe. In an assessment of the Sustainable Development Goals (SDGs) carried out by independent consultants, the Company was awarded 2 points of 3 for achieving SDGs. In the international context, this score is good or even better than the assessment of water management companies operating in other countries.



STAKEHOLDERS AND ANALYSIS OF THEIR EXPECTATIONS

Engagement of stakeholders in the development and implementation of the Corporate Social Responsibility (CSR) plans is a good CSR practice, recommended by International Sustainability Standards: Global Reporting Initiative, AA1000 Stakeholder Engagement Standard and other guidelines of international institutions.

The Stakeholder Management Plan is part of the Company’s Stakeholder Relations Management Policy, which was adopted by the Company in 2022.

The Stakeholder Management Plan provides principles and guidelines for the development of the Company’s stakeholder relations, ensuring the ability to identify key issues relevant to the stakeholders in the Company’s sustainable business development.

Stakeholders and their expectations for the Company regarding Social Responsibility Policy implementation

STAKEHOLDER	STAKEHOLDER BUSINESS-RELATED GOALS, EXPECTATIONS
1. Shareholders, members of collegial bodies	Operational, financial stability and profitability. Sustainable business, innovation development, openness, transparency, security, good governance
2. State, municipal and regulatory authorities	Compliance, partnership, sharing of expertise, shaping market regulation practices, contribution to the objectives of international institutions (EU, EC, etc.): ensuring the interests of national security, implementing projects of strategic importance, creating value for the State and regions
3. Employees and their representative organizations	Company’s financial stability, workplace safety, opportunity to improve level of competences and qualifications, fair remuneration and transparent remuneration arrangements, working processes and procedures
4. Partneriai Business partners Financial partners	Operational innovation and digital transformation, operational reliability and security, high standards of business ethics implemented throughout supply chain (from raw materials to billing)
5. Customers	Quality services, consistently increasing reliability and availability of services, attentive, professional service, short, flexible service procedures (for connection of new customers)
6. Influencers, media and public	Open, transparent, easily accessible information about the Company, professional and timely communication, prompt response to inquiries, quality of the Company’s services, continuous, socially responsible activities
7. Communities	Quality services, socially responsible activities, contribution to the general well-being, ensuring continuous dialogue, open communication, prompt problem solving

COMPANY’S CORPORATE SOCIAL RESPONSIBILITY DIRECTIONS

The Corporate Social Responsibility Policy defines four main areas of application: business, environment, organisation and society (these different areas bring together the following groups: the natural environment, The environment of the areas where the Company is operating, shareholders, customers, partners, contractors, employees, the society (in the broadest sense) and its individual parts).

Areas and goals of application of social responsibility



BUSINESS

- Transparency, responsibility, anti-corruption, open data
- Quality of services
- Customer expectations management
- Binding partnership (contractors, business partners)
- Business digitalisation



ENVIRONMENT

- Pollution prevention and control
- Energy saving
- Energy production from renewable energy sources
- Sustainable development of water supply and sewage networks for cities and the environment
- Implementing future technologies
- Circular economy

SOCIAL RESPONSIBILITY



ORGANISATION

- Safe work environment
- Good working condition and fair remuneration
- Value-based organisational culture
- Engagement and involvement of employees
- Development opportunities
- Right to join trade unions



SOCIETY

- Involvement and cooperation of communities through ongoing projects and associations
- Education and training of separate society groups
- Periodic accountability against society
- Proactive information and speed of reaction during accidents and disturbances

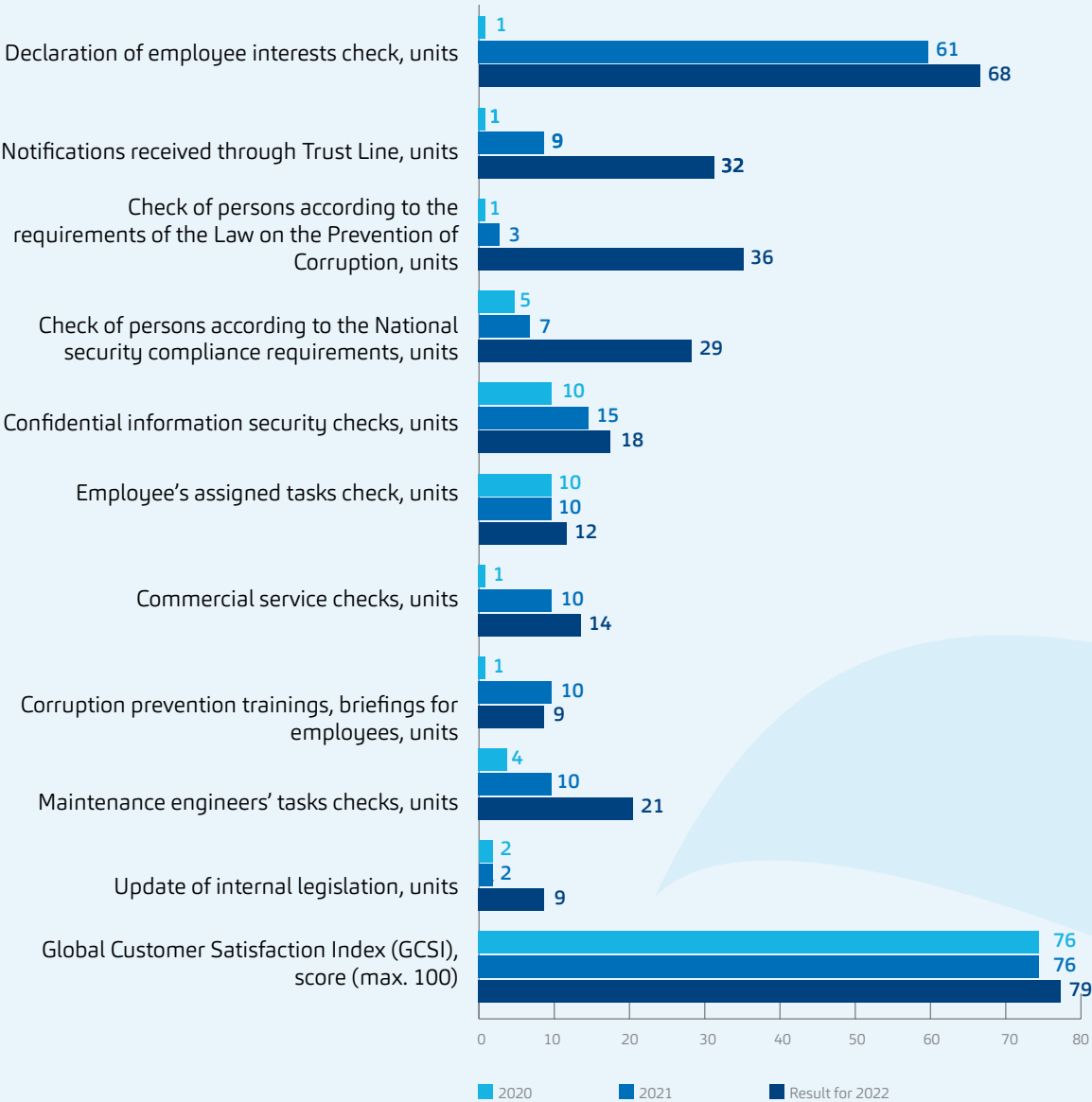
The Company’s Corporate Social Responsibility policy, in each of its areas of application, is based on the zero principle, and, therefore, the Company’s policy sets core zero targets it hopes to achieve by 2030. All these targets are divided into 2 groups based on the social responsibility areas defined: Social Responsibility Index and Green Index.

In its activities, the Company relies on the above-mentioned Social Responsibility Policy starting from 2020. In 2023 (after the end of the reporting period of 2022), the Company’s Board approved the new Company’s strategy for 2022-2032, which will serve as a base for updating the Company’s Social Responsibility Policy and the indicators set for achievement planned in 2023.

SOCIAL RESPONSIBILITY DIRECTION: BUSINESS

Business direction set in the Company's Social Responsibility Policy is the Company's commitment to operate in a transparent manner and to be accountable for the performance not only to shareholders, but also to the public. To make performance data open and accessible to anyone interested in the Company's activities. To obligate its business partners and contractors to apply the principles of business transparency. In order to achieve sustainability, the Company is committed to consistently improving the quality of services provided, digitizing operations, and managing customer expectations.

Main achievements in the area of application of social responsibility in 2022 – Business:



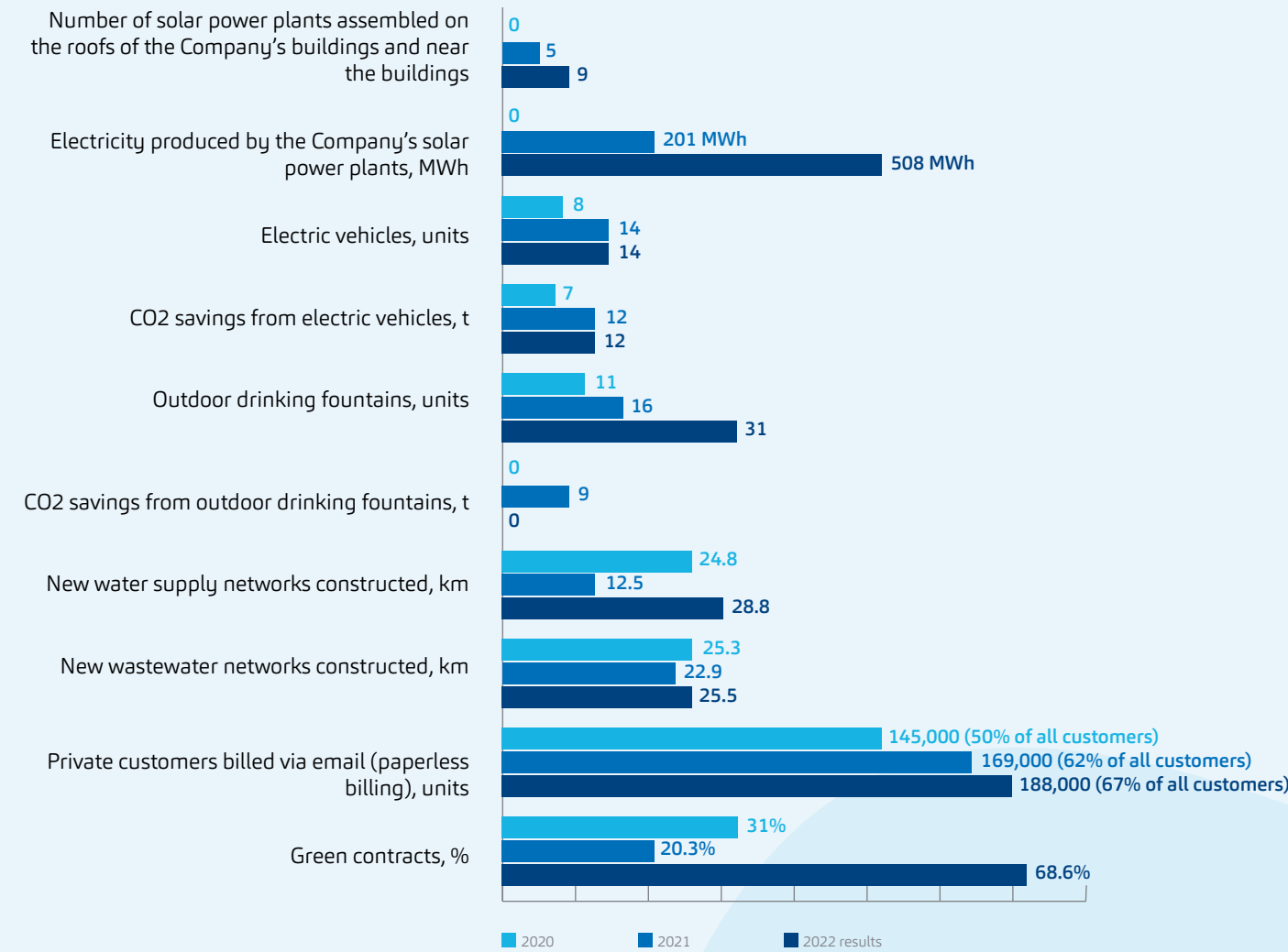
Main achievements and work done in the area of application of social responsibility in 2022 – Business:

- The Company continued to adhere to the principles of transparency and accountability, shared, in open and consistent manner, with the society open data related to the Company's performance indicators, ongoing and planned projects, approved corporate governance documentation, employee remuneration, etc. The Company made this data publicly available on its website (under Activities, About us, Social responsibility, News, Corruption prevention, Public procurement).
- The Company developed and approved with the Board the Conflict of Interest Management Policy, and the conflict of interest management rules governing the implementation of the approved policy.
- The Company developed and approved the Description of the Procedure for Reporting Breaches through Internal Information Channels, and the Company's Trust Line Policy was approved.
- The Company developed and approved the Description of the Procedure for Offering and Accepting Gifts.
- In response to the expectations of its customers, partners and contractors, the Company developed additional memos regarding network handover procedures.
- Seeking to educate and cooperate more closely with its partners, contractors and designers, the Company initiated and organised special conferences in 2022 to share relevant information, advice and answer questions from partners.
- In order to meet the expectations of customers and to facilitate and accelerate their contact with the Company, the Company set up a standardised customer enquiry form on its website.
- The Company developed and approved the compensation for low-quality water procedure.
- The Company has started operating water improvement facilities in the wellfield in Ž. Paneriai under reconstruction. With the help of these facilities, iron and manganese are removed from the water, thus improving the quality of water supplied to the residents of Ž. Paneriai.
- The Company continued to implement its digitisation projects. In 2022, the 1st stage of the smart water supply system was finalised and the installation of smart meters in residential houses was launched, thus facilitating the procedure for submitting meter readings of consumed services for customers and contributing to the conservation of water resources.
- The Company has started operating water improvement facilities in the wellfield in Ž. Paneriai under reconstruction. With the help of these facilities, iron and manganese are removed from the water, thus improving the quality of water supplied to the residents of Ž. Paneriai.
- In 2022, the Company monitored water quality from the water abstraction point to the "water tap", and, where appropriate, the Company's employees flushed inlets and stands inside the buildings, to meet all the customer expectations.

SOCIAL RESPONSIBILITY DIRECTION: ENVIRONMENT

Environment direction set in the Company's Social Responsibility Policy is the Company's commitment to prevent pollution in the natural environment. These include rapid and sustainable emergency response, the implementation of long-term water management and infrastructure solutions serving the well-being of the city, the development of water supply and wastewater networks, and the strengthening of controls in working with polluter companies.

Main achievements in the area of application of social responsibility in 2022 – Environment:



Main achievements and work done in the area of application of social responsibility in 2022 – Environment:

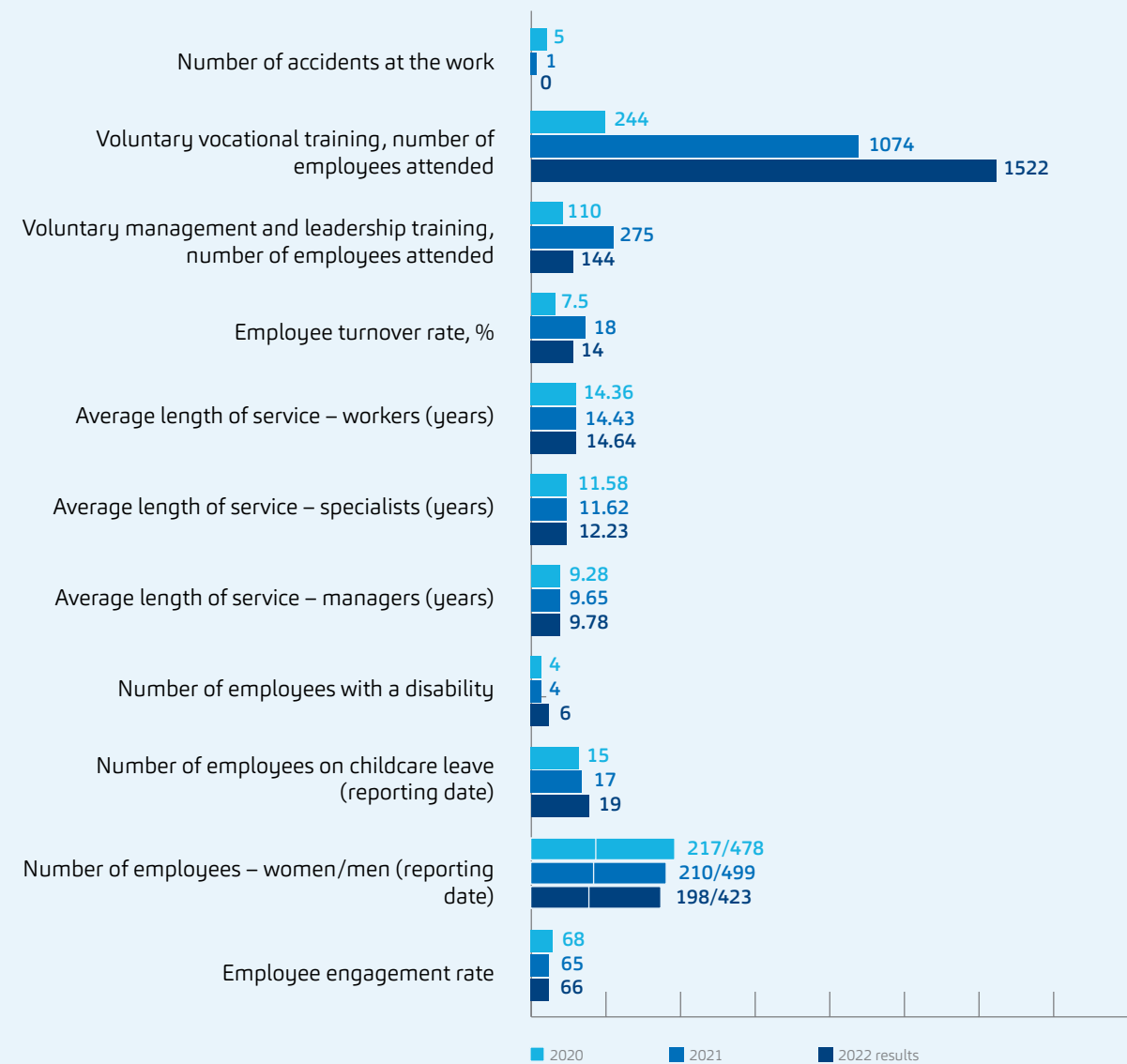
- The Company offered residents and guests of the capital to refuse plastic bottles and refresh oneself with water from outdoor drinking fountains installed in different parts of the city. The network of outdoor drinking fountains has more than doubled in 2022, from 16 to 31 outdoor drinking fountains. It is estimated that until the end of the drinking season in 2022, residents and guests in various parts of Vilnius city consumed more than 5 million glasses of water and thus refused more than 2 million plastic bottles.
- The Company continued to invest in renewable energy solutions in 2022 and expanded its rooftop photovoltaic plant network on its buildings. In 2022, up to 24.6% of the total electricity consumed by the Company was produced by the Company itself: partly from sludge produced in the sewage treatment process, partly from the rooftop photovoltaic plants installed on the Company's buildings. Electricity produced by the Company accounts 43.9% of the total electricity produced by Lithuanian water management companies, and that makes the Company sector leader in the country.
- In 2022, the Company also used biogas derived in wastewater treatment processes of Vilnius wastewater treatment plant to generate electricity. In this way, the Company not only reduced costs by using renewable sources for electricity generation, but also contributed to environmental safety and CO2 reduction (CO2 saving up to 16,060 t per year, and almost 3 times more than planned (5,613 t)).
- In 2022, instead of being incinerated, the sludge resulting from the wastewater treatment process is dried and used by the Company for the fertilisation of energy plantations – the Company, together with its partners, continued its activities in the circular economy project NutriBiomass4Life. In 2022, the dried sludge resulting from the wastewater treatment process was also supplied to AB Akmenės Cementas and used as alternative fuels in the cement industry instead of non-renewable fuels (coal).
- In 2022, the Company used environmentally friendly solutions and available electric cars in its operations.
- In 2022, the Working Group on Pollution Risk Management continued its work by carrying out legal regulation of the reception of wastewater into the Company's networks, developing and implementing preventive measures to reduce wastewater pollution, looking for potentially polluting objects and gradually reducing the entry of contamination into the Company's wastewater networks.
- The Company purchases only green electricity from mid-2022.
- In 2022, the Company's employees also contributed to environmental conservation by saving electricity resources, choosing tap water for drinking in offices, etc.



SOCIAL RESPONSIBILITY DIRECTION: ORGANISATION

Organisation direction set in the Company's Social Responsibility Policy is the Company's commitment to ensure a safe working environment for employees, to provide them with all the measures guaranteeing safety, to foster the Company's values – Cooperation, Professionalism, Responsibility, and to base the most important decisions on them. The Company also provides employees with the tools to express their opinions freely, involve them in decision-making and the Company's communication in the social space.

Main achievements in the area of application of social responsibility in 2022 – Organisation:



Main achievements and work done in the area of application of social responsibility in 2022 – Organisation:

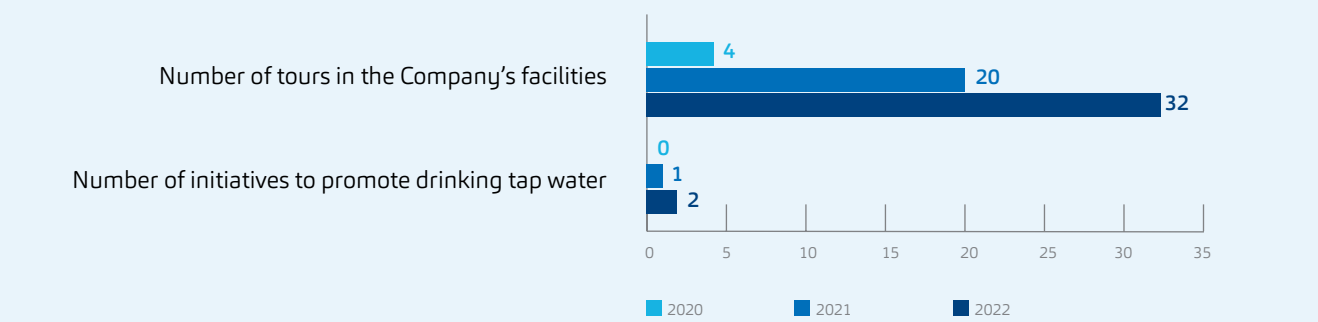
- Mandatory occupational safety and health, fire and civil safety trainings were arranged for employees in the Company.
- Practical staff trainings and workshops (work in confined spaces, first aid) were arranged for employees in the Company.
- Suppliers train employees to work safely with the tools and equipment they sell (6 practical training on new equipment: working with a septic tank truck, working on access platform, using tools, using gas masks, working with lathes, etc.).
- In 2022, the Company established Employee Wellness Programme, the first topics of the program: "Healthy diet", "Effects of alcohol on health and prevention".
- In 2022, the Company's employees were involved the procurement of personal and collective safety equipment (climbing a stationary ladder, selection of tools for working on access platform) as experts.
- A list of occupational safety and health breaches clearly defined as critical to the safety and health of employees was developed.
- The "5 whys" principle introduced for the investigation of occupational safety and health breaches.
- In 2022, the Company introduced employee sobriety checks using stationary and portable breathalysers before and after the work every working day (shift).
- In 2022, all employees of the Company were covered by supplementary health insurance.
- Employee empowerment initiatives implemented in 2022 the Company: Employer branding campaigns, tree planting, career days, tours, quarterly presentations of the Company's results.
- In 2022, the Company's employees (92% of all employees) participated in the Values Game, the goal of which is to consolidate in employees the Company's values in an interactive and attractive form.



SOCIAL RESPONSIBILITY DIRECTION: SOCIETY

Society direction set in the Company’s Social Responsibility Policy is the Company’s aim to be open, cooperative and active company, the activities of which are interesting for many groups of society. The Company maintains a sustainable business relationship with all of them. In order to establish a strong relationship with the communities, the Company implements educational initiatives, focusing on raising the awareness of schoolchildren and students about water resources and their proper use, as well as using individual groups of society in search of innovative ideas.

Main achievements in the area of application of social responsibility in 2022 – Society:



Main achievements and work done in the area of application of social responsibility in 2022 – Society:

- The Company sent 20 tonnes of sodium hypochlorite (chemical for disinfection of water) to war-torn Ukraine in early 2022. Water from surface bodies is used to prepare drinking water in Ukraine, therefore, microbiological contamination must be removed through disinfection. During the summer, a parcel of the same size was sent to this country again, at the request of Ukrainians. In 2022, the Company also handed over off-road vehicles that were no longer used in its activities to the non-governmental organization Blue/Yellow. At the end of the reporting period, the Company welcomed visitors from Ukrainian water management companies with the aim of getting knowledge of and learning technological solutions we apply in our activities to respond promptly to emergencies.
- In 2022, the Company launched an initiative under the auspices of the Ministry of Environment of the Republic of Lithuania and supported by the National Agency for Education in the capital’s kindergartens and schools, the main objective of which is to educate children about the processes of drinking water abstraction and wastewater treatment, to encourage them to choose sustainable solutions and to highlight the relevance of this these days. During the year, representatives of the Company visited 44 educational institutions of the capital and almost 1,000 children. This initiative is aimed at the youngest residents of the capital: preschoolers and elementary school students.
- In 2022, the Company introduced on its website a new functionality – tour request form, which will facilitate and accelerate the registration for tours offered by the Company to the members of society interested in water management.
- In 2022, the Company joined the unique “Mechanisms” educational weekend, initiated by Vilnius City Municipality and supported by the energy companies. During this weekend, residents and visitors of the capital were able to visit places that are rarely open to the public. The Company held 6 tours in its facilities.
- In 2022, the Company held a total of 32 tours in its facilities.
- In 2022, the Company initiated and implemented an educational initiative, during which different communities were educated on the environmental damage of wastes improperly disposed into centralized wastewater networks.
- In 2022, the Company initiated a national campaign to promote tap water consumption. The main initiative of the campaign was “Drink tap water”, to which representatives from different business areas were invited to join and offer their customers and guests to choose free tap water over bottled water in restaurants, cafes, hotels, sports clubs, offices or supermarkets. Six Lithuanian cities and their water management companies joined the initiative, during which more than 1 million glasses of tap water were offered for free across the country.
- In the summer of 2022, as a record heat wave blistered, the “fog” system installed in the Town Hall Square by the Company helped the residents of the capital to freshen up.

SOCIAL RESPONSIBILITY INDEX AND GREEN INDEX

Indicator	2021 Score points per criteria	2022 Score points per criteria
0 reasoned complaints	1	1
0 queries	0	0
0 queries not responded for more than 24 hours	1	1
0 customers dissatisfied with the Company’s services	1.47	1.53
Zero non-involved employees	0	1,50
0 corruption scandals, non-transparent procurements	1.50	1.50
0 accidents at work	0	2
Social Responsibility Index score	4.97	8.53

Indicator	2021 Score points per criteria	2022 Score points per criteria
0 electricity purchased for technological activities (energy from renewable resources)	0.214	0.248
0 fresh water wastage (overall loss) according to global practice (NERC)	0.9	0.786
0 customers without centralized water supply using the European Union Directive requirement as benchmark	0.448	2.496
0 accidents/failures unresolved for more than 24 hours	0.899	0.837
0 paper invoices	0.6	0.673
0 treated wastewater contamination within limits set by Lithuanian legislation	0.429	0.5
0 water tests non-conforming with hygiene standards	0.995	0.984
Green Index score	4.49	6.52

KEY RISKS IN THE AREAS OF APPLICATION OF SOCIAL RESPONSIBILITY DIRECTIONS AND THEIR MANAGEMENT

Key risks identified in 2022 in the areas of application of social responsibility directions and measures for their management

Area of social responsibility application	Risk description	Potential impact (by Social Responsibility directions)	Management measures
Business	Late or poor quality service	Failure to manage customer expectations, reputational damage	<ol style="list-style-type: none"> 1. Employee competency check, training, as needed 2. Transactional analysis of services delivered, customer feedback recording 3. FAVAKA project
	Laboratory activities contradict the principles of impartiality, objectivity and transparency	Failure to manage customer expectations, services of poor quality, breach of principles of impartiality, objectivity and transparency, reputational damage	<ol style="list-style-type: none"> 1. Research documentation 2. Quantitative research data 3. Data traceability 4. Four-eyes principle for research approval 5. International annual laboratory tests 6. Accreditation
	Late or poor quality public procurement	Failure to manage supplier expectations, breach of transparency principle, services of poor quality	<ol style="list-style-type: none"> 1. Monthly and quarterly monitoring of procurement processes and indicators (at management level) 2. Tracking of monthly indicators
Environment	Wastewater management process failures	Environmental damage, risk to health employees	<ol style="list-style-type: none"> 1. Periodic accreditation and training of operations personnel 2. Equipment repair and upgrade 3. Facility ratings
	Equipment failure	Environmental damage, potential failures during restoration of activities, failure to meet customer expectations	<ol style="list-style-type: none"> 1. Increasing electricity supply category 2. Part of the facilities is equipped with stationary diesel generators, mobile generators DVD; subject to periodic maintenance 3. Investments in upgrading of electronic devices, increasing operational reliability 4. Equipment condition monitoring
	Discharge of untreated wastewater into the environment	Environmental damage, reputational damage	<ol style="list-style-type: none"> 1. Integrity of seals of emergency pipes are inspected based on the periodic inspection plans of the divisions operating the emergency pipes 2. Educational campaigns for companies 3. Clear allocation of responsibilities for closing emergency shutdown valves during the operation of water supply and wastewater networks

Organisation	Employee shortage	Unattractive employer, disloyal employees, staff turnover, non-engaged employees, reputational damage	<ol style="list-style-type: none"> 1. Update of remuneration limits (compared to the market) 2. The PAD review is conducted in accordance with the rules set out in the Description of the Employee Compensation Procedure 3. The remuneration is estimated within the limits set in the Company
Society	Improperly managed communication crisis	Reputational damage, negative public image, unattractive employer, unmotivated employees	<ol style="list-style-type: none"> 1. Social responsibility issues are integrated into the Communication Strategy and the Annual Communication Plan 2. Active involvement with associations 3. The risk is integrated into the Crisis Communication Plan and managed in accordance with its provisions 4. Standard communication to customers is reviewed and updated 5. Regular simulations and exercises (at least once per year) 6. Values Game for the development of employee awareness based on values





ENVIRONMENTAL PROTECTION

Performing its activity, the Company complies with Quality and Environmental Protection Policies (available on the Company's website, under About us/Management/Corporate Governance Documentation) which are binding on all employees of the Company. These policies define the key directions in the areas of quality and environmental management that are closely linked to the directions and initiatives identified in the Company's strategy. The Company aims to use the most advanced tools, technologies and processes in its activities, promote the rational use and management of resources and thus reduce adverse impact of its activities on the environment.

The Company has implemented an integrated quality and environmental management system compliant with ISO 9001 and ISO 14001 standards. This demonstrates that the environmental impact of the Company's activities is identified and managed, and that its activities comply with legal and other environmental requirements. The quality management and environmental protection system is integrated into all business processes that are defined by the specifics of the work of departments to ensure their effective operation, monitoring and management. Each process is planned and controlled continuously in light of customer needs.



A review audit carried out in 2022 identified the following strengths of the Company's management system:

- Improved risk management framework.
- Effective internal audits designed to review the compliance of the selected elements with the requirements of the quality and environmental management system standards.
- Non-compliance management has been implemented.



In 2022, the Company took the following actions to reduce CO2 emissions:

- The sludge resulting from the wastewater treatment process is dried and used for the fertilisation of energy plantations – the Company, together with its partners, continued its activities in the circular economy project NutriBiomass4Life during the reporting period.
- In 2022, the dried sludge resulting from the wastewater treatment process is supplied to Akmenė Cement AB and used as alternative fuels in the cement industry instead of non-renewable fuels (coal). In addition, the combustion of dried sludge creates less CO2 emissions into the atmosphere compared to coal combustion.
- Vilniaus Vandenys further pursued one of its Green projects: installation of solar panels on its territory. So far, 10 solar panels were installed and additional seven are scheduled for 2023.
- The Company purchases only green electricity from mid-2022.



In 2022, the Company further pursued renewable energy project:

- Treatment of sludge – based on the principles of the circular economy
- Generation of electricity for own consumption using solar power plants installed on roofs
- Tertiary treatment plants for better phosphorus removal, plastic capture.



PERSONNEL MANAGEMENT

EMPLOYEES, DISTRIBUTION AND ENGAGEMENT

Employees and organisational culture is one of the Company’s strategy directions, to which the Company continuously pays great attention.

As at 31 December 2022, the Company’s team consisted of 44 employees in Production Service, 40% in Customer Service, and the remaining 16% provided supporting functions of the Company’s main activities.

In 2022, the Company employed 6% of administrative and middle managers, 55% of specialists and senior specialists, and 39% of workers.

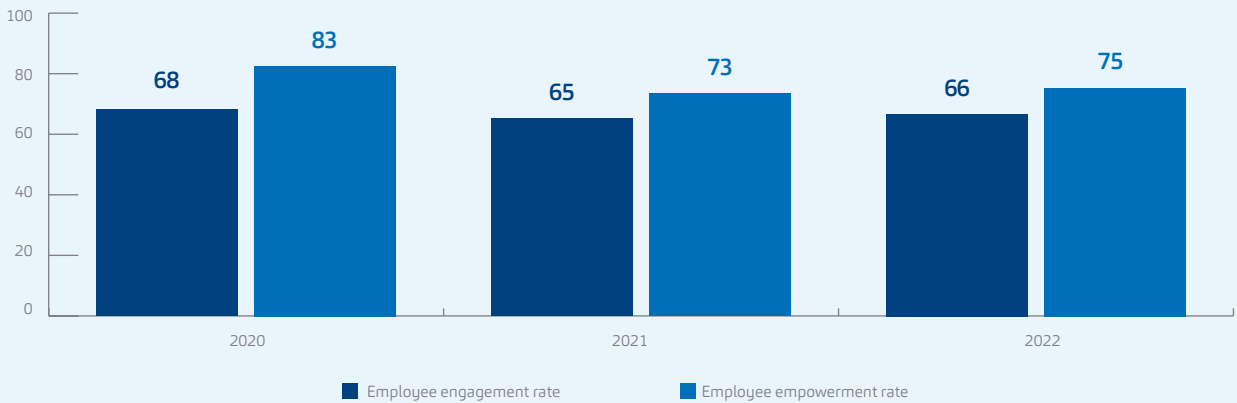
In 2022, 48% of the Company’s employees had a university degree, 23% – a vocational training degree, and 29% – degree in secondary education.

Key personnel management indicators in 2020-2022

Indicator	2020	2021	2022
Employee turnover rate, %	7.52	18	14
Number of employees moved up the internal career ladder	29	51	47
Number of employees (reporting date)	695	659	621
Average length of service in the Company, years	13	13	13

Seeking to determine the level of its employee engagement and satisfaction with the work and organisation, and to identify the areas of the Company’s organizational culture to be improved, and to draw up a plan to improve the situation, in 2022, the Company carried out the Employee Engagement and Empowerment Survey, with 79% employee attendance. In this survey, the employee engagement rate shows that the Company’s employees are motivated, positive and loyal to the organisation, engaging with enthusiasm and involving a high level of responsibility. The employee empowerment rate shows that their work and the working environment encourage employees to turn their enthusiasm for into productive action.

Employee engagement and empowerment rates in 2020-2022, %



Also, eNPS (Employee Net Promoter Score) was used in the Employee Engagement and Empowerment Survey to measure the loyalty by asking employees if they would recommend the organisation as an employer to others. In 2022, the survey showed the growth this score by 5% during the year to 27%. In 2022, this score was significantly higher than the average of all Lithuanian companies (2%) and Lithuanian utility services companies (-3%).

In 2022, based on the good practice of other organizations and the Company’s increasing attention to employees’ emotional health, the Company conducted a survey of Psychosocial risks and stress at work. The survey showed that the Company’s employees feel good in the organisation: pleasant communication at work, no psychological violence between colleagues, each employee feels respected and his/her contribution to the Company’s activities is valued. According to the results of the study, the Stress Factor in the Company is 75%, indicating that the Company has a good emotional atmosphere, a cooperation-supporting microclimate.

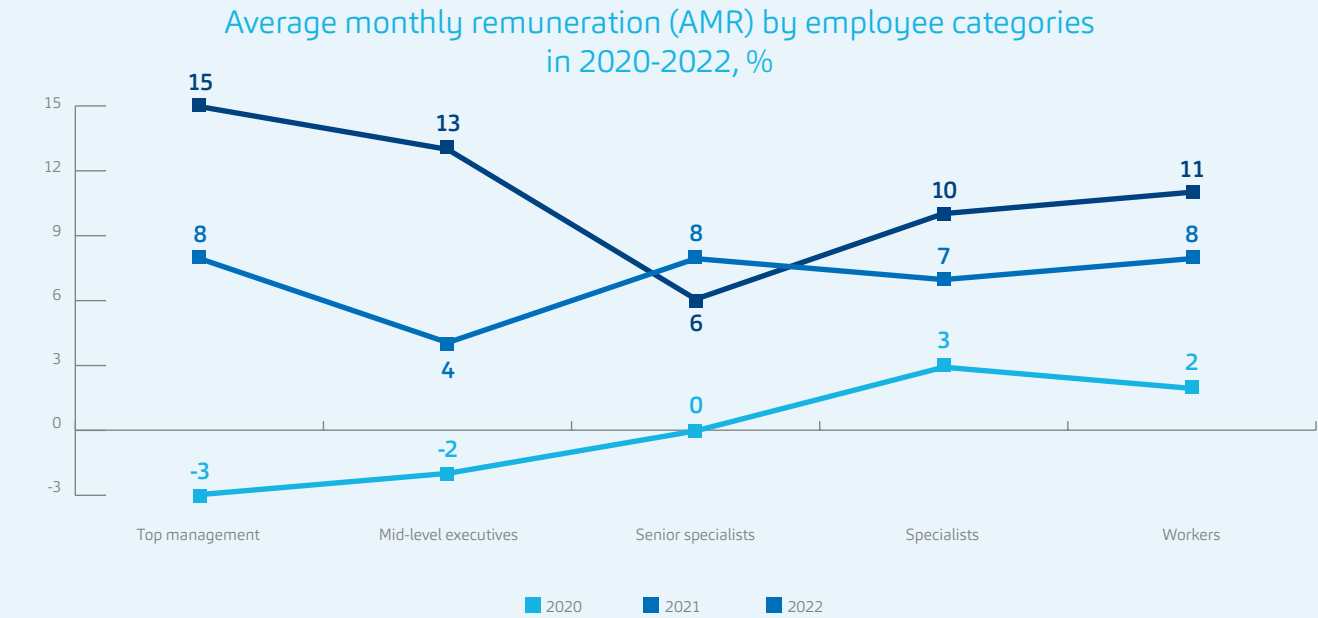
REMUNERATION AND ADDITIONAL BENEFITS

The Company aims to ensure the remuneration paid to employees for work is not only compliant with the highest transparency requirements, but also objective, and motivates to collectively achieve the Company’s goals. This is accomplished by creating a transparent and competitive remuneration system.

In view of the economic, environmental and social aspects of its activities, the Company maintains and continuously improves a remuneration system corresponding to both internal equity and external competitiveness.

In 2022, the Company reviewed remuneration of its employees, which took effect from May 2022. Based on the remuneration review and the decisions made, the average salary per employee was increased by 6.7%.

Principal remuneration component (PRC) paid to the Company’s employees is reviewed on annual basis. The outcome of the PRC review depends on the financial capacity of the Company, the employee’s professional competence, performance, the employee’s remuneration situation compared to the Company’s remuneration limits, the employee’s contribution to the work performed, his/her initiative and self-motivation. In the 2023, the Company forecasted an 8% remuneration increase in the remuneration budget, which will be used during the employee remuneration review.



* The number of employees on the last day of the year.
Top management – the CEO and directors of units.
Middle management – heads of departments, divisions and groups.
Senior specialists – employee category consisting of highly qualified employees with excellent knowledge of their job specifics appointed to be in charge of a group of employees (specialists or workers).
Specialists – employee category consisting of employees who know their job well and have a certain profession.
Workers – category of employees who perform work assigned by others, making decisions exclusively in relation to the work that they do.

In addition to the principal and variable remuneration component, the Company also approved an additional benefits package for all employees. The additional benefit package include: two additional rest days per year, as additional rest days for attendance of weddings, or in the event of an accident. All employees of the Company were insured by supplementary health insurance in 2022.

STAFF DEVELOPMENT

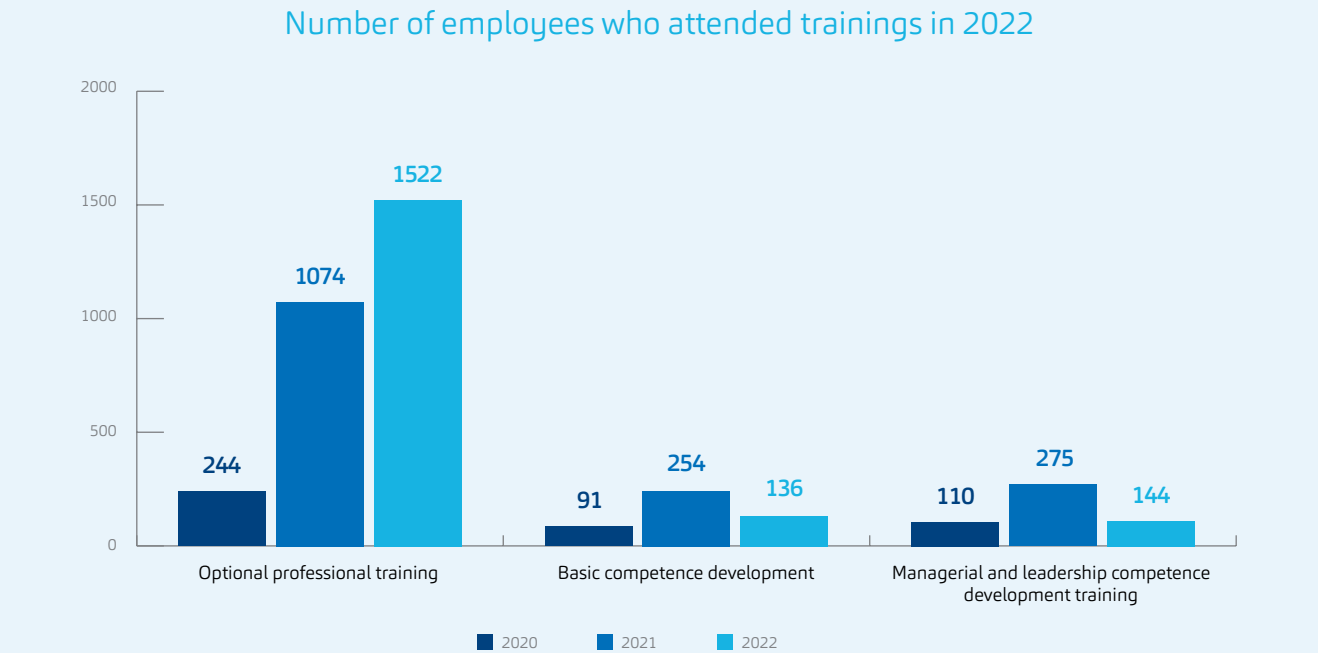
The Company believes that required competencies of employees – professional, basic, leadership and management – allow to achieve the highest performance results.

The Company supports the educational process by providing opportunities for employees to learn and grow through:

- Working practices (e.g., appointment to lead a complex project, involvement in non-standard situations, implementation of systems, assignment to another area or higher responsibility position, etc.)
- Attending internal and external formal training
- Self-learning by means of distance and virtual training, various sources of information, publications, etc.

Expertise plays a vital role in the Company, therefore, both internal and external candidates must have the appropriate professional and core competencies, openness to continuous learning and development and, where applicable, necessary successful know-how.

The employee education plan is drafted annually based on the competence needs.



* The "Training" section represents the total number of participants, i.e. some employees may have taken part in trainings more than once.

Trainings held in the Company in 2022

Title of a training course	Number of participants	Purpose of a training
The Concept and Manifestation of Corruption in Lithuania	413	To educate staff on corruption risk factors and prevention, investigations of corruption offences, anti-corruption awareness raising, etc. As well as to raise awareness about conflicts of interest and actions for their mitigation, and the gift policy.
Personal Data Protection Training Course	322	To make the Company's employees aware of the EU General Data Protection Regulation (GDPR), the main requirements of GDPR, to develop deeper learning competencies and enhance the ability to comply with the rules and procedures for processing personal data set out in the GDPR and apply the GDPR requirements in practice. As well as to raise awareness about existing cyber threats to personal data protection, which affect a large number of people and/or companies each year.
Leadership training	66	Develop management and leadership skills of participants.

The Company also hosted Newcomer Days, which became a tradition in 2022, offering employees the possibility to obtain understanding of the Company's main activities, values and organizational culture. A total of 35 new employees, who joined the Company in 2022, took part in the Newcomer Days.

In 2022, the Company further implemented and updated its Values Game initiative, with a participation rate of more than 90% of all employees of the Company. The purpose of the Values game is to bring together and introduce employees with different qualifications during a single game session, and to remind the Company's employees about the Company's values approved by the Company and their application in daily activities in the form of an interactive game.

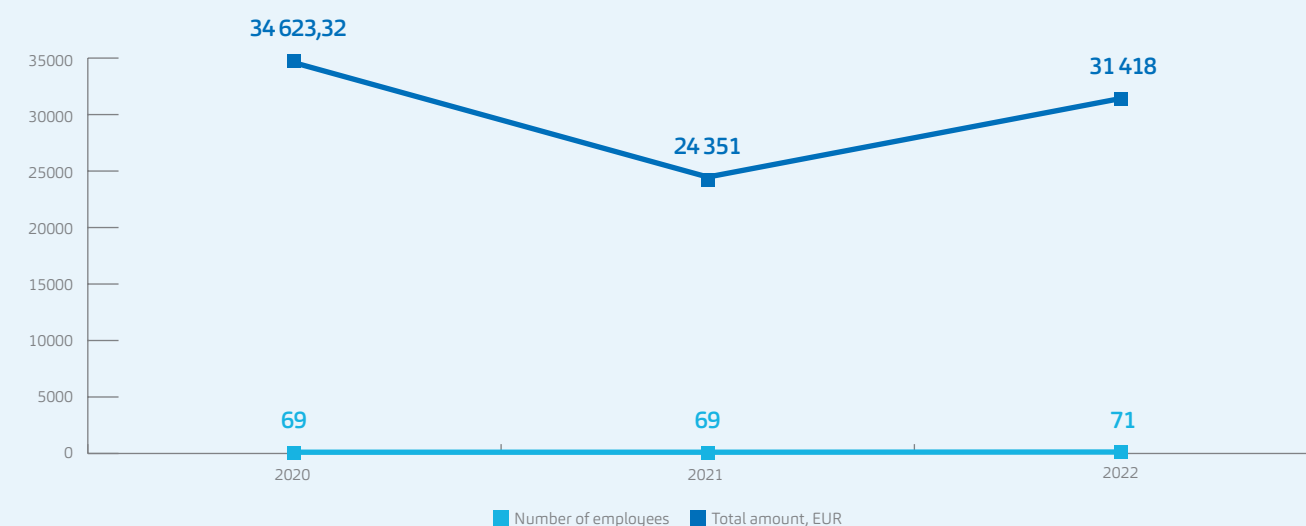


COLLECTIVE AGREEMENT

In 2022, the Company was subject to the Collective Agreement, signed in 2021 between the employer and the trade union (for a maximum period of 2 years). The purpose of the collective agreement is to ensure an adequate mutual balance between rights and obligations, to specify the legal rules established by the state, to promote value-based employee behaviour, and to maintain the best employees by promoting additional benefits.

The signed Collective Agreement provides for various benefits, paid additional leave days and similar benefits for employees, including benefits, paid additional leave days and similar benefits for employees.

Additional employee benefits paid under collective agreement in 2020-2022



LABOUR COUNCIL

Labour council elected in September 2021, continued to perform its functions in the Company in 2022.

In 2022, representatives of the Labour Council participated in the process of preparation of the Employee Engagement and Empowerment Action Plan. Additionally, in 2022, representatives of the Labour Council discussed with the responsible representatives of the Company the structural changes that took place in the Company in the spring, participated in discussions on the procedure for reviewing the variable remuneration component (VAC), and, after taking note of the report prepared by the Organizational Development Department on the remuneration limits applicable in the market and in the Company, considered the possibilities of reviewing them in the Company, and, following the approval of the updated remuneration limits in the Company, participated in a meeting with representatives of the Company regarding review of Description of the Principal remuneration component (PRC) procedure.





OCCUPATIONAL SAFETY AND HEALTH

Seeking to enhance the Company's culture of occupational safety and health, the Company assigns the highest priority to ensuring proper work organisation and work safety. In 2022, the Company set the ambitious goal: to develop value-based organizational culture – 0 accidents. The Company expects that each employee will follow the rule: "I AM RESPONSIBLE not only for my own safety, but also for the safety of my colleagues around me!", because every employee is responsible for ensuring a healthy and safe working environment.

Key directions for 2022, designed to increase compliance with safety requirements and to promote employee engagement:

1

Work organization and control:

- Increased attention to organisation, performance and control of work:
 - Management engagement during on-site inspection of crew – 277 inspections.
 - Inspections of the work safety department (routine, non-routine) – 257 inspections
 - Pilot project: Remote video surveillance of workplace – 2 cars.
- Regulated occupational safety and health breaches which are considered by the Community as critical to the safety and health of employees (recorded: 14 occupational safety breaches, of which 4 are critical and pose a risk to the safety and health of employees).
- Identification of root causes of occupational safety and health breaches/non-compliances, which are addressed and mitigated based on "5 whys" principle.
- Ensuring a control and motivation mechanism to encourage safe work.
- The System of daily sobriety checks before and after work have been installed.

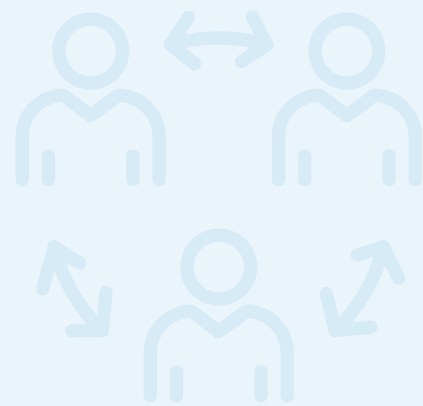
2

Training, briefing:

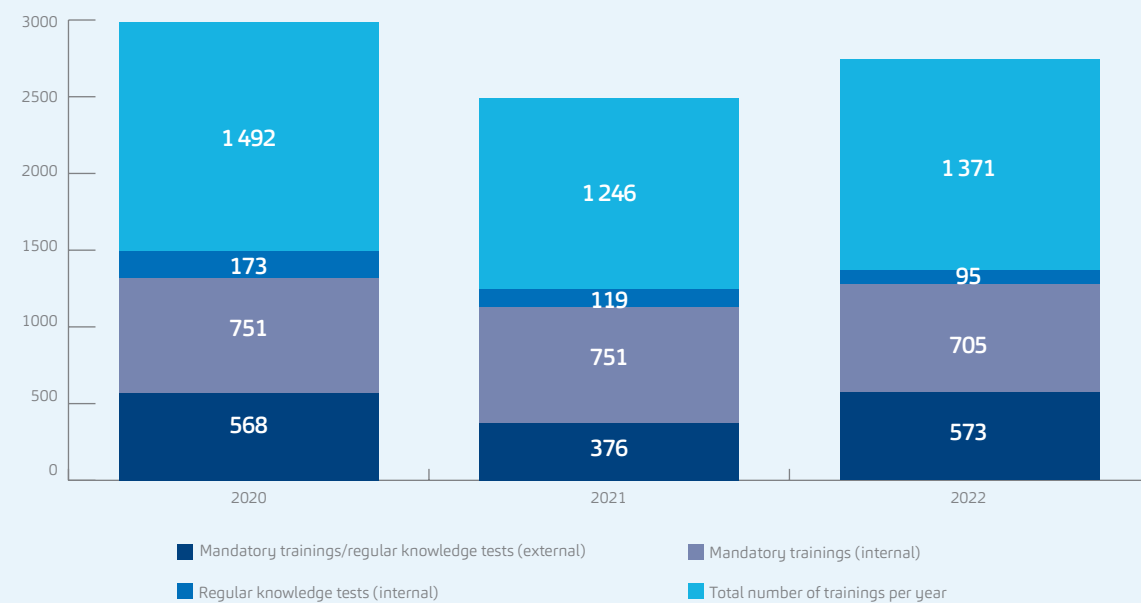
- Practical staff training, workshops (rescue of employees working in wells)
- Knowledge tests after periodic trainings have been introduced.
- Involvement of suppliers in practical trainings of employees for instructing on the use of the tools, equipment and equipment they sell.
- Strengthening health at work - raising employee health awareness: "Healthy diet", "Effects of alcohol on health and prevention" trainings.
- The training aims at improving employee readiness to respond to an imminent or emerging extreme event – fire.

3 Protective measures:

- Involving employees in the selection and expert evaluation of procurement of personal and collective protective equipment.
- Monitoring market innovations in the field of safety measures, arranging introductions for employees to assess the relevance and convenience of the measure.
- Updating personal protective equipment given the most recent trends and technologies (modern rescue kits).

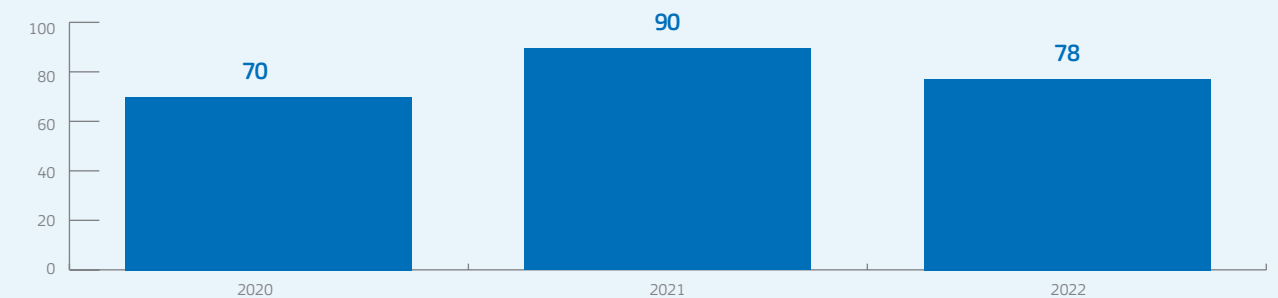


Compulsory trainings for employees on occupational safety and health, fire and civil protection held in 2020-2022



The Company seeks to cooperate only with reliable and socially responsible partners who regard occupational safety as a priority. Vilniaus Vandenys also constantly cooperates with its partners, with whom it signs works contracts and defines the limits of mutual responsibilities regarding safety at work. In 2022, the Company also paid special attention to the organisation, performance and control of work contractors: safe and suitable workplaces, sober employees, ID of employee working in transparent manner, etc.

Number of the deeds of the mutual responsibilities regarding safety at work, signed with the contractors in 2020-2022



In 2022, the Company achieved the target set – 0 accidents at work.

Distribution of accidents by their consequences in 2020-2022

Distribution of accidents by their consequences	2020		2021		2022	
	Accident at work	On the way*	Accident at work	On the way*	Accident at work	On the way*
Minor	1		1			
Major	1					
Lethal	3					
Total:	5					
Overall	5		1		0	

*On the way – accident on the way to/ from work.

SHARES AND CAPITAL MANAGEMENT

On 31 December 2022, issued capital of the Company comprised of 4,678,588 ordinary shares with the par value of EUR 28.96 each.

Breakdown of the Company's shares by shareholder

Shareholder	Number of shares	Share value	Per cent
Vilnius City Municipality	4247773	123015506.08	90.7918
Vilnius District Municipality	189735	5494725.60	4.0554
Švenčionys District Municipality	157572	4563285.12	3.3679
Šalčininkai District Municipality	83508	2418391.68	1.7849
Total:	4678588	135491908.48	100

The issued capital of the Company was fully paid as at 31 December 2022. The Company did not hold its own shares.

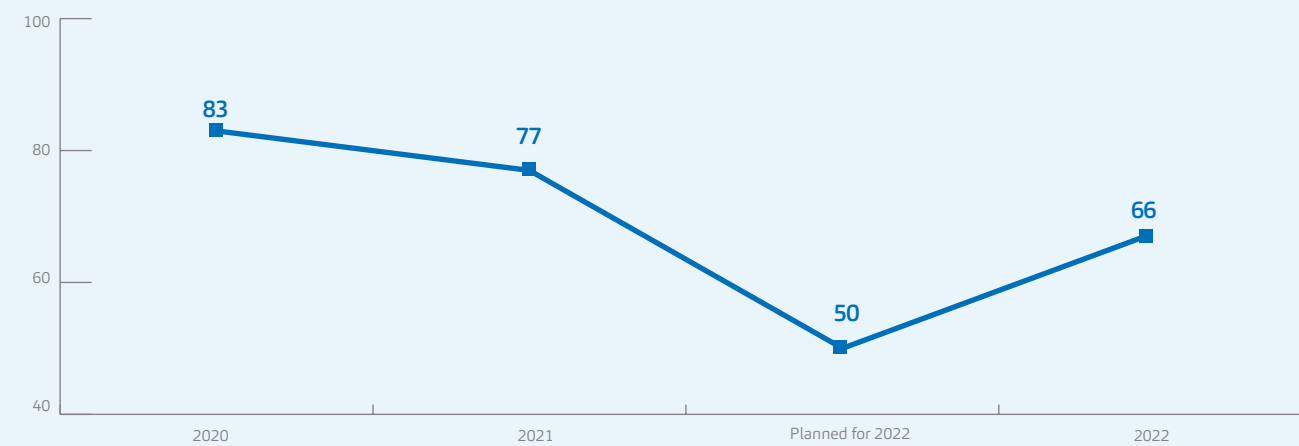
The primary objective of the capital management is to ensure that the Company maintains a strong credit health and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company monitors capital using capital concentration ratio, which is calculated as ratio between equity and total assets (after eliminating advances received) of the Company. Equity includes ordinary shares, reserves, retained earnings or accumulated losses. The Company's management seeks the capital concentration ratio to be no lower than 50%.



Company's equity in 2020-2022



The Company is obliged to keep its shareholders' equity ratio not less than 50% of its authorised share capital, as imposed by the Law on Companies of Republic of Lithuania. The Company meets the requirements of equity by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on the Company.

The Dividend Policy (a publicly available document approved by the Board in 2020, available on the Company's website under About Us/Management /Corporate Governance Documentation) is one of the tools for capital risk management.

The Company's Dividend Policy sets out the criteria and basic provisions followed by the Board in preparing proposals to

the Company's General Meeting of Shareholders for dividend payment for the financial year. The Policy lays down the rules for determining the amount of dividends (share of profit allocated to dividends) and their payment.

The policy determines that depending on return on equity, the Company allocates 60-85% of distributable profit to dividends. The amount of dividends may be adjusted according to the financial situation of the Company, the balance of funds in bank accounts, the covenants and other commitments.

No dividend for shareholders was declared in 2022, 2021 and 2020.





MOST SIGNIFICANT EVENTS

01/02/2022

Average volume of consumed drinking water per capita per month (2.48 m³) was changed for customers who do not have individual meters in the territory served by the Company.

26/05/2022

The National Energy Regulatory Council approved the Company's investments for 2020.

06/06/2022

The National Energy Regulatory Council approved the base prices of drinking water supply and wastewater treatment services.

16/06/2022

The National Energy Regulatory Council renewed the drinking water supply and wastewater management licence of the Company.

20/06/2022

UAB Vilniaus Vandenyys signed an agreement with the European Investment Bank (EIB) for the loan of EUR 30 million.

30/06/2022

The National Energy Regulatory Council unilaterally set the base prices of drinking water supply and wastewater treatment services.

01/08/2022

On 30 June 2022, the recalculated base prices of drinking water supply and wastewater treatment services for customers in Vilnius City, Vilnius District, Šalčininkai and Švenčionys unilaterally set by the State Energy Regulatory Council became effective.

09/08/2022

The Responsible Water Management Association Vandens Jėga was registered.

19/10/2022

The National Energy Regulatory Council renewed the drinking water supply and wastewater management licence of the Company.

16/11/2022

The new version of the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania entered into force.

25/11/2022

The National Energy Regulatory Council set the recalculated prices of drinking water supply and wastewater treatment services, which will be effective from 1 January 2023. The main reason for the changes: a significant increase in electricity prices and the resulting increase in electricity costs necessary for the provision of drinking water supply and wastewater treatment services.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

01/01/2023

A new tariff set by NERC for services provided by the Company became effective.

09/02/2023

Company's new long-term strategy for 2023-2032 was approved during the Board meeting.



COMPANY DETAILS

COMPANY DETAILS AND CUSTOMER SERVICE DIVISIONS

Company name	Private limited liability company Vilniaus Vandenys
Legal form	Limited liability company
Registration date	27/03/1991
Name of Register of Legal Entities	State Enterprise Centre of Registers
Company code:	120545849
Registered address:	Spaudos st. 8-1, LT-01517, Vilnius, Lithuania
Telephone	19118 (a general service centre for customers of Vilnius City)
	+370 5 266 4455 (for calls from abroad)
	8 800 10880 (free emergency telephone)
E-mail	Info@vv.lt
Website:	www.vv.lt

COMPANY’S CUSTOMER SERVICE DIVISIONS:



Spaudos st. 8-1, Vilnius



Konstitucijos ave. 3, Vilnius



I–V 8.00 a.m. – 5.00 p.m.



I–IV 8.00 a.m. – 5.00 p.m.
V 8.00 a.m. – 3.40 p.m.

Vilniaus Vandenys UAB

Independent Auditor's Report and
Financial Statements for the Year
Ended on 31 December 2022

This version of financial statements is a translation from the original, which was prepared in the Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

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To the management of UAB Vilniaus vandenys

Ernst & Young Baltic UAB has performed an audit of the financial statements of UAB Vilniaus vandenys (hereinafter the Company) for the year ended 31 December 2022 prepared in the Lithuanian language. The accompanying set of financial statements is the translation into the English language and below is presented a translation of our auditor's report from the original, which was issued in the Lithuanian language. The Management of the Company is responsible for the translation of the financial statements. All possible care has been taken to ensure that the translation of the auditor's report and the accompanying financial statements is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

“INDEPENDENT AUDITOR'S REPORT

To the shareholders of Vilniaus Vandenys UAB

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Vilniaus Vandenys UAB (hereinafter “the Company”), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022 and its financial performance and 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) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (Regulation (EU) No 537/2014 of the European Parliament and of the Council). 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 Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters

1. Contingent liabilities and provisions relating to legal matters

As it is disclosed in Note 28 of these financial statements, the Company is involved in legal proceedings and is exposed to potential claims, including a material one. This matter is significant to our audit because an unfavourable outcome of these claims and litigations could have a material adverse effect on the financial position, results of operations and cash flows of the Company and it involves significant management's judgement to assess the probable outcomes of the uncertainty and consequently the amount of provisions to be recorded and/or contingent liabilities to be disclosed in the financial statements.

How the matter was addressed in the audit

Our audit procedures included, among others, the following:

- we have obtained understanding of the process how management perform assessment of legal matters, measurement of provisions and/or disclosures of potential obligations for each of the material contingencies;
- discussions with the management and the Company's internal legal counsel of the basis underlying the management's assessment of the potential outcome of the claims and litigations;
- we also obtained a letter from the external legal counsel of the Company outlining the material contingencies and key fact pattern of the legal proceedings in order to evaluate the judgement made by the management;
- we inspected relevant legal correspondence, meeting minutes of the Board and Shareholders and other relevant information to support individual facts and circumstances underlying the management's judgement on provisions and contingent liabilities, as per criteria set in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Finally, we have reviewed the adequacy of the disclosure in the financial statements on this matter (Note 28).

2. Impairment assessment of property, plant and equipment

Property, plant and equipment amounts to EUR 188,726 thousand in the statement of financial position of the Company as at 31 December 2022. As disclosed in Note 3.23 to the financial statements, the Company performed an annual impairment test of these assets as at 31 December 2022 based on the value in use estimation. Based on the outcome of this impairment test, the Company has not recognized an impairment in 2022.

The annual impairment test was significant to our audit as it involves management judgement regarding the assumptions used in the underlying cash flows forecasts and discount rate. Furthermore, the property, plant and equipment represent more than 89% of the total assets of the Company as at 31 December 2022.

Our audit procedures included, among others, the following:

- we have obtained understanding of the process (including assumptions and methods) how management perform property, plant and equipment impairment assessment;
- we involved a valuation specialist to assist us with the assessment of the impairment model's structure and composition as well as the discount rate used by the management in the impairment test and other significant assumptions;
- we also considered other key assumptions used by the management in the estimation of cash flows forecasts for revenue, costs, level of capital expenditure by comparing them to historical performance levels and management's expectations of their development in the future. We tested the sensitivity in the available headroom of the impairment test by considering if a reasonably possible change in assumptions could cause the carrying amount of property, plant and equipment to exceed its recoverable amount;

- we have also assessed the historical accuracy of the management's estimates.

Finally, we have reviewed the adequacy of the Company's disclosures included in Note 3.23 about the assumptions used in the impairment test and the outcome of the test.

3. Impairment assessment of trade receivables

As at 31 December 2022, the Company had current trade receivables balance amounting to EUR 4,885 thousand reported in the statement of financial position, part of which was overdue as disclosed in Note 13 of the financial statements.

The determination as to whether a trade receivable is recoverable involves management's judgement. Specific factors management considers include the aging of the various receivable balances, recent historical payment patterns as well as forward looking information. This matter is significant to our audit due to materiality of the amounts as these receivables constitute over 26% of the total current assets of the Company in the statement of financial position as at 31 December 2022 and high level of management judgement involved in impairment allowance calculation.

Our audit procedures included, among others, the following:

- we have obtained understanding of the process (including assumptions and methods) how management perform impairment assessment of trade receivables;
- we reviewed the management's assumptions used in the impairment assessment of trade receivables, including the historical default rate information used, by agreeing on a sample basis information used by the management with the supporting evidence;
- we also considered forward-looking information used in the impairment estimation by comparing the management's estimate with the publicly available reputable sources of information (e.g. Bank of Lithuania);
- additionally, we tested the correctness of aging of the receivables data by obtaining sale documents for a selected samples and comparing that with the information included in the ageing report. In addition we reviewed clerical accuracy of the calculation of impairment recorded for the customer groups based on their ageing.

Finally, we have reviewed the adequacy of the disclosure in the financial statements on this matter (Note 13).

Other information

Other information consists of the information included in the 2022 Company's Annual Report, including Corporate Social Responsibility Report, other than 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 we do not express any form of assurance conclusion thereon, except as indicated below.

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.

We also have to evaluate, if the financial information included in the Company's Annual Report corresponds to the financial statements for the same financial year and if the Company's Annual Report was prepared in accordance with

the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- ▶ The financial information included in the Company's Annual Report corresponds to the financial information included in the financial statements for the same year; and
- ▶ The Company's Annual Report was prepared in accordance with the requirements of the Law on Corporate Reporting of the Republic of Lithuania.

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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of 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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 auditor's 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

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholders, we have been chosen to carry out the audit of the Company's financial statements for the first time on 14 November 2016. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, is seven years.

Consistency with the audit report submitted to the audit committee

We confirm that our opinion in the section 'Opinion' is consistent with the additional Audit report, which we have submitted to the Company and its Audit Committee

Non-audit services

We confirm that in light of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period, we have provided to the Company non-audit services, comprising translation of financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Inga Gudinaité.

ERNST & YOUNG BALTIC UAB
Audit company's licence No 001335

Inga Gudinaité
Auditor's licence
No 000366

24 March 2023"

Inga Gudinaité
Partner
27 April 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Revenue			
Revenue from contracts with customers	4	40,994	38,779
Other income	4	251	3,621
Total revenue:		41,245	42,400
Payroll and related expenses	5	(14,918)	(14,384)
Depreciation and amortisation	11, 12	(8,879)	(8,817)
Repair and maintenance expenses	6	(3,177)	(2,535)
Sludge treatment expenses		(1,356)	(1,116)
Electricity expenses		(8,594)	(3,307)
Transportation expenses		(841)	(654)
Telecommunication and IT services		(1,186)	(1,109)
Tax expenses (excl. Income tax)	7	(5,231)	(3,023)
Impairment (loss) and reversal of impairment loss from contracts with customers	13	124	359
Impairment/(reversal of impairment) of non-current assets		4	-
Non-current assets write-off expenses		(271)	(63)
Other expenses	8	(3,872)	(4,512)
Total expenses:		(48,197)	(39,161)
Operating profit (loss)		(6,952)	3,239
Finance income	9	272	194
Finance costs	9	(316)	(203)
Net financial result		(44)	(9)
Profit (loss) before tax		(6,996)	3,230
Income tax benefit (expenses)	10	994	(110)
NET PROFIT (LOSS)		(6,002)	3,120
Other comprehensive income (expenses)			
Items that will be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
Total other comprehensive income (expenses)		-	-
TOTAL COMPREHENSIVE INCOME (EXPENSES)		(6,002)	3,120

The accompanying notes on pages 12 to 64 are an integral part of these financial statements.
These financial statements were approved and signed on 24 March 2023.

Saulius Savickas
CEO

Simonas Klimavičius
CFO

Zina Chmieliauskienė
Head of the Accounting
Department

STATEMENT OF FINANCIAL POSITION

	Note	31/12/2022	31/12/2021
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	11	188,726	154,111
Intangible assets	12	1,322	1,243
Right-of-use assets	11	1,646	1,910
Deferred tax assets	10	508	-
Non-current portion of trade and other receivables	13	254	-
Total non-current assets		192,456	157,264
<i>Current assets</i>			
Inventories		446	290
Trade and other receivables	13	5,472	7,485
Prepayments and deferred expenses	14	518	611
Cash and cash equivalents	15	12,295	7,348
Total current assets		18,731	15,734
<i>Assets held-for-sale</i>		16	305
TOTAL ASSETS		211,203	173,303
EQUITY AND LIABILITIES			
<i>Equity</i>			
Issued capital	16	135,492	122,783
Legal reserves	17	1,210	1,054
Other reserves	17	6,260	-
Retained earnings (deficit)		(3,038)	9,380
Total equity		139,924	133,217
<i>Non-current liabilities</i>			
Loans	18	37,551	15,559
Lease liabilities	19	1,471	1,732
Deferred tax liabilities	10	-	486
Employee benefits		459	341
Grants		161	174
Other non-current liabilities		793	507
Total non-current liabilities		40,435	18,799
<i>Current payables and liabilities</i>			
Loans	18	1,112	513
Current portion of lease liabilities	19	248	242
Trade and other payables	20	15,054	6,642
Contract liabilities – advances received		1,017	872
Provisions	27	1,013	4,590
Other current liabilities	21	12,400	8,428
Total current liabilities		30,844	21,287
TOTAL EQUITY AND LIABILITIES		211,203	173,303

The accompanying notes on pages 12 to 64 are an integral part of these financial statements.
These financial statements were approved and signed on 24 March 2023.

Saulius Savickas
CEO

Simonas Klimavičius
CFO

Zina Chmieliauskienė
Head of Accounting
Department

STATEMENT OF CHANGES IN EQUITY

	Notes	Issued capital	Legal reserve	Other reserves	Retained earnings/accrued deficit	Total equity
Balance as at 1 January 2021		122,293	1,054	-	6,260	129,607
Comprehensive income						
Net profit (loss)		-	-	-	3,120	3,120
Total comprehensive income		-	-	-	3,120	3,120
Increase in issued share capital by in-kind and cash contributions		490	-	-	-	490
Balance as at 31 December 2021		122,783	1,054	-	9,380	133,217
Balance as at 1 January 2022		122,783	1,054	-	9,380	133,217
Comprehensive income (expenses)						
Net profit (loss)		-	-		(6,002)	(6,002)
Total comprehensive income (expenses)		-	-	-	(6,002)	(6,002)
Increase in issued share capital by in-kind and cash contributions	16	12,709	-		-	12,709
Transfer to reserves	17	-	156	6,260	(6,416)	-
Balance as at 31 December 2022		135,492	1,210	6,260	(3,038)	139,924

The accompanying notes on pages 12 to 64 are an integral part of these financial statements.
These financial statements were approved and signed on 24 March 2023.

Saulius Savickas
CEO

Simonas Klimavičius
CFO

Zina Chmieliauskienė
Head of Accounting
Department

STATEMENT OF CASH FLOWS

	Note	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Cash flows from operating activities			
Net profit (loss)		(6,002)	3,120
Adjustments to non-cash items:			
Depreciation and amortisation	11, 12	12,146	12,483
Change in deferred income tax	10	(994)	110
Grants (amortisation)	11, 12	(3,267)	(3,666)
(Gain)/loss on disposal/write off of property, plant and equipment and assets held for sale		146	(3,439)
Impairment/(reversal of impairment) of non-current assets		(4)	-
Change in impairment loss arising from contracts with customers	13	(124)	(359)
Change in allowance for inventories		24	(21)
Change in provisions		(3,459)	924
Interest expenses	9	275	190
Financial income recognised in the statement of profit or loss and other comprehensive income	9	(231)	(181)
		(1,490)	9,161
Working capital changes:			
(Increase)/decrease in inventories, prepayments and deferred expenses		(151)	(30)
(Increase)/decrease in trade and other receivables	13	1,883	(231)
Increase/(decrease) in trade and other payables		5,500	3,668
Net cash flows from operating activities		5,742	12,568
Cash flows used in investing activities			
(Purchase) of property, plant and equipment and intangible assets		(41,488)	(33,873)
Proceeds from disposal of property, plant and equipment and assets held for sale		437	3,784
Interest received		14	105
Net cash flows used in investing activities		(41,037)	(29,984)
Cash flows from financing activities			
Proceeds from borrowings	18	22,913	8,239
(Repayment) of loans	18	(552)	(427)
Repayment of lease liabilities	18	(242)	(234)
Payment of interest and similar expenses		(206)	(178)
Grants received		16,099	11,103
Received contributions to issue capital	16	2,200	200
Penalties and default interest received		33	31
Penalties and default interest (paid)		(3)	(13)
Net cash flows from financing activities		40,242	18,721
Net (decrease) increase in cash flows		4,947	1,305
Cash and cash equivalents at the beginning of the year	15	7,348	6,043
Cash and cash equivalents at the end of the year	15	12,295	7,348

The accompanying notes on pages 12 to 64 are an integral part of these financial statements.
These financial statements were approved and signed on 24 March 2022.

Saulius Savickas
CEO

Simonas Klimavičius
CFO

Zina Chmieliauskienė
Head of Accounting
Department

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND OTHER NOTES

1. General information

Vilniaus Vandenys UAB (hereinafter "the Company") was registered on 27 March 1991, the company code is 120545849. The registered office address is Spaudos st. 8-1, LT-01517, Vilnius, Lithuania. The principal activities of the Company are the supply of water and wastewater treatment services. Vilniaus Vandenys UAB is the largest water management company in Lithuania. It operates water supply and waste water assets in Vilnius City, Šalčininkai, Švenčionys and Vilnius District. As at 31 December 2022, the number of private customers of the Company was 269.15 thousand (December 2021: 263.8 thousand), legal entities amounted to 8.75 thousand (31 December 2021: 8.5 thousand). Private customers and legal entities are treated as defined in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania and the Methodology for Calculating Water Supply and Wastewater Management Prices. Based on the unaudited data for 2022, the Company supplied approx. 94 thousand m³ of water per day and collected approx. 120 thousand m³ and treated approx. 123 thousand m³ of waste water per day, whereas in 2021, the Company supplied approx. 91 thousand m³ of water and collected approx. 111 thousand m³ of water and treated approx. 115 thousand m³ of waste water per day.

As at 31 December 2022 and 2021, the shareholders of the Company were as follows:

	31/12/2022		31/12/2021	
	Number of shares held	Ownership interest, %	Number of shares held	Ownership interest, %
Vilnius City Municipality	4,247,773	90.79	3,974,484	93.74
Vilnius District Municipality	189,735	4.06	119,009	2.81
Švenčionys District Municipality	157,572	3.37	83,450	1.97
Šalčininkai District Municipality	83,508	1.78	62,789	1.48
	4,678,588	100.00	4,239,732	100.00

During 2022, the Company's issued capital was increased by in-kind contributions from Vilnius City Municipality in the amount of EUR 7,914 thousand, cash and in-kind contributions from Vilnius District Municipality in the amount of EUR 1,600 thousand and EUR 448 thousand, respectively, cash contributions from Šalčininkai District Municipality in the amount of EUR 600 thousand, and in-kind contributions from Švenčionys District Municipality in the amount of EUR 2,147 thousand (Note 16). During 2021, the Company's issued capital was increased by in-kind contributions from Vilnius District Municipality in the amount of EUR 289.7 thousand and cash contributions from Šalčininkai District Municipality in the amount of EUR 200 thousand (Note 16).

As at 31 December 2022, the number of employees of the Company was 621 (31 December 2021: 659), an average list number of employees during 2022 was 633 (2021: 688).

In accordance with the Law on Companies of the Republic of Lithuania, the annual financial statements are prepared by the Management and should be approved by the General Shareholders' meeting. The shareholders hold the right to approve the annual financial statements or not to approve the annual financial statements and request new financial statements to be prepared.

2. Application of new and amended International Financial Reporting Standards

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

Accounting policies adopted by the Company are consistent with those of the previous financial year, except for the following amendments to IFRSs, which have been adopted by the Company as of 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

These Amendments had no impact on the Company's financial statements.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. These Amendments had no impact on the Company's financial statements.

Standards issued but not yet effective and not early adopted

New standards, amendments and interpretations that are not yet effective in the reporting period beginning on or after 1 January 2022 and have not been early adopted when preparing these financial statements are presented below:

2. Application of New and Amended International Financial Reporting Standards (continued)

•IFRS 17: Insurance Contracts

The standard is effective, for annual periods beginning on or after 1 January 2023, with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretionary participation contracts. The Company does not issue contracts in scope of IFRS 17; therefore its application will not have an impact on the Company's financial performance, financial position or cash flows.

• IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Company's management is currently assessing the impact of this amendment on its financial statements.

•IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The management of the Company expects these amendments will have no impact on the financial statements.

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

The Amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning

2. Application of New and Amended International Financial Reporting Standards (continued)

liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Company's management has not yet evaluated the impact of the implementation of these amendments on the financial statements.

•IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. The Company's management has not yet evaluated the impact of the implementation of these amendments on the financial statements.

•IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2024 with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. The amendment are applied retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application of IFRS 16. The amendments have not yet been endorsed by the EU. The Company's management has not yet evaluated the impact of the implementation of these amendments on the financial statements.

• IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The management of the Company has assessed that these amendments will have no impact on the financial statements.

3. Accounting Policies

3.1. Statement of Compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), interpretations approved by the International Financial Reporting Interpretations Committee as adopted by the EU, and in accordance with accounting and financial reporting legislation of the Republic of Lithuania.

3.2. Basis of Preparation

These financial statements have been prepared on a historical cost basis.

Financial statements are presented in euros and all values are rounded to the nearest thousand (EUR'000), unless stated otherwise.

3.3. Property, Plant and Equipment

Property, plant and equipment acquired or constructed by the Company is recognised at acquisition (construction) cost and subsequently carried at cost method. By selecting the acquisition cost method, property, plant and equipment is recorded in accounting at cost and reported in the financial statements at acquisition cost less accumulated depreciation and accumulated impairment loss.

If the property, plant and equipment is received in the form of in kind contributions (increasing the share capital), the acquisition cost includes assets value set by real estate appraisers and all of its registration and preparation related costs.

The acquisition cost of property, plant and equipment received (donated) free of charge comprises the value of the asset confirmed in the contract of gift or other similar document, which may not exceed the fair value, and the costs related to the acquisition and preparation for use. The value of networks reconstructed, newly built and registered on behalf of the Company at the expense of real estate builders, when these networks are reconstructed/constructed after obtaining the Company's consent to relocate/dismantle old networks owned by the Company and issuing new terms for connection, is determined based on the real estate registry central database.

Assets received from shareholders free of charge and not transferred as in kind contribution are accounted as a grant related to an asset in the statement of financial position.

The acquisition value includes the cost of replacing a part of property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Replaced parts of property, plant and equipment are written-off. All other repair and maintenance costs are recognised in profit or loss as incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

When property is retired or otherwise disposed of, the cost and related accumulated depreciation are derecognised and any related gain or loss is included in the statement of profit (loss) and other comprehensive income. Gain or loss on disposal of property, plant and equipment is calculated on the basis of the income received less the carrying amount of the assets sold.

3. Accounting Policies (continued)

Depreciation rates

Depreciation is calculated on a straight-line basis over the useful life of the assets as follows:

Buildings	50	years
Structures	35–50	years
Transmission devices	10–50	years
Plant and equipment	2–30	years
Vehicles	8–10	years
Other property, plant and equipment	5–25	years

The useful lives of assets are reviewed and adjusted prospectively if appropriate during or at the end of each reporting period.

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 directly attributable to the acquisition, construction, reconstruction or production of a qualifying asset (at least 6 months) over the period of investment project and incurred before the start of the use/commissioning of the asset, are capitalised in the cost of the asset (Note 3.17).

3.4. Intangible Assets

Computer software, licenses and acquired rights

The costs of acquisition of new computer software are capitalised and recognised as an intangible asset if these costs are not an integral part of the hardware. Software is amortised within 3–8 years.

Servitudes and protection zones

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 contractual servitudes and/or special conditions on land use. Statutory servitudes on water and/or waste water networks are not established by the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania and other regulations, therefore the Company's servitudes comprise contractual servitudes and, in particular cases, servitudes established by administrative acts. Contractual servitudes are recognised initially at the amount of the liability. 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 provisions of the Civil code. 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 protection zone registration is established in accordance with IAS 37 (Note 3.14). The accounting policies applied for protection zones are similar to those applied for servitudes.

3. Accounting Policies (continued)

The amounts of servitudes and protection zones are disclosed in Note 12.

Gain or loss on disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in the statement of profit or loss and other comprehensive income when the asset is disposed.

Costs incurred in order to restore or maintain the Company's intangible assets are recognised as an expense when the restoration or maintenance work is carried out.

3.5. Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets, and right-of-use assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purpose of impairment testing, assets are grouped together into the smallest group of assets for which there are separately identifiable cash flows (cash-generating units).

At the end of each reporting period, and whenever there is an indication that the asset may be impaired, the Company reviews the carrying amounts of its intangible assets with indefinite useful lives and intangible assets not yet available for use.

The recoverable amount is the higher of the asset's 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income.

3.6. Financial instruments: initial and subsequent measurement

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

3. Accounting Policies (continued)

3.6.1. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (PL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. These assets, except for trade receivables that do not have a significant financing component, are initially measured by the Company at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. Trade receivables that do not have a significant financing component are measured at the transaction price identified under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This measurement is referred to as the SPPI test and is performed at a financial instrument level.

The Company's financial asset management model indicates how the Company manages its financial assets to generate cash flows. The business model determines whether cash flows will be generated by collecting contractual cash flows, by selling this financial asset or by using both options.

A regular way purchases or sales of financial assets are accounted for at trade date, i.e., the date that the Company commits to purchase or sell the financial asset.

Subsequent measurement

After initial recognition, the Company measures a financial asset at:

- Amortised cost (debt instruments);
- Fair value through OCI with recycling of cumulative gain or loss upon derecognition into profit or loss (debt instruments). The Company did not have such items as at 31 December 2022 and 2021;
- Fair value through OCI with no recycling of cumulative gain or loss upon derecognition into profit or loss (equity instruments). As at 31 December 2022 and 2021, the Company did not have such financial instruments;
- Fair value through profit or loss. The Company did not have such items as at 31 December 2022 and 2021;

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortized cost, if the two conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Accounting Policies (continued)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method, less impairment loss. Gain or loss is recognised in the statement of comprehensive income when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade, other current and non-current receivables, loans granted and contract assets.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the financial asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - (a) the Company has transferred substantially all the risks and rewards of the asset, or
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement with a third party, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When the Company neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In this case, the Company also recognizes the associated liability. The transferred asset and associated liability are measured based on the rights and obligations retained by the Company.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower amount of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay (the amount of the guarantee).

Impairment of financial assets

Other disclosures related to impairment of financial assets are also presented in the following Notes:

- Significant assessments and used assumptions are disclosed in Note 3.23;
- Trade receivables, including contract assets, are disclosed in Notes 13.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month

3. Accounting Policies (continued)

ECLs). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, the impairment loss is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECLs).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises an impairment loss based on lifetime ECLs at each reporting date. The Company builds the expected loss rate matrix which is based on historical credit loss analysis and adjusted to reflect future factors specific to borrowers and the economic environment.

The Company considers a financial asset in default when indications exist that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. A financial asset is derecognised when there is no reasonable expectation to recover contractual cash flows.

3.6.2. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans received and other payables. All financial liabilities are recognised initially at fair value and, in the case of loans received and other payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans received, including bank loans for working capital purposes.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities classified as measured at fair value through profit or loss on initial recognition.

Financial liabilities are classified as held for trading if they are incurred principally for the purpose of repurchasing them in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gain or loss arising from financial liabilities held for trade is recognised in the statements of profit or loss and other comprehensive income. As at 31 December 2022 and 2021, the Company did not attribute any financial liabilities to liabilities measured at fair value through profit or loss.

3. Accounting Policies (continued)

Loans received and other payables

After initial recognition, loans and other payables, including lease liabilities, are subsequently measured at amortised cost using the EIR method. Gain and loss is recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income. For more information please refer to Notes 18, 19 and 20.

Derecognition

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 a 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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, i.e. to realise the assets and settle the liabilities simultaneously.

3.7. Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. Unrealisable inventories are fully written-off.

The 100% allowance is established based on the list of inventories no longer suitable for use prepared during the inventory counting process. In addition, a 100% allowance for slow moving inventories that have not been consumed for more than 1 year from acquisition date was established as at 31 December of the reporting period.

3.8. Assets Held-for-Sale

Non-current assets are classified as held for sale when their carrying amount will mainly be recovered from the sale transaction and a sale is considered highly probable in their current condition and under the conditions that are usual for sale of such assets. A sale is considered probable when the management has committed to the sale of the asset, the sale plan/search for a buyer has been initiated and the asset is expected to be sold within one year from the date of classification as held for sale. Non-current assets held for sale are stated at the lower of carrying amount or fair value less costs to sell. The decisions on the disposal/winding up of redundant and non-operating non-current assets are taken by the management, when the value of the assets is less than 1/20 of the Company's issued capital, and by the Board, when the carrying amount of the assets is higher than 1/20 of the Company's issued capital.

3. Accounting Policies (continued)

The sale plan is approved at the time of such decisions. Following the approval of the decisions, the assets are reclassified to available-for-sale assets if all the above conditions for an expected sale are satisfied. If due to circumstances or events beyond the control of the Company the sale of assets extends beyond a year, but the Company remains committed to its obligations and continues with the sale plan, such assets continue to be classified as held-for-sale.

3.9. Cash and cash equivalents

Cash includes cash on hand and cash at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Such investments mature in less than three months and are subject to insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank account as well as deposits in bank with the term of three months or less.

3.10. Lease

The Company as lessee

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment loss, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. Right-of-use assets are subject to the same methods of useful life identification and useful life that apply to the Company's property, plant and equipment (Note 3.3).

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 3.5 "Impairment of non-financial assets".

3. Accounting Policies (continued)

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized 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 if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the estimates of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption (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). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Company is a lessor

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

3.11. Grants

Grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as grants related to assets. Grants related to assets reduce cost of acquisition associated tangible assets and recognised as income (respectively reducing related expenses – depreciation of property plant and equipment) in the periods and in the proportions, which correspond the Company assets' useful life.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The grants related to income 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. As an associated receiver of support, the Company participated in a project funded by the European Union

3. Accounting Policies (continued)

“Nutrient Recycling Circular Economy Model for Large Cities – Water Treatment Sludge and Ashes to Biomass to Bio-Energy” (NutriBiomass4LIFE). During the project period (2018–2023), received funds are accounted for as grants related to income.

3.12. Employee Benefits

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.

Defined contribution plan is a plan under which the Company pays fixed contributions to the Fund and have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employees all benefits related to their work in the current and previous periods. The social security contributions are recognised as an expense on an accrual basis and are included within remuneration expenses. In 2022 and 2021, the Company's social security contributions were charged at a rate of 1.77%.

Accrued employee benefit obligations

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. Any gain or loss appearing as a result of curtailment and/or settlement is recognised in the statement of profit or loss and other comprehensive income as incurred. The past service costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

The above-mentioned employee benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. The obligation is recognised in the statement of financial position in non-current payables and liabilities and current payables and liabilities, and reflects the present value of these benefits on the date of the statement of financial position.

Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and loss are recognised in the statement of profit or loss and other comprehensive income.

3.13. Contingencies

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

A contingent asset is not recognised in the financial statements.

3.14. Provisions

Provision is recognised when the Company has a present obligation (legal or constructive) as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be

3. Accounting Policies (continued)

required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

3.15. Income Tax

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period. The standard income tax rate in Lithuania for the Company in the years ended 31 December 2022 and 31 December 2021 was 15%.

For companies operating in Lithuania tax losses can be carried forward for indefinite period, except for the loss incurred as a result of disposal of securities and/or derivatives. As from 1 January 2014, tax loss carry forward that is deducted cannot exceed 70% of the taxable profit of the current financial year. Such carrying forward is disrupted if the Company changes its activities due to which these loss was incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The loss from disposal of securities and/or derivatives not designated for hedge can be carried forward for five consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. As at 31 December 2022, the Company's tax loss carry forward amounted to EUR 8,517 thousand (Note 10). As at 31 December 2021, the Company did not have any tax loss carried forward.

Deferred tax

Deferred tax is recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all temporary differences, whereas deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not recognised when temporary differences arise from goodwill or from the initial recognition (other than in a business combination)

3. Accounting Policies (continued)

of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the Company to realise these assets up to an amount that is likely to reduce taxable profit in the future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.16. Revenue Recognition

Revenue from contracts with customers

The principal activities of the Company are the supply of water and wastewater treatment services.

Revenue from contracts with customers is recognised when control of the services or goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for goods or services rendered. The Company controls goods or services before it transfers them to the customer, therefore, the Company acts as a principal.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.23.

The Company provides its services that are either sold separately (only water supply or wastewater services) or bundled together. Contracts for bundled services are comprised of several performance obligations because the promises to transfer different services are capable of being distinct and separately identifiable. Accordingly, the Company allocates the transaction price based on the relative stand-alone selling prices of the separate services (including selling (fixed subscription) price).

3. Accounting Policies (continued)

The Company recognises revenue from water supply and waste water management services over time, using a delivery method (used cubic meters by the customer) to measure provision of the services, because the customer simultaneously receives and consumes the benefits provided by the Company. Other incidental revenue from the sale of buildings, plant, equipment or inventory is recognised at a point in time, generally when the rewards and risks of ownership are transferred to the customer.

In-kind income from equipment relocation/restoration from third parties are recognised at cost determined in accordance with the real estate registry central database and accounted for as a revenue at a point in time in the statement of profit or loss and other comprehensive income in the period, when the asset has been received, because the performance obligation is satisfied when customer is connected to the network.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). The Company typically provides maintenance services for general repairs of defects as required by law. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, however, the Company did not provide any warranties that would comply with IAS 37 as at 31 December 2022 and 2021. No other promises in the contracts exist that could be treated as a separate performance obligation.

In determining the transaction price, the Company considers the effects of variable consideration. Accrued revenue is recorded and recognised based on variable units of output used by the consumer. In order to fully account for the Company's income for services provided, at the end of reporting period on 31 December, income for the last month of the reporting year that was received for providing water and/or wastewater management and maintenance services is accrued, but the meter readings for these services have not been submitted by customers and, therefore, these services are unbilled.

In addition, the management considers the effect of other matters to the revenue recognition such as the existence of significant financing components, non-cash consideration, and consideration payable to the customer. None of these are present in the Company's contracts with the costumers. Transaction price allocated to the remaining performance obligation is not disclosed because the Company has the right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date.

Contract asset

A contract asset is the right to consideration in exchange for goods or services transferred to a customer.

If the Company performs services or transfers goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional, except for any amounts that are recognised as receivables in accordance with the definition below.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets (Note 3.6).

Contract liabilities: prepayments received

3. Accounting Policies (continued)

A contract liability is the obligation to transfer goods or services to a customer for which the Company has already received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the Company performs under the contract.

Cost of obtaining and fulfilling contracts

The costs incurred by the Company that meet capitalization criteria are within the scope of the accounting rules as for property, plant and equipment. The Company did not incur such expenses as of 31 December 2022 and 2021. Other costs are expensed as incurred because these costs are not expected to be recovered.

3.17. Borrowing costs

The Company capitalises borrowing costs that are directly attributable to the acquisition, construction, reconstruction or production of a qualifying asset (at least 6 months) over the period of investment project and are incurred before the start of the use/commissioning of the asset. These costs are included in the cost of the asset (Note 3.3). Interest on loans granted for specific investment projects referred to in loan contracts are capitalised if the value of the specific investment project is not less than EUR 100,000. Interest on other loans are capitalised if the value of the investment project planned is not less than EUR 300,000. In such a case, the capitalisation rate is the weighted average of the borrowing costs related to the Company's debts that remain outstanding during that period, excluding borrowing for specific investment projects. All other borrowing costs are expensed in the period they occur.

3.18. Foreign currencies

The presentation and functional currency is the euro (EUR). All transactions denominated in currency other than euro are translated into euro at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Gain or loss arising on exchange are included in the statement of profit or loss and other comprehensive income for the period. Exchange gain and loss from the translation of monetary assets or liabilities into euros are recognized in the statement of profit or loss and other comprehensive income

3.19. Related parties

A related party is a person or company related to the reporting company.

A person or close member of the family is related to the reporting company, if the person:

- has control or common control of the reporting company;
- has a significant influence on the reporting company; or
- is one of the key management personnel of the reporting company or parent company.

The Company is related to the reporting company if they meet any of the conditions below:

3. Accounting Policies (continued)

- The Company and the reporting company are the members of the same group (it means that every parent, subsidiary or sister company is affiliated with each other).
- One company is in associate or joint venture of the other company (or an associate or joint venture of the other member of the group, of which another company is a member).
- Both companies are joint ventures of a third party.
- One party is a joint venture of a third party and the other company is associated with third party.
- The Company is managing the retirement benefits plan for the benefit of employees of reporting company or company that is related with reporting company. If the reporting company is the manager of this plan, the financing employers are also related with the reporting company.
- The Company is controlled or jointly controlled by the person related with reporting company.
- A person or a close member of the family has a significant influence on the Company or is one of the key management personnel of the reporting company (or its parent company).

3.20. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 principal or the most advantageous market must be accessible to the Company.

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

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

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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3. Accounting Policies (continued)

Measured at fair value

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

Valuations are performed by the Company's management at each reporting date. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of asset or liability and the level of the fair value hierarchy as explained above.

3.21. Offsetting

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 realise 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.

3.22. Regulated Activity

Profitability of the Company's regulated services is regulated by the National Energy Regulatory Council under the approved Methodology for Calculating Water Supply and Wastewater Management Prices (hereinafter "the Pricing methodology"). Prices valid in 2022 were determined in accordance with the Pricing methodology effective at that date, based on which the prices were included to necessary costs and normative profit. Necessary costs are determined based on the actual costs of the basic year, long-term operating and development plan and other reasons influencing change in the level of service and costs, and water suppliers benchmarking indicators. Having regard to the efficiency coefficient, amount of services sold, completed investments, electricity, heat, prices of technological materials, tax tariffs and changes in salaries, actual return of investments and other factors beyond the Company's control, the basic prices of the drinking water supply and wastewater management services were coordinated with the National Energy Regulatory Council in April 2021 in accordance with the applicable Pricing methodology. New basic prices for the Company's drinking water supply and wastewater management services came into effect on 1 August 2021 following the approval by the councils of the Vilnius City Municipality, Vilnius District Municipality, Švenčionys District Municipality and Šalčininkai District Municipality. In June 2022, the National Energy Regulatory Council coordinated recalculated base prices, which came into effect on 1 August 2022 following the unilateral determination by the National Energy Regulatory Council.

In October 2022, the Parliament of the Republic of Lithuania adopted a new wording of the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania, which entered into force on 16 November 2022. In November 2022, the National Energy Regulatory Council agreed on the recalculated price for the Company's drinking water supply and waste water treatment services due to the change in electricity costs (according to the new wording of the Law on Drinking Water Supply and Wastewater Management, if the mean change in electricity and/or gas tariffs and rates exceeds 30%, the National Energy Regulatory Council shall, upon the request of the drinking water supplier and waste water manager, establish an additional price component due to the change

3. Accounting Policies (continued)

in electricity and/or gas costs). The recalculated price will enter into force on 1 January 2023.

3.23. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management of the Company to make judgements, estimates and assumptions that affects the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities, at the reporting date. The uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The significant areas of estimation used in the preparation of the financial statements are discussed below.

Useful life of property, plant and equipment

The key assumptions concerning determination the useful life of property, plant and equipment are as follows: expected usage of the asset, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in the services, legal or similar limits on the use of the asset, such as the expiry dates of related leases.

Provision for registration of protection zones

The Lithuanian Republic Law on Special Conditions on Land Use came into effect on 1 January 2020 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. The Company recorded a provision for protection zone establishment and registration costs as at 31 December 2022 and 2021 (Note 27). The provision was established taking into account the results of the consultations released in the market, the rates charged by the Centre of Registers and the planned procurement of notification forwarding to the owners of the plots and buildings provided for in the Annual Procurement Plan.

Revenue from contracts with customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- Identifying performance obligations in a bundled sale of different services

The Company provides water supply and waste water management services that are either sold separately or bundled together. The Company determined that both the water supply and waste water management are capable of being distinct. These services are not highly interdependent or highly interrelated, because the Company would be able to provide waste water management if the customer declined water supply and vice versa. Consequently, the Company allocated a portion of the transaction price (including selling (fixed subscription) price) to the different services based on relative stand-alone selling prices.

- Determining the timing of operational obligations for water supply and wastewater management services

The Company recognises revenue from water supply and waste water management services over time, using a delivery method (used cubic meters by the customer) to measure provision of the services, because the customer simultaneously receives and consumes the benefits provided by the Company. The consumption made by the customer can be reliably measured by the Company. In order to fully account for the Company's income for services provided, at the end of reporting period on 31 December, income for the last month of the reporting year that was received for providing water and/or wastewater management and maintenance services is accrued,

3. Accounting Policies (continued)

but the meter readings for these services have not been submitted by customers and, therefore, these services are unbilled.

Accounted revenue based on average consumption

The Company provides services to existing customers uninterruptedly, regardless of whether they submit meter readings or not. In order to represent the Company's revenue as accurately as possible for the services provided and the water consumed, an average consumption for the customers that do not submit meter readings for the ongoing month is calculated on the basis of water and/or wastewater volumes calculated in previous reporting periods.

Impairment allowance for trade receivables

The Company uses a provision matrix to calculate the expected credit loss (ECL) for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by the type of customer).

The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (GDP and unemployment rate) are expected to deteriorate/slowdown, which can lead to an increased number of defaults, the historical default rates are adjusted to reflect forward-looking estimates. At every reporting date, the historical observed default rates and changes in the forward-looking estimates are reviewed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant judgement and estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The information about the ECLs on the Company's trade receivables is disclosed in Note 12.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 20. The Company does not hold collateral from customers as security to mitigate credit risk.

For the purpose of the estimation of doubtful amounts receivable, private customers' (PC) and legal entities' (LE) debts are grouped by overdue period. The expected credit loss rates used to calculate the ECLs as at 31 December 2022 and 2021 are provided below:

3. Accounting Policies (continued)

Overdue period	2022		2021	
	Expected credit loss rates PC, %	Expected credit loss rates LE, %	Expected credit loss rates PC, %	Expected credit loss rates LE, %
Less than 1 month	2.00%	0.45%	2.00%	0.40%
1–2 months	8.00%	4.00%	9.00%	4.00%
2–3 months	19.00%	10.00%	19.00%	10.00%
3–4 months	30.00%	17.00%	30.00%	19.00%
4–5 months	41.00%	22.00%	41.00%	28.00%
5–6 months	51.00%	29.00%	51.00%	35.00%
3–7 months	60.00%	35.00%	60.00%	44.00%
7–8 months	67.00%	47.00%	67.00%	55.00%
8–9 months	74.00%	71.00%	74.00%	68.00%
9–10 months	79.00%	82.00%	79.00%	79.00%
10–11 months	85.00%	91.00%	85.00%	89.00%
More than 11 months	89.00%	100.00%	89.00%	100.00%

The Company builds the expected loss rate matrix which is based on historical credit loss analysis and adjusted to reflect future factors specific to borrowers and the economic environment. For some customers of the Company, an individual assessment of impairment of receivables can be performed based on the decision of the Company's management. In 2022 and 2021, an individual impairment assessment was not applied.

Impairment of property, plant and equipment

The Company makes an assessment, at least annually, whether there are any indications that the carrying amount of property, plant and equipment has been impaired. If that is the case, the Company makes an impairment test. The recoverable amount of cash-generating units is determined based on value in use calculations that use a discounted cash flow model.

The cash flows are derived from the forecast for the next five years and steady growth of terminal value, and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

Based on impairment test of property, plant and equipment, no impairment was identified for property, plant and equipment as at 31 December 2022 and 2021.

Below are presented the key assumptions applied by the management for the budget and long-term planning, and, respectively, the impairment assessment as at 31 December 2022 and 2021:

- Weighted average cost of capital (WACC) discount rate (pre-tax) of 10.13% was applied in the impairment evaluation model (7.76% as at 31 December 2021).

3. Accounting Policies (continued)

- Average market-based WACC used by the management is higher than the one approved by the National Energy Regulatory Council. Management believes that in the long-term (starting from the year 2027), it is reasonable to expect that return on investment set by regulator (as well as profitability of the Company) will exceed the regulated level currently set at 3.96% (2021: 3.81%) and converge to the market level.
- As at 31 December 2022 and 2021, cash flows occurring after 5 years were forecasted by using a growth rate of 1.75% and 1.5%, respectively.
- During the period of 2023–2027, capital investments to property, plant and equipment will consist of EUR 74,620 thousand in total. In 2021, the capital investments into property, plant and equipment set for the period of 2022–2026 consisted of EUR 82,023 thousand in total.
- Operating income from regulated activities is forecasted taking into account the necessary costs, return on investment that corresponds to the criterion of reasonableness and the forecast sales volumes.

The impairment assessment at this stage is highly dependent on the assumptions used in the model. Below is provided sensitivity analysis for key assumptions of impairment assessment as at 31 December 2022 and 2021:

- The increase in the WACC discount rate (pre-tax) in 2022 and onwards by 0.41% point would result in an asset impairment in the amount of EUR 24 thousand. As at 31 December 2022, the increase in the WACC discount rate (pre-tax) in 2021 and onwards by 0.44% point would result in an asset impairment in the amount of EUR 194 thousand as at 31 December 2021.
- Additional annual investment in non-current assets amounting to EUR 3.248 thousand in 2022 and onwards would result in an asset impairment in the amount of EUR 4 thousand as at 31 December 2022. Additional annual investment in non-current assets amounting to EUR 883 thousand in 2021 and onwards would result in an asset impairment in the amount of EUR 15 thousand.

3.24. Events after the Reporting Period

Events after the reporting period that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

4. Revenue

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Water supply	15,865	14,790
Wastewater treatment	20,148	19,054
Meter maintenance fee	2,074	2,737
Drainage	988	991
In-kind income from equipment relocation	1 019	605
Income from commercial work and services	900	602
Net gain on disposal of non-current assets	140	3 501
Income from sale of inventory	98	59
Other income	13	61
Total:	41,245	42,400

In 2022, the Company attributed income from water supply, wastewater treatment services, meter maintenance fee, drainage, in-kind income from equipment relocation and commercial work and services to revenue from contracts with customers, the total amount of which was EUR 40,994 thousand (2021: EUR 38,779 thousand). In 2022, other operating income comprised income from disposal of assets, sale of inventories and other income, the total amount of which was EUR 251 thousand (2021: EUR 3,621 thousand). On 27-28 May 2021, the Company's premises at Maironio st. 12 were sold through public electronic auctions to UAB Meranet for EUR 3.55 million (excl. VAT). Net profit from disposal of these premises is EUR 3.265 million.

In 2022, revenue recognised as contract liabilities, i.e. advances received as at 31 December 2021, amounted to EUR 258 thousand. In 2021, revenue recognised as contract liabilities, i.e. advances received, as at 31 December 2020, amounted to EUR 167 thousand.

100% of the Company's income was earned in the Republic of Lithuania.

In-kind income from equipment relocation earned in 2022 and 2021 is comprised of the average market value of networks reconstructed, newly built and registered on behalf of the Company funded by real estate developers. The average market value is based on the statements of real estate register central database.

5. Payroll and Related Expenses

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Wages and salaries	14,484	14,132
Change in vacation reserve	44	133
Social security contributions	255	253
Change in accrued liabilities to employees	135	(134)
Total:	14,918	14,384

6. Repair and Maintenance Expenses

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Technological materials	706	394
Digging recovery	633	538
Maintenance materials expenses	389	394
System diagnostics and repair works	383	295
Equipment servicing	382	260
System cleaning	248	272
Construction repairs	239	180
Laboratory services (monitoring)	122	118
Topo geodesic photos and legal registration	40	50
Repair of tools and equipment	35	34
Total:	3,177	2,535

7. Tax Expenses

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Tax on natural resources	2,190	1,720
Pollution tax	2,748	1,021
Real estate tax	109	102
Fee charged by the National Energy Regulatory Council	99	95
Land lease	3	2
Other fees and taxes	82	83
Total:	5,231	3,023

8. Other Expenses

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Customer service expenses	816	729
Insurance	315	142
Water expenses for technology and own use	307	188
Heating	303	174
Promotion and commerce	217	188
Commercial service costs	196	117
Rent of collectors	178	172
Cleaning of premises	171	180

8. Other Expenses (continued)

Certificate of Centre of registers and cadastral cases	375	341
Work safety and special clothes	127	161
Provision for pensions	125	68
Legal services	108	59
Events to employees	106	80
Garbage collection	105	108
Cost of disposal of current assets	98	58
Consultations	95	117
Doubtful debts write-off	92	61
Compensation for damage resulting from the		
Company activities	82	211
Trainings	76	132
Audit	43	47
Office administration expenses	31	25
New customer connection expenses	30	63
Utilities	25	23
Change in allowance on inventories	24	(22)
Security services	17	41
Household-economic expenses	9	8
COVID-19 related expenses	6	35
Representation expenses	4	2
NutriBiomass4Life project expenses	3	27
Provisions for claims	(501)	661
Other expenses	289	316
Total:	3,872	4,512

9. Finance Income and Costs

	01/01/2022 31/12/2022	01/01/2021 31/12/2010
Finance income		
Interest income	17	33
Penalties and default interest received	255	161
Total:	272	194
Finance expenses		
Interest (expenses)	(275)	(190)
Penalties and default interest (paid)	(41)	(13)
Total:	(316)	(203)
Finance income/(expenses), net	(44)	(9)

9. Finance Income and Costs (continued)

In 2022, interest income due to the Municipal administration of the Švenčionys District amounted to EUR 4 thousand, in 2021, interest income due to the Municipal administration of the city Vilnius amounted to EUR 23 thousand.

10. Income Tax

In 2022 and 2021 income tax expenses (benefit) were as follows:

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Income tax expense		
Current income tax	-	-
Deferred income tax benefit (expenses)	994	(110)
Income tax benefit (expenses) recorded in the statement of profit or loss and other comprehensive income	994	(110)

Change in deferred tax assets during 2022 and 2021:

	01/01/2021	Income tax (expenses) benefit through P/L	31/12/2021	Income tax (expenses) benefit through P/L	31/12/2022
Accumulated losses	-	-	-	1,278	1,278
Accrual for vacation reserve	181	20	201	7	208
Allowance for accounts receivable	225	(54)	171	(18)	153
Employee benefits	223	(9)	214	38	252
Allowance for inventories	10	(2)	8	3	11
Provisions accrued for boreholes liquidation	10	(8)	2	2	4
Provisions for cadastral measurement and cases registration	4	(1)	3	-	3
Provisions for losses	11	(11)	-	-	-
Provision for protection zone establishment and registration	-	41	41	36	77
Deferred tax assets	664	(24)	640	1,346	1,986

10. Income Tax (continued)

Change in deferred tax liabilities during 2022 and 2021:

	01/01/2021	Income tax (expenses) benefit through P/L	31/12/2021	Income tax (expenses) benefit through P/L	31/12/2022
Financial and tax differences for investment incentive using II method until 2002	(766)	47	(719)	27	(692)
Differences of property, plant and equipment financial and tax depreciation	(274)	(133)	(407)	(379)	(786)
Deferred tax liability	(1,040)	(86)	(1,126)	(352)	(1,478)
Deferred tax, net	(376)	(110)	(486)	994	508

Presented in the statement of financial position as follows:

	31/12/2022	31/12/2021
Deferred tax assets	508	-
Deferred tax liability	-	(486)

As at 31 December 2022, the deferred tax asset is recognised in the statement of financial position to the extent that the Company's management expects it to be realised in the near future based on taxable profit forecasts.

As at 31 December 2022, the Company had unused tax credits in the amount of EUR 12,443 thousand (31 December 2021: EUR 4,929 thousand) related to the capital investments made in 2019–2022 and eligible to use to reduce the taxable profit until the end of 2023 in accordance with Article 46(1) of the Law on Corporate Income Tax, however, the Company's management decided not to recognise the related EUR 1,866 thousand (31 December 2021: EUR 739 thousand) deferred tax assets as at 31 December 2022, whereas in the light of the taxable profit forecasts the Company will not be able to use these assets to reduce taxable profit for 2023.

10. Income Tax (continued)

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:

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Profit (loss) before tax	(6,996)	3 230
Income tax expenses calculated at statutory tax rate	(1,049)	485
Non-taxable income	(138)	(124)
Expenses not deductible for income tax	193	308
Tax incentives for investments	-	(559)
Income tax (benefit) expenses recorded in the statement of profit or loss and other comprehensive income	(994)	110

11. Property, Plant and Equipment and Right-of-Use Asset

	Buildings	Structures	Trans- mission devices	Plant and equip- ment	Vehicles	Other property, plant and equipment	Construc- tion-in- progress	Prepay- ments	Total
Acquisition cost									
Balance as at 1 January 2021	32,239	46,285	167,752	35,904	5,709	12,415	4,681	2,578	307,563
Acquisitions	9	14	912	339	326	312	19,149	1,917	22,978
Disposals and write-offs	(4)	(370)	(681)	(670)	-	(506)	(8)	-	(2,239)
Reclassifications from P	222	1,116	6,296	3,841	(32)	1,381	(9,437)	(3,387)	-
Reclassified to assets held for sale	(800)	(123)	(476)	(332)	(493)	(25)	-	-	(2,249)
Balance as at 31 December 2021	31,666	46,922	173,803	39,082	5,510	13,577	14,385	1,108	326,053
Balance as at 1 January 2022	31,666	46,922	173,803	39,082	5,510	13,577	14,385	1,108	326,053
Acquisitions	83	46	11513	452	297	459	29,888	658	43,396
Disposals and write-offs	(45)	(67)	(1,345)	(488)	(62)	(634)	-	-	(2,641)
Reclassifications from CIP	1,051	1,963	10,485	5,036	(4)	1,750	(19,119)	(1,162)	-
Reclassifications between groups of property, plant and equipment	-	(1)	-	1	-	-	-	-	-
Reclassified to assets held for sale	(44)	(43)	-	(73)	(308)	-	-	-	(468)
Reversal of impairment	4	-	-	-	-	-	-	-	4
Balance as at 31 December 2022	32,715	48,820	194,456	44,010	5,433	15,152	25,154	604	366,344

11. Property, Plant and Equipment and Right-Of-Use Asset (continued)

	Buildings	Structures	Transmission devices	Plant and equipment	Vehicles	Other property, plant and equipment	Construction-in-progress	Prepayments	Total
Accumulated depreciation									
Balance as at 1 January 2021	12,637	30,402	87,275	25,789	3,123	8,242	-	-	167,468
Depreciation for the year	537	847	3,539	1,690	445	1,220	-	-	8,278
Disposals and write-offs	(4)	(366)	(618)	(634)	-	(496)	-	-	(2,118)
Reclassified to assets held for sale	(466)	(77)	(333)	(297)	(493)	(20)	-	-	(1,686)
Balance as at 31 December 2021	12,704	30,806	89,863	26,548	3,075	8,946	-	-	171,942
Balance as at 1 January 2022	12,704	30,806	89,863	26,548	3,075	8,946	-	-	171,942
Depreciation for the year	543	820	3,646	1,703	471	1,246	-	-	8,429
Disposals and write-offs	(45)	(67)	(1,095)	(416)	(56)	(612)	-	-	(2,291)
Reclassified to assets held for sale	(38)	(43)	-	(73)	(308)	-	-	-	(462)
Balance as at 31 December 2022	13,164	31,516	92,414	27,762	3,182	9,580	-	-	177,618
Net book value as at 31 December 2021	18,962	16,116	83,940	12,534	2,435	4,631	14,385	1,108	154,111
Net book value as at 31 December 2022	19,551	17,304	102,042	16,248	2,251	5,572	25,154	604	188,726

Right-of-use assets	
Acquisition cost	
Balance as at 1 January 2021	2,569
Acquisitions	90
Balance as at 31 December 2021	2,659
Balance as at 1 January 2022	2,659
Acquisitions	5
Disposals and write-offs	(19)
Balance as at 31 December 2022	2,645

11. Property, Plant and Equipment and Right-Of-Use Asset (continued)

	Right-of-use assets
Accumulated depreciation	
Balance as at 1 January 2021	499
Depreciation for the year	250
Balance as at 31 December 2021	749
Balance as at 1 January 2022	749
Depreciation for the year	251
Disposals and write-offs	(1)
Balance as at 31 December 2022	999
Net book value as at 31 December 2021	1,910
Net book value as at 31 December 2022	1,646

As at 31 December 2022, property, plant and equipment cost was reduced by received grants, related to the assets, which cost was EUR 161,734 thousand as at 31 December 2022 (as at 31 December 2021 – EUR 146,108 thousand), and net book value of such assets was EUR 113,057 thousand as at 31 December 2022 (as at 31 December 2021 – EUR 100,327 thousand).

The grants consist of financing received from Structural Funds of the European Union. In 2022, the asset-related grants received from the EU amounted to EUR 16,016 thousand (2021: EUR 10,623 thousand).

In 2022, grants amortisation expenses were EUR 3,254 thousand (2021: EUR 3,661 thousand).

In 2022, the amount of in-kind income received from third parties for equipment relocation accounted for as income and in the statement of profit or loss and other comprehensive income amounted to EUR 1,019 thousand (2021: EUR 605 thousand).

As at 31 December 2022, property, plant and equipment of the Company with net book value* of EUR 27,026 thousand (31 December 2021: EUR 27,174 thousand) was pledged to banks as a collateral for the loans (Note 18).

As at 31 December 2022, the Company's property, plant and equipment with an acquisition cost* of EUR 52,782 thousand was fully depreciated (31 December 2021: EUR 58,859 thousand), but still in use.

As at 31 December 2022, the impairment of the property, plant and equipment not used in the Company's activity amounted to EUR 165 thousand. In 2022, no additional impairment of the property, plant and equipment not used in the Company's activity was identified (as at 31 December 2021, the impairment of the property, plant and equipment not used in the Company's activity amounted to EUR 169 thousand).

As at 31 December 2022, assets held-for-sale amounted to EUR 16 thousand (31 December 2021: EUR 305 thousand). In 2022, six auctions were announced, during which the assets with net book value* of EUR 1 thousand were sold for EUR 134 thousand (excl. VAT). Additionally, in February 2022, movable and immovable property in Pabradė was sold to the Švenčionys District Municipality at net book value* of EUR 299 thousand. In 2021, three auctions were announced, during which the assets with net book value* of EUR 3,784 thousand were sold for EUR 3,784 thousand (excl. VAT).

11. Property, Plant and Equipment and Right-Of-Use Asset (continued)

In 2022, the Company's borrowing interest capitalised attributable to the acquisition, construction, reconstruction or production of a qualifying asset over the period of investment project amounted to EUR 106 thousand (2021: EUR 12 thousand).

As at 31 December 2022 and 2021, the Company's property, plant and equipment with inventory performed, but legally not registered, as well as property, plant and equipment with inventory not performed and legally not registered was as follows:

	PPE with inventory procedures performed, but legally not registered		PPE with inventory procedures not performed and legally not registered	
	Net book value*, thousand EUR	amount of PPE cards	Net book value*, thousand EUR	amount of PPE cards
Net book value as at 31 December 2021	380	33	2,707	161
Net book value as at 31 December 2022	643	30	1,870	61

In December 2022, the Technological building of rinsing unit with the asphalted area (which was subject to inventory procedures, but legally not registered due to undeveloped land plot) was commissioned to Vilnius WWTP.

Applications for the award of the title by way of limitation have been submitted to the courts for 5 units of property, plant and equipment with no inventory performed and legally not registered, and 6 unit of property, plant and equipment with inventory performed, but legally not registered, the net book value* of which as at 31 December 2022 was EUR 81 thousand. Once the court judgement is issued on the said property, plant and equipment, it will be registered in the Real Property Register of the State Enterprise Center of Registers.

These assets are accounted for in the Company's property, plant and equipment accounts as the Company bears significant risks and rewards related to the respective assets.

* All values are shown before offsetting with grants received.

Right-of-use assets

A long-term office lease agreement was recognised in the right of use asset, the lease term of which was extended on 22 December 2021 for an additional period of 5 (five) years until 2026.

Lease agreements with lease term from 20 to 99 years were also accounted for in the right-of-use asset (Note 18).

	Buildings	Land lease	Total
1 January 2021	1,645	425	2,070
Additions	-	90	90
Depreciation expense	(244)	(6)	(250)

31 December 2021	1,401	509	1,910
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11. Property, Plant and Equipment and Right-Of-Use Asset (continued)

	Buildings	Land lease	Total
1 January 2022	1,401	509	1,910
Additions	-	5	5
Disposals and write-offs	-	(18)	(18)
Depreciation expense	(244)	(7)	(251)
31 December 2022	1,157	489	1,646

EU-funded projects

The Company is implementing four projects, the agreements of which have been signed with the Environmental Project Management Agency for obtaining contribution from the EU structural funds for 2014–2020:

- “Provision of drinking water and wastewater treatment system renovation and development in Vilnius city”, total project funding amounted to EUR 15,546.2 thousand, of which EU funds amounted to EUR 7,773.1 thousand. The project came to an end on 2 September 2022.

- “Provision of Drinking Water and Wastewater Treatment System Renovation and Development in Švenčionys City”, total project funding amounted to EUR 1,480.9 thousand, of which EU funds amounted to EUR 740.1 thousand, and the end of the project – 28/02/2023. Švenčionys District Municipality is the partner of the project.

- “Reconstruction of Švenčionys Wastewater Treatment Plant”, total project funding amounted to EUR 4,184.5 thousand, of which EU funds amounted to EUR 3,347.6 thousand, and the end of the project – 30/08/2023.

- “Reconstruction of Vilnius City Wastewater Treatment Plant”, total project funding amounted to EUR 33,176.9 thousand, of which EU funds amounted to EUR 26,541.5 thousand, and the end of the project – 31 August 2023.

In 2020–2021, the agreements for funding of investment projects in the development of drinking water supply and wastewater collection networks in Vilnius, Švenčionėliai, Šalčininkai and Eišiškės agglomerations were signed with Viešųjų Investicijų Plėtros Agentūra UAB for a total value of EUR 31,594 thousand, with the subsidy of EUR 12,675 thousand.

In 2022, three investment projects were implemented: development of drinking water supply and wastewater collection networks in Švenčionėliai, Eišiškės and Šalčininkai agglomerations, financed through the repayable subsidy of EUR 516 thousand. The remaining projects are scheduled to be completed on 30 September 2023.

Future commitments under concluded contracts are disclosed in Note 28.

12. Intangible Assets

	Software and acquired rights	Servitudes and protection zones	Projects in progress	Total
Acquisition cost				
Balance as at 1 January 2021	2,077	18	182	2,277
Acquisitions	82	641	51	774
Reclassifications from projects in progress	249	(16)	(233)	-
Write-offs (-)	(67)	-	-	(67)

Balance as at 31 December 2021	2,341	643	-	2,984
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12. Intangible Assets (continued)

	Software and acquired rights	Servitudes and protection zones	Projects in progress	Total
Balance as at 1 January 2022	2,341	643	-	2,984
Acquisitions	141	10	367	518
Reclassifications from projects in progress	156	13	(169)	-
Write-offs (-)	(87)	(240)	-	(327)
Balance as at 31 December 2022	2,551	426	198	3,175

	Software and acquired rights	Servitudes and protection zones	Projects in progress	Total
Accumulated amortisation				
Balance as at 1 January 2021	1,519	-	-	1,519
Amortisation charge for the year	289	-	-	289
Write-offs (-)	(67)	-	-	(67)
Balance as at 31 December 2021	1,741	-	-	1,741
Balance as at 1 January 2022	1,741	-	-	1,741
Amortisation charge for the year	199	-	-	199
Write-offs (-)	(87)	-	-	(87)
Balance as at 31 December 2022	1,853	-	-	1,853
Net book value as at 31 December 2021	600	643	-	1,243
Net book value as at 31 December 2022	698	426	198	1,322

As at 31 December 2022, the cost of intangible assets was reduced by received asset-related grants, the cost of which was EUR 105 thousand as at 31 December 2022 (31 December 2021: EUR 97 thousand), and net book value of such assets was EUR 88 thousand as at 31 December 2022 (31 December 2021: EUR 92 thousand).

The grants consist of financing received from Structural Funds of the European Union for the development and implementation of a hydraulic modelling information system for the Vilnius city water supply network. In 2022, the asset-related grants received from the EU amounted to EUR 8 thousand (2021: EUR 97 thousand).

In 2022, grants amortisation expenses were EUR 13 thousand (2021: EUR 5 thousand). As at 31 December 2022, a part of the Company's intangible assets with the acquisition value of EUR 735 thousand were fully amortised (as at 31 December 2021 – EUR 708 thousand), but still in use.

13. Trade and Other Receivables

	31 December 2022	31 December 2021
Non-current portion of trade and other receivables		
Trade receivables	254	-
Total:	254	-

On 15 February 2022, movable and immovable property in the town of Pabradė was sold to the Švenčionys District Municipality at a price (incl. VAT) of EUR 362 thousand, and a finance lease agreement was signed, under which lease payments are made each year in two instalments until 15 February 2027. The property was sold under the agreement in relation to the operations discontinued in December 2021 in the town of Pabradė, where the Company operated wastewater networks and a wastewater treatment plant. The amount receivable under the agreement from the Švenčionys District Municipality amounted to EUR 326 thousand as at 31 December 2022, and EUR 254 thousand for the period 2024–2027.

	31 December 2022	31 December 2021
Current trade and other receivables		
Trade receivables	5,893	5,667
Accrued income	587	523
Other receivables	11	2 438
	6,491	8,628
Less: allowance for doubtful trade receivables	(1,019)	(1,143)
Total:	5,472	7,485

In 2022, the amount of debt repaid under the finance lease agreement by the Švenčionys District Municipality was EUR 36 thousand with EUR 4 thousand of interest received, of which accrued interest income for 2022 totalled EUR 2 thousand.

In 2021, the Vilnius City Municipality repaid EUR 2,233 thousand under a trilateral agreement for transfer of requirement rights and offsetting between the Company, Vilniaus Energija UAB and the Vilnius City Municipality Administration. Under this agreement, the total amount of interest received in 2021 amounted to EUR 95 thousand, of which accrued interest income for 2021 amounted to EUR 23 thousand.

Trade receivables are non-interest bearing and are generally settled on up to 30 calendar days terms if no separated arrangements for the deferred payment exist.

Trade receivables also include fee receivable for water and/or wastewater management and maintenance services rendered, the meter readings for which were not submitted in the last month of the reporting period and, therefore, not billed. As at 31 December 2022, such accrued income for services provided to legal entities increased by EUR 11 thousand and totalled EUR 249 thousand (31 December 2021: EUR 238 thousand), to natural persons increased by EUR 30 thousand and totalled EUR 314 thousand (31 December 2021: EUR 284 thousand). In 2021, the accrued income were reported in the statement of financial position under a separate line item. As at 31 December 2022, other receivables consisted of the grant of EUR 11 thousand receivable under the funding agreement for the

13. Trade and Other Receivables (continued)

development of drinking water supply and wastewater collection networks in Vilnius, Švenčionėliai and Šalčininkai agglomerations.

As at 31 December 2021, other receivables consisted of the grant of EUR 2,418 thousand receivable under the EU project "Reconstruction of Vilnius city wastewater treatment plant" funding agreement and of EUR 20 thousand of the grants receivable under the funding agreement for the development of drinking water supply and wastewater collection networks in Vilnius, Švenčionėliai and Šalčininkai agglomerations.

Change in impairment loss from contracts with customers in 2022 and 2021 was as follows:

	31 December 2022	31 December 2021
Balance at the beginning of the year	1,143	1,502
Impairment for the year	12	41
Impairment reversal	(56)	(335)
Write-off to bad debts	(80)	(65)
Balance at the year-end	1,019	1,143

The ageing analysis of trade receivables of the Company as at 31 December 2022 was as follows:

	Not past due	Trade receivables past due and impaired					Total
		Less than 30 days	31–90 days	91–180 days	181–365 days	More than 365 days	
<i>Vilnius City Municipality</i>	39	-	-	-	-	-	39
Impairment	-	-	-	-	-	-	-
<i>Natural persons</i>	1,791	175	112	63	175	565	2,881
Impairment	34	13	24	29	140	477	717
<i>Other legal entities</i>	2,507	155	121	190	160	94	3,227
Impairment	9	6	16	46	136	89	302
Total impairment	43	19	40	75	276	566	1,019

The ageing analysis of trade receivables of the Company as at 31 December 2021 was as follows:

13. Trade and Other Receivables (continued)

	Not past due	Trade receivables past due and impaired					Total
		Less than 30 days	31–90 days	91–180 days	181–365 days	More than 365 days	
<i>Vilnius City Municipality</i>	49	1	-	-	-	-	50
Impairment	-	-	-	-	-	-	-
<i>Natural persons</i>	1,586	175	106	67	80	738	2,752
Impairment	31	15	24	33	63	643	809
<i>Other legal entities</i>	2,091	160	228	124	91	171	2,865
Impairment	8	6	37	42	73	168	334
Total impairment	39	21	61	75	136	811	1,143

14. Prepayments and Deferred Expenses

	31 December 2022	31 December 2021
Prepayments	60	49
Deferred expenses	458	562
	518	611

15. Cash and Cash Equivalents

	31 December 2022	31 December 2021
Cash at bank	12,144	7,267
Cash in transit	151	81
	12,295	7,348

As at 31 December 2022 and 2021, the funds and future income in the bank account and future inflows to bank accounts were not pledged.

16. Issued Capital

During 2022, the Company's issued capital was increased by in kind contributions from Vilnius City Municipality and Švenčionys District Municipality amounting to EUR 7,914 thousand and EUR 2,147 thousand, respectively, by cash and in kind contributions from Vilnius District Municipality amounting to EUR 1,600 thousand and EUR 448 thousand, respectively, as well as by cash contribution from Šalčininkai District Municipality amounting to EUR 600 thousand. During 2022, the number of shares in Vilnius City Municipality increased by 273,289 units, in Švenčionys District Municipality by 74,122 units, Vilnius District Municipality by 70,726 units, and in Šalčininkai District Municipality by 20,719 units. As at 31 December 2022, the Company's issued capital amounted to EUR 135,492 thousand and was divided into 4,678,588 shares with the par value of EUR 28.96 each.

16. Issued Capital (continued)

During 2021, the Company's issued capital was increased by in kind contribution from Vilnius District Municipality in the amount of EUR 289.7 thousand, and cash contribution from Šalčininkai District Municipality in the amount of EUR 200 thousand. During 2021, the number of shares in Vilnius City Municipality increased by 10.002 units, in Šalčininkai District Municipality by 6,906 units. As at 31 December 2021, the Company's issued capital amounted to EUR 122,783 thousand and was divided into 4,239,732 shares with the par value of EUR 28.96 each.

As at 31 December 2022 and 2021, the issued capital of the Company was fully paid. The Company did not hold its own shares.

No dividend for shareholders was declared in 2022 and 2021.

17. Reserves

Legal reserves

The legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. In 2022, when distributing net profit of 2021, EUR 156 thousand was attributed to legal reserve. As at 31 December 2022, the legal reserve amounted to EUR 1,210 thousand.

As at 31 December 2021, the legal reserve amounted to EUR 1,054 thousand.

Other reserves

Other reserves are created from the profit available for appropriation and designated for the specific purposes of a Company. They may be used for offsetting the Company's losses incurred or for increasing the issued capital. In 2022, when distributing net profit of 2021, the reserve of EUR 6,260 thousand was set for the Company's investments scheduled in the investment plan for 2020–2022.

18. Loans

	31 December 2022	31 December 2021
Non-current loans		
Non-current loans	37,551	15,559
	37,551	15,559
Current loans		
Current portion of non-current loans	882	513
Accrued interest payable	230	-
Total:	38,663	16,072

Non-current and current loans of the Company include:

18. Loans (continued)

Lender	Annual interest rate, %	Loan currency	Total amount of the loan	Repayment date	31 December 2022	31 December 2021
Ministry of Finance of the Republic of Lithuania	1.611%	EUR	19,400	04/10/2040	11,264	7,570
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2%	EUR	2,500	15/12/2039	1,987	1 594
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2%	EUR	1,043	15/01/2040	798	874
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2%	EUR	6,176	15/12/2040	4,392	1,034
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2%	EUR	4,119	15/11/2041	151	-
European Investment Bank	floating*	EUR	20,000	15/01/2040	20,071	5,000
		Less:	current portion		(882)	(513)
			accrued interest payable		(230)	-
Non-current loans, net of current portion					37,551	15,559

* Interest rate as at 31 December 2022 set for different portions of the loan range from 2.32162% to 3.229%.

The terms of repayment of non-current and current loans are as follows:

	31 December 2022	31 December 2021
Within the first year	1,112	513
From 1 to 5 years	7,387	3,134
After five years	30,164	12,425
Total:	38,663	16,072

To secure the fulfilment of financial liabilities to the creditor, the Company's property, plant and equipment with the net book value of EUR 27,026 thousand as at 31 December 2022 has been pledged (31 December 2021: EUR 27,174 thousand) (Note 11).

In 2021, the Company signed a loan agreement with the European Investment Bank (EIB) that entitles EIB to provide a EUR 50,000 thousand loan to fund investment projects in the period 2020–2024. On 31 March 2021, the agreement was signed for a EUR 20 million loan for a period of 20 years with floating annual interest rate. The floating interest rate is calculated for periods of six months. In 2021, the amount of EUR 5,000 thousand was received under this agreement, and has to be repaid until 2041. In 2022, the amount of EUR 15,000 thousand was received, and has to be repaid until 2042. The loan agreement for the outstanding balance of EUR 30,000 thousand was signed on 20 June 2022.

18. Loans (continued)

As at 31 December 2022, the Company did not comply with the contractual financial covenants due to a negative impact caused by increase of electricity prices and increase in expenses due to inflation. On 22 December 2022, the Company received a waiver from the EIB which waives the Company's undertaking to comply with the contractual financial covenants until 30 June 2023. The Company's management assessed that, following the change in the prices of drinking water supply and wastewater management services as from 1 January 2023, the Company will meet the financial covenants under the loan agreement with EIB on 30 June 2023, therefore the portion of the loan repayable after 12 months period is classified as non-current as at 31 December 2022.

In 2020–2021, the agreements signed with Viešųjų Investicijų Plėtros Agentūra UAB for funding of the development of drinking water supply and wastewater collection networks in Vilnius, Švenčionėliai, Šalčininkai and Eišiškės agglomerations, amounted to EUR 13,839 thousand. Loans are granted with fixed annual interest rate of 2%, the loan maturity term is 240 months following the date of entry into force of the loan agreements. In 2022, EUR 3,864 thousand were received under these loan agreements with VIPA (2021: EUR 3,239 thousand); EUR 154 thousand were repaid.

In 2018, the Company signed an agreement with the Ministry of Finance of the Republic of Lithuania that entitles the Ministry of Finance of the Republic of Lithuania to provide an EUR 19,400 thousand loan to fund an investment project „Provision of drinking water and wastewater treatment system renovation and development in Vilnius city“, including a separate project activity “Reconstruction of Vilnius City Wastewater Treatment Plant”. The loan agreement is concluded for a period of 18 years with a fixed annual interest rate of 1,611% and maturity until 2040. In 2022, EUR 4,049 thousand were received under this agreement with the Ministry of Finance (2021: EUR 7,570 thousand); EUR 398 thousand were repaid.

19. Lease Liabilities

The Company's lease liabilities consist of liabilities under a long-term office lease agreement with Duetto UAB and lease liabilities under long-term land lease agreements with the Vilnius City Municipality, the Vilnius District and the Švenčionys District Municipality. Lease liabilities are equal to the present value of the future lease payments discounted at a borrowing rate of 2.51% applied to the lease agreements concluded in 2022 (2021: 2.59%).

	31 December 2022	31 December 2021
<i>Non-current liabilities</i>		
Lease liabilities	1,471	1,732
	<u>1,471</u>	<u>1,732</u>
<i>Current payables and liabilities</i>		
Current portion of lease liabilities	248	242
Total:	<u>1,719</u>	<u>1,974</u>

The maturity analysis of lease liabilities is disclosed in Note 23.

19. Lease Liabilities (continued)

The Company applies the lease recognition exemptions for short-term leases of vehicles, containers for ferrous sulphate and leases with a value of EUR 6 thousand or less throughout a contract life.

Costs incurred under collector lease agreement are also recognised in profit or loss, because the lease of these assets does not meet the criteria for identified assets set out in IFRS 16.

The following are the amounts recognized in profit or loss:

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Depreciation expense of right-of-use assets	251	250
Lease liability interest expenses	39	43
Expenses relating to short-term leases (included in other expenses in profit or loss)	39	39
Expenses relating to leases of low-value assets (included in other expenses in profit or loss)	30	21
Rent of collectors (Note 8)	178	172
Total amount recognised in profit or loss	537	525

20. Trade and Other Payables

	31 December 2022	31 December 2021
Trade payables for services	2,080	999
Trade payables for repairs	56	61
Trade payables for constructions in progress and reconstruction	4,129	2,126
Trade payables for contractual works in EU-funded projects	8,166	2,930
Trade payables for non-current assets	39	364
Trade payables for inventories	584	162
Total	15,054	6,642

21. Other Current Liabilities

	31 December 2022	31 December 2021
Taxes payable	3,415	1,924
Vacation pay accrual	1,385	1,341
Accrued variable component of remuneration	974	839
Current portion of accrued pension liabilities	249	243
Taxes, salaries and social security	303	323
Accrued expenses	154	254
Liabilities to shareholders for contributions to issued capital	3,937	1,727
Other liabilities	1,983	1,777

Total	12,400	8,428
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21. Other Current Liabilities (continued)

Cash contributions to issued capital received from the Vilnius City Municipality and Švenčionys District Municipality during 2022 totalled EUR 3,937 thousand. In 2021, a EUR 1,600 thousand cash contribution to issue additional capital was received from Vilnius District Municipality (Note 24).

Other payables are non-interest bearing.

22. Net Debt

For the purpose of the Company's net debt calculation, borrowings comprise cash and cash equivalents, debts to financial institutions and other debts relating to financing and lease liabilities.

Net debt balances as at 31 December 2022 and 2021 were as follows:

	31 December 2022	31 December 2021
Cash and cash equivalents	12,295	7,348
Current borrowings	1,112	513
Non-current borrowings	37,551	15,559
Lease liabilities	1,719	1,974
	52,677	25,394

Reconciliation of net debt balances and cash flows from financing activities of 2022 and 2021:

	Assets	Lease liabilities		Loans		
	Cash and cash equivalents	Long-term lease liabilities	Current portion of lease liabilities	Non- current loans	Current portion of non-current loans	Total
Net debt at 31 December 2020	6,043	1,884	234	7833	427	16,421
<u>Cash changes</u>						
Change in cash and cash equivalents	1,305	-	-	-	-	1305
Loans received	-	-	-	8,239	-	8,239
Loans (repaid)	-	-	-	-	(427)	(427)
Lease payments	-	-	(234)	-	-	(234)
Interest paid	-	-	(43)	-	(135)	(178)
<u>Non-cash changes</u>						
Interest charged	-	-	43	-	135	178
Lease contracts concluded	-	90	-	-	-	90
Reclassifications between items	-	(242)	242	(513)	513	-

Net debt at 31 December 2021	7,348	1,732	242	15,559	513	25,394
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22. Net Debt (continued)

	Assets	Lease liabilities		Loans		Total
	Cash and cash equivalents	Long-term lease liabilities	Current portion of lease liabilities	Non-current loans	Current portion of non-current loans	
Net debt as at 1 January 2022	7,348	1,732	242	15,559	513	25,394
<u>Cash changes</u>						
Change in cash and cash equivalents	4,947	-	-	-	-	4,947
Loans received	-	-	-	22,913	-	22,913
Loans (repaid)	-	-	-	-	(552)	(552)
Lease payments	-	-	(242)	-	-	(242)
Interest paid	-	-	(39)	-	(167)	(206)
<u>Non-cash changes</u>						
Interest charged	-	-	39	-	167	206
Accrued interest payable	-	-	-	-	230	230
Lease contracts concluded/terminated	-	(13)	-	-	-	(13)
Reclassifications between items	-	(248)	248	(921)	921	-
Net debt at 31 December 2022	12,295	1,471	248	37,551	1,112	52,677

23. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities comprise bank loans, advances received and trade payables. The Company has various financial assets such as trade and other receivables and cash, which arise directly from its operations.

The principal financial risks to which the Company is exposed are those of interest rate, liquidity and credit risks. The Company's management reviews and agrees policies for managing each of these risks, which are summarised below. Due to the fact that liabilities of the Company are not affected by other currencies, thus risk of foreign exchange rates is not applicable.

Interest rate risk

The Company's income, expenses and operating cash flows are substantially independent of changes in market interest rates, therefore are not linked to the interest rates risk. However, the Company has long-term loans that are necessary for the implementation of the investment projects provided for in the Operating and Development Plans.

The Company's long-term loans consist of long-term loans with fixed interest rates (EUR 18,433 thousand as at 31 December 2022, and EUR 11,072 thousand as at 31 December 2021), and long-term

23. Financial Risk Management Objectives and Policies (continued)

loans with floating interest rates (EUR 20,000 thousand as at 31 December 2022, and EUR 5 thousand as at 31 December 2021).

Interest rate risk is affected by changes in floating interest rates linked to EURIBOR. As at 31 December 2022, the changes in floating rates had a dilutive effect of EUR 37.2 thousand on the Company's profit. The 6-month EURIBOR was negative at -0.539% at the beginning of the year, while at the end of the year returned to positive at 2.693%. If the floating interest rate were to be higher by 1% as at 31 December 2022, the loan interest expenses in 2022 would exceed actual by EUR 39.3 thousand. This does not have a material impact on the Company.

Except for the current year's profit, there is no impact on the equity of the Company.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of loans for working capital purposes and credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's adjusted current liquidity (total current assets/total payables within one year and current liabilities, excluding grants receivable for contractual works in EU-funded projects and liabilities to shareholders for contributions to issued capital) and quick ((total current assets – inventories)/total payables within one year and current liabilities, excluding grants receivable for contractual works in EU-funded projects and liabilities to shareholders for contributions to issued capital) ratios as at 31 December 2022 were 0.87 and 0.85, respectively (0.91 and 0.89 as at 31 December 2021).

The management reviews the Company's liquidity risks on a monthly, particularly during the planning process, and ad hoc basis. The report considers the cash flow forecast for at least five years ahead and allows the management to effectively plan cash injection if needed. The Company monitors regularly its risk to a shortage of funds using a standard monthly report on the cash flows with a liquidity projection for the future periods.

In 2022, the Company's cash flows from operating activities were EUR 5,742 thousand (2021: EUR 12,568 thousand). The Company managed to ensure going concern – to cover obligations to suppliers, employees, and to pay taxes. The management believes that positive operating cash flows (the 0.47 Eur/m³ higher price for drinking water supply and wastewater management came into force from 1 January 2023) are sufficient to ensure adequate funding for the activities of the Company, and the Company had the unused overdraft facility of EUR 44.3 million as at 31 December 2022, thus the Company will be able to continue to operate for at least 12 months after the authorisation of the financial statements for issue.

The tables below summarise the maturity profile of the Company's financial liabilities as at 31 December 2022 and 2021 based on contractual undiscounted payments.

23. Financial Risk Management Objectives and Policies (continued)

	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years	Total
Interest bearing loans	-	266	1,442	10,651	35,335	47,694
Lease liabilities	-	71	212	1,075	925	2,283
Trade and other payables	-	15,054	-	-	-	15,054
Other liabilities	-	36	6,229	793	-	7,058
Balance as at 31 December 2022	-	15,427	7,883	12,519	36,260	72,089

	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years	Total
Interest bearing loans	-	41	623	3,844	13,563	18,071
Lease liabilities	-	70	211	1,139	1,170	2,590
Trade and other payables	-	6,642	-	-	-	6,642
Other liabilities	-	15	2,016	2 234	-	4,265
Balance as at 31 December 2021	-	6,768	2,850	7,217	14,733	31,568

Credit risk

Trade receivables are distributed among many customers, so credit risk is diversified. Credit risk, or the risk of counterparties defaulting, is controlled by the Company using the control procedures. Due to the Company's business specifics deposit or prepayment of the customers are not required.

In order to diversify the credit risk, the Company's cash resources are held in a number of financial institutions, which or whose parent companies have at least A- by Fitch Ratings agency (or other equivalent rating agency) long-term debt credit rating.

As at 31 December 2022 and 2021, the Company did not invest available funds into instruments of cash and securities market (deposits, bonds, government securities).

Fair Value of Financial Instruments

The Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, non-current and current borrowings.

Fair value is supported by quoted market prices, discounted cash flow models and options pricing models depending on the circumstances.

23. Financial Risk Management Objectives and Policies (continued)

The fair value of the Company's financial assets and current financial liabilities approximates their carrying amounts as at 31 December 2022 and 2021 (Level 3).

As at 31 December 2022, the fair value of non-current borrowings with fixed interest rates was EUR 4,057 thousand less than their carrying amount:

Lender	Fixed annual interest rate	Loan balance as at 31/12/2022	Fair value of loans at 31 December 2022
Ministry of Finance of the Republic of Lithuania	1.61%	11,221	8,643
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2.00%	1,939	1,552
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2.00%	786	626
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2.00%	4,336	3,436
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2.00%	151	119
Total:		18,433	14,376

As at 31 December 2021, the fair value of non-current borrowings with fixed interest rates approximates their carrying amounts.

The fair value of borrowings was calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loans and other financial assets was calculated using the market interest rate.

The following methods and assumptions are used to determine the fair value of each class of financial assets and liabilities:

- The carrying amount of current trade amounts receivable, current trade accounts payable and current borrowings approximates fair value due to their short maturities (Level 3).
- The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile (Level 3).

Categories of financial instruments:

	31 December 2022	31 December 2021
Financial assets		
Cash and cash equivalents	12,295	7,348
Trade and other receivables	5,726	7,485
Financial liabilities		
Carried at amortised cost	55,436	24,688

Capital management

The primary objective of the capital management is to ensure that the Company maintains a strong credit health and healthy capital ratios in order to support its business and maximise shareholder value.

23. Financial Risk Management Objectives and Policies (continued)

The Company manages the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company's dividend policy setting out the principles for the payment of dividends is approved by the Company's Board. Dividend policy is one of the Company's capital risk management tools for planning the distribution of dividends in view of the ratio of return on equity and net profit earned. The dividend policy provides that appropriation of profit for the payment of dividends for the financial year depends on the ratio of return on equity, availability of financial resources to the Company for payment of dividends and the consideration of other circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period. The dividend policy provides that the share of net profits appropriated for the payment of dividends may be reduced if, following payment of dividends, the Company fails to meet its obligations under financing agreements or other obligations, there would be a significant change in the Company's financial position or the results would significantly deviate from the forecasts, as well as the payment of dividends would result in the Company's cash balance in bank accounts being less than the Company's total average costs for three months.

The Company is not obliged to distribute dividends only when it incurs net loss. Dividends will not be paid if the Company's equity (after the payment of dividends) becomes lower than the sum of its share capital, legal reserve, revaluation reserve and reserve for acquisition of own shares; if it has outstanding obligations fallen due at the time of the decision, as well as the value of Company's current (current assets/current liabilities) and quick ratios ((current assets - inventory)/current liabilities) is lower than 1 at the end of the year.

The Company is obliged to keep its shareholders' equity ratio not less than 50% of its authorised share capital, as imposed by the Law on Companies of Republic of Lithuania. The Company meets the requirements of equity by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on the Company.

The Company monitors capital using capital concentration ratio, which is calculated as ratio between equity and total assets (after eliminating advances received) of the Company. Equity includes ordinary shares, reserves, retained earnings or accumulated loss. The Company's management seeks the capital concentration ratio to be no lower than 50%:

	31 December 2022	31 December 2021
Company's assets	211,203	173,303
Contract liabilities: advances received	(1,017)	(872)
	210,186	172,431
Equity	139,924	133,217
	66.57%	77.26%

Capital concentration ratio

24. Related Party Transactions

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions.

The Company's transactions with related parties in 2022 and year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Receivables from related parties	Accounts payable to other related parties
Shareholders	1,799	24	369	3,937
Entities controlled by shareholders	7,455	592	890	104
Total	9,254	616	1,259	4,041

As at 31 December 2022, the payable to shareholders consisted of cash contributions from shareholders to issued capital: EUR 1,000 thousand from Vilnius City Municipality, EUR 1,000 thousand from Vilnius District Municipality, and EUR 1,937 thousand from Švenčionys District Municipality. Sales to Vilniaus Šilumos Tinklai AB in 2022 amounted to EUR 6,435 thousand.

The Company's transactions with related parties in 2021 and year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Receivables from related parties	Accounts payable to other related parties
Shareholders	1,350	19	50	1,730
Entities controlled by shareholders	7,261	505	855	117
Total	8,611	524	905	1,847

As at 31 December 2021, the payable to the Vilnius District Municipality of EUR 1,600 thousand consisted of cash contribution to issued capital. Sales to Vilniaus Šilumos Tinklai AB in 2021 amounted to EUR 6,264 thousand.

Services to shareholders and to entities controlled by shareholders are provided at market prices.

25. Remuneration of the Management and Other Payments

As at 31 December 2022, the Company's management comprised of 5 people, as at 31 December 2021 – 4 people.

25. Remuneration of the Management and Other Payments (continued)

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Key management remuneration	463	459
Social security	8	9
Total	471	468

During 2022, the Company's management received payment in amount of EUR 13.58 thousand for car rental (in 2021 – EUR 16.78 thousand).

26. Non-Cash Transactions

	01/01/2022 31/12/2022	01/01/2021 31/12/2021
Property, plant and equipment received from shareholders as capital contribution	10,509	290
In-kind income from equipment relocation from third parties	1,147	605

27. Provisions

	31 December 2021	Accrued 01/01/2022 31/12/2022	Used 01/01/2022 31/12/2022	31 December 2022
Provisions for trial claims	50	9	41	18
Provisions for environmental damage	3,588	267	3,772	83
Provisions accrued for boreholes liquidation	14	14	-	28
Provisions for cadastral measurement and cases registration	22	-	3	19
Provisions for protection zone establishment and registration	916	-	51	865
Total	4,590	290	3,867	1,013

28. Off-Balance Sheet Liabilities and Contingencies

Litigations

The Company has received claims from the following persons:

- On 19 May 2017, the Environmental Project Management Agency under the Ministry of Environment of the Republic of Lithuania informed the Company about undertaken investigations into alleged infringements of the non-compliance with monitoring (result) rates during the period from 2007 to 2013

28. Off-Balance Sheet Liabilities and Contingencies (continued)

while performing projects funded by the European Union. The non-compliance with monitoring (result) can modify the amounts of expenses suitable for funding from 5 to 20% of the funded amount. In September 2017, the Minister of the Environment of the Republic of Lithuania has issued the following orders: No D1-448; No D1-497; No D1-499 and the orders No D1-752; No D1-739; No D1-735 on application of financial corrections, under which the funded amounts to be repaid totalled EUR 4,021,761.

Vilniaus Vandenys UAB appealed the orders to Vilnius Regional Administrative Court on 2 October 2017. The Court of first instance did not uphold the Company's appeal, therefore, appeals have been filed to the Supreme Administrative Court of Lithuania on 9 July 2018. On 14 October 2020, the Supreme Administrative Court of Lithuania partially uphold the Company's appeal to annul the decisions of the Minister of the Environment of the Republic of Lithuania No D1-752, D1-739 and D1-735 on application of financial corrections and refer the matter regarding the adoption of the decision back to the defendant, the Ministry of Environment of the Republic of Lithuania, for reconsideration.

The Environmental Project Management Agency under the Ministry of Environment of the Republic of Lithuania reconsidered the infringement and, on 1 July 2022, submitted the findings of the infringement investigation by which it designates the Company as having committed the infringement (performing below the project targets), and adopted the decision On the Infringements Detected by the Environmental Project Management Agency and Proposed Solutions (amounts of financial corrections) on 6 September 2022 (No D8(E)-4250), on the basis of which the Minister of Environment of the Republic of Lithuania, on 22 September 2022, issued orders No D1-310, D1-311, and D1-312, under which the funded amounts to be repaid totalled EUR 750,299.

On 16 September 2022, the Company filed an appeal with the Vilnius Regional Administrative Court, and the amended appeal on 6 October 2022 by including the Ministry of Environment of the Republic of Lithuania as a defendant for the annulment of the decisions adopted.

The Company's management believes that it achieved project targets and, therefore, considers that the outcome of the legal proceedings is more likely to be favourable, therefore no provision for this amount was made.

- The civil case was heard in Vilnius District Court based on the action of Vilniaus Vandenys UAB of 16 July 2020 against the decision of the Environmental Protection Department under the Ministry of Environment (EPD) of the Republic of Lithuania (hereinafter the "Claim") by which it requested the court to set aside the decision of EPD "On the Approval of the Inspection Report" (hereinafter the "Decision") and to exempt Vilniaus Vandenys UAB (Applicant) from the pollution tax specified in the decision of EPD or to annul the Decision of APD (Defendant) in so far as it imposes a pollution tax of EUR 7,561,902 at a higher rate and reduce that amount (tax) to EUR 151,238 (i.e. exempt from the rate which is 50 times higher). On 17 May 2021, the Court of First Instance passed a judgement to partially uphold Vilniaus Vandenys UAB claim to change the Decision of the Environmental Protection Department under the Ministry of Environment of the Republic of Lithuania, i.e. to reduce the amount of the tax imposed from EUR 7,561,902 to EUR 3,024,761. On 16 June 2021, the Company filed an appeal before the Supreme Administrative Court of Lithuania. As at 31 December 2021, the Company had a provision for pollution tax liability of EUR 3,024,761, and a provision for default interest of EUR 480,936. On 3 November 2022,

the Court passed the resolution upholding the decision to reduce the pollution tax to EUR 3,024,761. In complying with the Court's ruling, the Company paid this tax on 14 November 2022.

28. Off-Balance Sheet Liabilities and Contingencies (continued)

In addition, the Company was charged default interest of EUR 747,996 for non-payment of pollution tax for the entire period up to the date of payment of this tax.

On 24 November 2022, the Company submitted a request to the State Tax Inspectorate under the Ministry of Finance for the recalculation of the default interest. By its decision of 28 December 2022, the State Tax Inspectorate under the Ministry of Finance decided not to recalculate the default interest. The Company brought an appeal before the Commission on Tax Disputes under the Government of the Republic of Lithuania on 29 December 2022 and an appeal before the Lithuanian Administrative Disputes Commission on 17 January 2023 for the calculation of a disproportionately high default interest. As at 31 December 2022, the provision for default interest was reversed (Notes 27, 29).

- On 24 September 2020, the Company received the claim from EPD under the Ministry of Environment for damages in the amount of EUR 82,710. The Company does not agree with the claim of EPD. As at 31 December 2022 and 2021, the provision made for the repayment of the damages indicated in the claim amounted to EUR 82,710 (Note 27).
- In addition to the aforementioned legal disputes, the Company is involved in 3 legal disputes, for which it made provisions of EUR 18,281 as at 31 December 2022. The total maximum amount of claims brought against the Company is not materially different from the amount of provisions made (Note 27).

Provision for special conditions on land use (protection zones)

On 1 January 2020, the Law on Special Conditions on Land Use of the Republic of Lithuania came into force introducing the obligation for the Company to register in the State Real Property Register special protection conditions (protection zones) of a land which will fall within the boundaries of the protection zones of the Company's water supply and wastewater collection infrastructure and pay compensations for them. 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 Law required all protection zones to be registered by 31 December 2022. The amendment to the Law was enacted in 2022, postponing the implementation of the statutory provisions until 31 December 2024.

No provision is accounted for compensation of land owners for the protection zones since the Company's management cannot reliably estimate the amount of expenditures expected to be incurred due to the inaccuracy of the cadastral data of the engineering networks available in the Geographical Informational System (GIS), existing deviations and missing data on depth of the infrastructure, which is one of the key data for determining the area of protection zones and calculating compensations. Comprehensive plans of protected zones must be approved in accordance with the procedure laid down by law and the territories of protection zones must be registered in the Real Estate Register of the State Enterprise Centre of Registers. Different entities can operate in the territory of the same protection zone.

The total amount of compensation can be calculated and split between different entities, only when all entities register the protection zones in the territories of their business activities. In the absence of

approved plans and registration of protection zones, the calculation of compensations for the use of special protection areas for the owners of these areas is not possible.

28. Off-Balance Sheet Liabilities and Contingencies (continued)

Other off-balance sheet commitments and uncertainties

As at 31 December 2022 and 2021, the Company had legally unregistered assets (Note 11) and, to the date of approval of these financial statements, the Company had not received any claims from the third parties.

The Company bears all the risks and rewards related to these assets.

Contractual commitments under construction contracts

As at 31 December 2022, the Company's purchase commitments arising from concluded construction contracts at the reporting date, which are not yet recognised in the financial statements, amounted to EUR 45,008 thousand. As at 31 December 2021, future capital expenditure commitments amounted to EUR 56,556 thousand.

29. Events after the Reporting Period

On 20 February 2023, the portion of the loan of EUR 5,000 thousand was received under the agreement signed with the European Investment Bank (EIB) on 20 June 2022 for the total amount of EUR 30,000 thousand.

In March 2023, the Company's issued capital was increased by cash contribution of EUR 2,147 thousand from Vilnius District Municipality.

On 22 February 2023, the Lithuanian Administrative Disputes Commission rendered its judgment annulling the decision of the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania on default interest and ordering to re-examine the Company's request dated 24 November 2022 to re-calculate default interest and deliver a judgment which is compliant with the law.

By the decision of the Lithuanian Administrative Disputes Commission dated 1 March 2023, the Company is exempt from default interest of EUR 709,885.43, and retains the obligation to pay default interest of EUR 38,111 (Note 28).