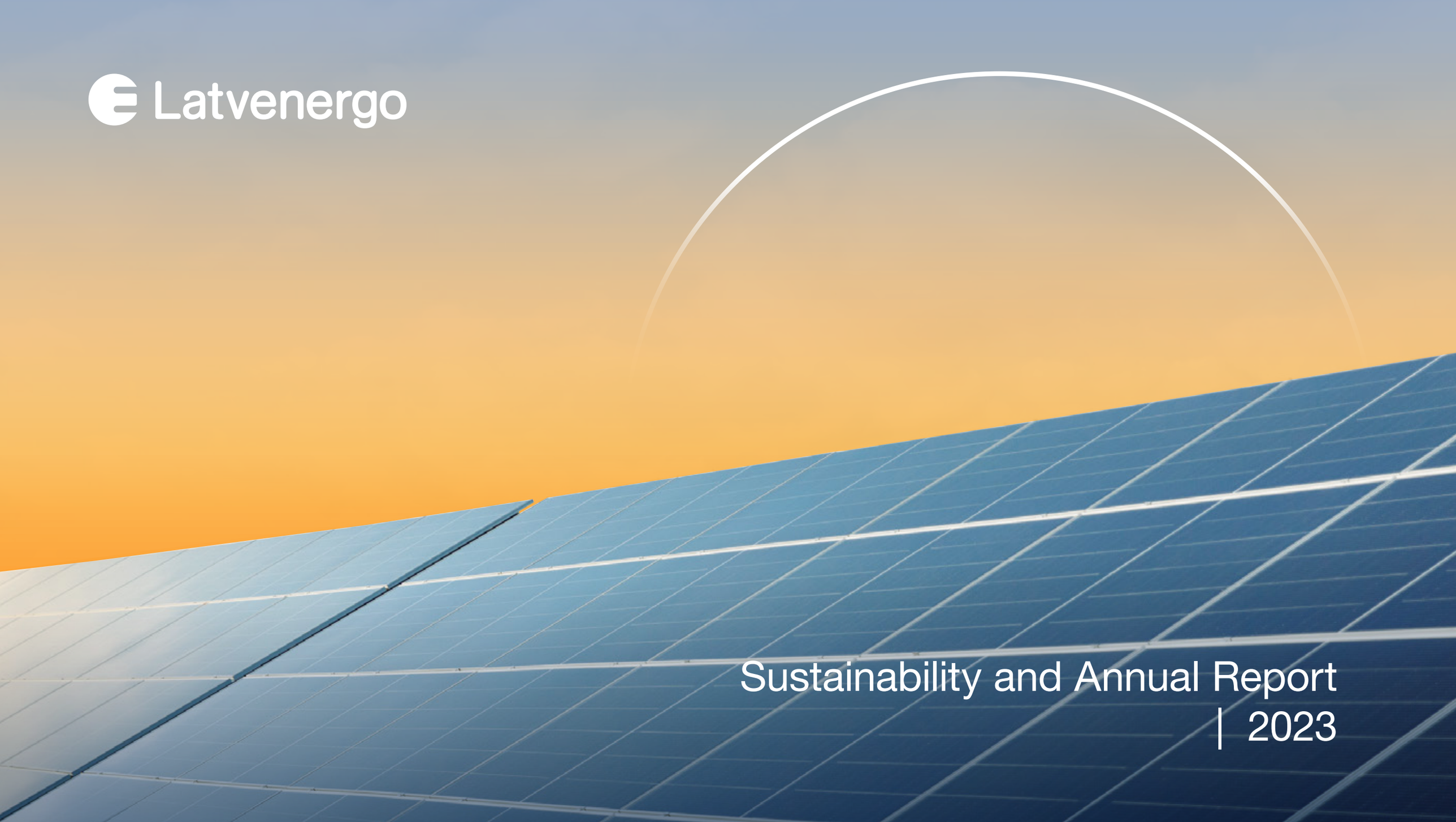
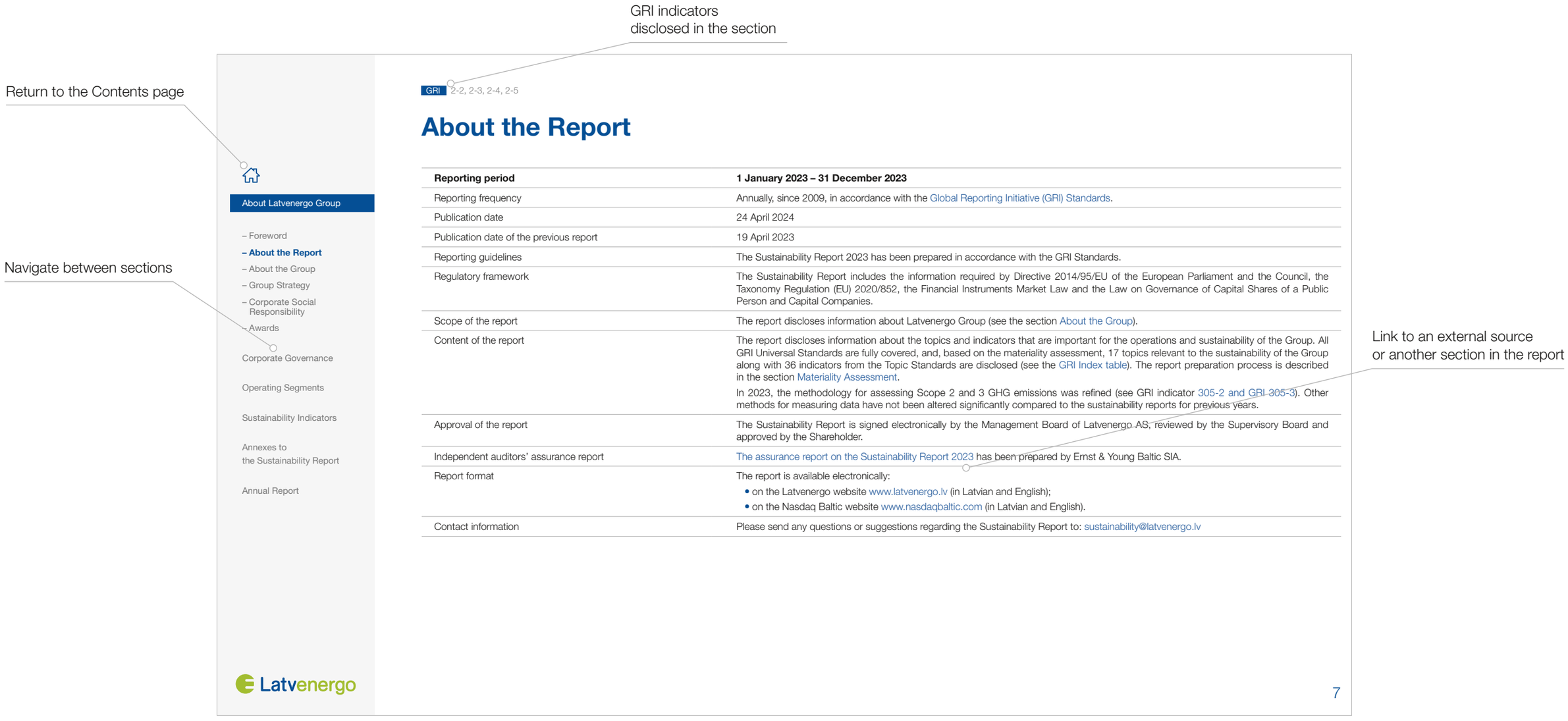
Latvenergo



Sustainability and Annual Report | 2023

How to Use the Report



CONTENTS

ABOUT LATVENERGO GROUP

CORPORATE GOVERNANCE

OPERATING SEGMENTS

SUSTAINABILITY INDICATORS

ANNEXES TO THE SUSTAINABILITY REPORT

LATVENERGO GROUP CONSOLIDATED AND LATVENERGO AS ANNUAL REPORT

About Latvenergo Group

Latvenergo

Foreword

Mārtiņš Čakste
Chairman of the Management Board of Latvenergo AS

For more than two years now, the world has been living under the shadow of the war in Ukraine, where critical infrastructure issues such as energy production, interconnection security, an efficient distribution network and other aspects of the energy sector have taken on a whole new level of significance. We can now speak of a certain degree of stability in the energy market, as natural gas prices have gradually decreased and Europe has enough natural gas. 2023 was a successful year for Latvenergo Group. The Daugava hydropower plants generated the largest amount of electricity in the last 25 years in 2023, and Latvenergo Group makes the best use of these natural opportunities by finding a way to export electricity as well. Other areas of the Group's activities also contributed significantly to a growth in exports. By 2023, a third of electricity was sold outside of Latvia. The growth was particularly successful in Lithuania, where a 60% increase in electricity sales and a 37% increase in the number of customers occurred. Total sales to retail customers in the reporting year comprised 6.2 TWh of electricity, which is 14% more than in 2022. These and many other factors resulted in a very successful year in all segments of the Group's operations.

The Group's revenue in 2023 exceeded EUR 2 billion, which is an increase of 10% year-on-year, and EBITDA amounted to EUR 602 million, up 67% from 2022. The Group's profit amounted to EUR 351 million, generating EUR 212 million in dividends and EUR 48 million in corporate income tax to the Latvian state budget. Latvenergo AS dividends will be earmarked for the company, while retained earnings will be invested in the development of new production capacity.

Russia's invasion of Ukraine has prompted many European countries to step up their use of RES energy to reduce their dependence on Russian fossil fuels. In line with these trends, Latvenergo Group is also moving towards an increase in renewable capacity. The Medium-Term Operational Strategy of the Group for 2022–2026 was approved in 2022. During this period, significant steps have been made to develop renewable energy source (RES) generation capacity in the coming years. The strategy aims to increase the share of RES in electricity generation by significantly complementing existing generation capacity with solar and wind power plants. The development of such capacity will help prevent future electricity price hikes and strengthen the energy independence of Latvia and the Baltic region as a whole.

The total investment of the Group in 2023 increased by 59% to EUR 193 million. Almost EUR 60 million was invested in RES projects. Meanwhile, approximately half of the investments of the reporting year were made with the objective of improving the reliability and quality of electricity distribution. The total capacity of solar power plants (SPPs) of Latvenergo Group under design or construction in the Baltic states amounts to approximately 400 MW, including the expansion of the RES generation capacity portfolio with seven more SPP projects in Latvia with a total capacity of 40 MW after the end of the reporting year. The development of a new wind power plant (WPP) project in Lithuania, with a capacity of up to 15 MW, has also been commenced. Thus, the gradual commissioning of new RES capacities is expected between 2024 and 2025, and we can see that SPP projects are becoming an important part of the generation portfolio of the Group.

Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants (HPPs) and highly efficient combined heat and power plants (CHPPs). A total of 5.1 TWh of electricity and 1.7 TWh of thermal energy was generated in 2023, and the share of renewable resources in the electricity output was 73%.

Latvenergo Group is also one of the largest electricity traders in the Baltic states; it offers electricity and natural gas as well as an extensive range of related products and services under the *Elektrum* brand. On 1 May 2023, the household segment of the Latvian natural gas market was opened and the growth in the number of *Elektrum* natural gas customers in the Baltic states has continued, thus consolidating the positions of the company in the strategically important small business and household segments. At the end of 2023, the number almost reached 50 thousand, which is an increase of 127% compared to the previous year.

The development of the charging network for electric cars continued rapidly as well. By the end of the reporting year, the Baltic *Elektrum Drive* charging network had grown to 400 charging ports and it is also growing rapidly in Lithuania and Estonia. The *Elektrum Drive* app may be used to charge vehicles on

the e-mobi network in Latvia and at LIDL charging stations in Lithuania – a total of 571 charging ports were available to customers at the end of the reporting year.

In 2022, considering the increase in costs caused by the sharp increase in energy resource prices due to the energy crisis, changes in macroeconomic indicators and the increase in the tariff of the transmission operator Augstsprieguma tīkls AS, a new draft tariff of Sadales tīkls AS was submitted to the PUC, which entered into force on 1 July 2023. Taking into account the changes in electricity prices and general inflation, as well as the reduction in the tariff of Augstsprieguma tīkls AS, the electricity distribution tariff for 2024 was revised in 2023.

In December 2023, the PUC approved the development plan of Sadales tīkls AS for the next 10 years. The company will continue the reconstruction and upgrading of the distribution system in accordance with industry trends and consumer demand to increase the reliability of the electricity grid. It will also implement the development of the smart grid, the reconstruction of real estate and the upgrading of the fleet of special equipment, thus improving the quality of services in the electricity grid. The overall long-term goal of Sadales tīkls AS is to provide a sustainable and economically justified electricity distribution service by managing the electricity network efficiently and improving the security and quality of the electricity supply, which is important for economic competitiveness and growth while promoting climate neutrality goals.

Latvenergo AS won the Nasdaq Baltic Award for best investor relations in the Baltic states for the third time; thus, the company's synergy with Latvia's natural green energy was apparent in the heart of the global economy: New York's Times Square on the Nasdaq MarketSite. The second green bond programme of Latvenergo AS was implemented in 2021–2023 when EUR 200 million worth of bonds were issued in three tranches. The main requirement for green bonds is that the funds raised are used exclusively for environmentally friendly projects. The Green Bond Framework was awarded the highest possible rating – Dark Green – by CICERO, an independent environmental expert.

In the reporting year, Latvenergo Group received several other awards, including the Diamond category of the Sustainability Index, which was awarded to both Latvenergo AS and Sadales tīkls AS, and the Prime level rating of Latvenergo AS in the ISS ESG assessment. The *Elektrum* brand also entered the European Sustainable Brands Index as the most sustainable brand in the Latvian energy sector.

Last year, in close cooperation with the Embassy of Ukraine, Latvenergo Group continued to provide assistance to Ukraine and invited its employees to participate in various charitable activities. At the beginning of the year, a three-phase 110 kV transformer, which is contributing to the rebuilding of the Ukrainian power system after Russia's military attacks, was donated to Ukraine. Private donations from employees have been used to purchase external batteries. Meanwhile, a campaign organised by *Elektrum*, which involved the donation of one euro per each new natural gas customer, raised EUR 100 thousand, which was used to purchase and deliver electricity supply support materials and switchboards to Ukraine. Funds raised by employees of the Group in cooperation with the Ziedot.lv charity have been used to purchase drones, while Sadales tīkls AS has delivered special equipment required by the energy sector to Ukrainian colleagues.

Latvenergo Group has had a successful year, allowing us to provide our customers with the security and confidence that we will be able to offer them even better services as we continue to develop RES capacities while improving the reliability of the electricity grid. The Group will continue following its path of sustainability, which is still expected to present many challenges; however, we will be able to manage them together. We are grateful to each and every one of our customers and partners for successful cooperation in the past year!

About the Report

Reporting period	**1 January 2023 – 31 December 2023**
Reporting frequency	Annually, since 2009, in accordance with the Global Reporting Initiative (GRI) Standards.
Publication date	24 April 2024
Publication date of the previous report	19 April 2023
Reporting guidelines	The Sustainability Report 2023 has been prepared in accordance with the GRI Standards.
Regulatory framework	The Sustainability Report includes the information required by Directive 2014/95/EU of the European Parliament and the Council, the Taxonomy Regulation (EU) 2020/852, the Financial Instruments Market Law and the Law on Governance of Capital Shares of a Public Person and Capital Companies.
Scope of the report	The report discloses information about Latvenergo Group (see the section About the Group).
Content of the report	The report discloses information about the topics and indicators that are important for the operations and sustainability of the Group. All GRI Universal Standards are fully covered, and, based on the materiality assessment, 17 topics relevant to the sustainability of the Group along with 36 indicators from the Topic Standards are disclosed (see the GRI Index table). The report preparation process is described in the section Materiality Assessment. In 2023, the methodology for assessing Scope 2 and 3 GHG emissions was refined (see GRI indicator 305-2 and GRI 305-3). Other methods for measuring data have not been altered significantly compared to the sustainability reports for previous years.
Approval of the report	The Sustainability Report is signed electronically by the Management Board of Latvenergo AS, reviewed by the Supervisory Board and approved by the Shareholder.
Independent auditors' assurance report	The assurance report on the Sustainability Report 2023 has been prepared by Ernst & Young Baltic SIA.
Report format	The report is available electronically: • on the Latvenergo website www.latvenergo.lv (in Latvian and English); • on the Nasdaq Baltic website www.nasdaqbaltic.com (in Latvian and English).
Contact information	Please send any questions or suggestions regarding the Sustainability Report to: sustainability@latvenergo.lv

About the Group

Latvenergo Group is one of the largest providers of energy supply services in the Baltics, operating in:

- electricity and thermal energy generation and trade
- natural gas trade
- trade in products and services related to electricity consumption and energy efficiency
- electricity distribution

The Group's operations have been organised into two operating segments. One segment covers generation and trade, while the other comprises the distribution of electricity. For more information, see the section Operating Segments.

The Group comprises the parent company Latvenergo AS, with decisive influence, and a set of subsidiaries. All shares of Latvenergo AS are owned by the Republic of Latvia, and they are held by the Ministry of Economics of the Republic of Latvia. Information about the participating interests in the subsidiaries and their locations is disclosed in Notes 1 and 16 to the Consolidated Annual Report.

VISION	MISSION	PURPOSE
We are the leading sustainable solutions provider in the energy industry	We drive the development of the energy industry by providing friendly, innovative and sustainable solutions	We energize the growth of society

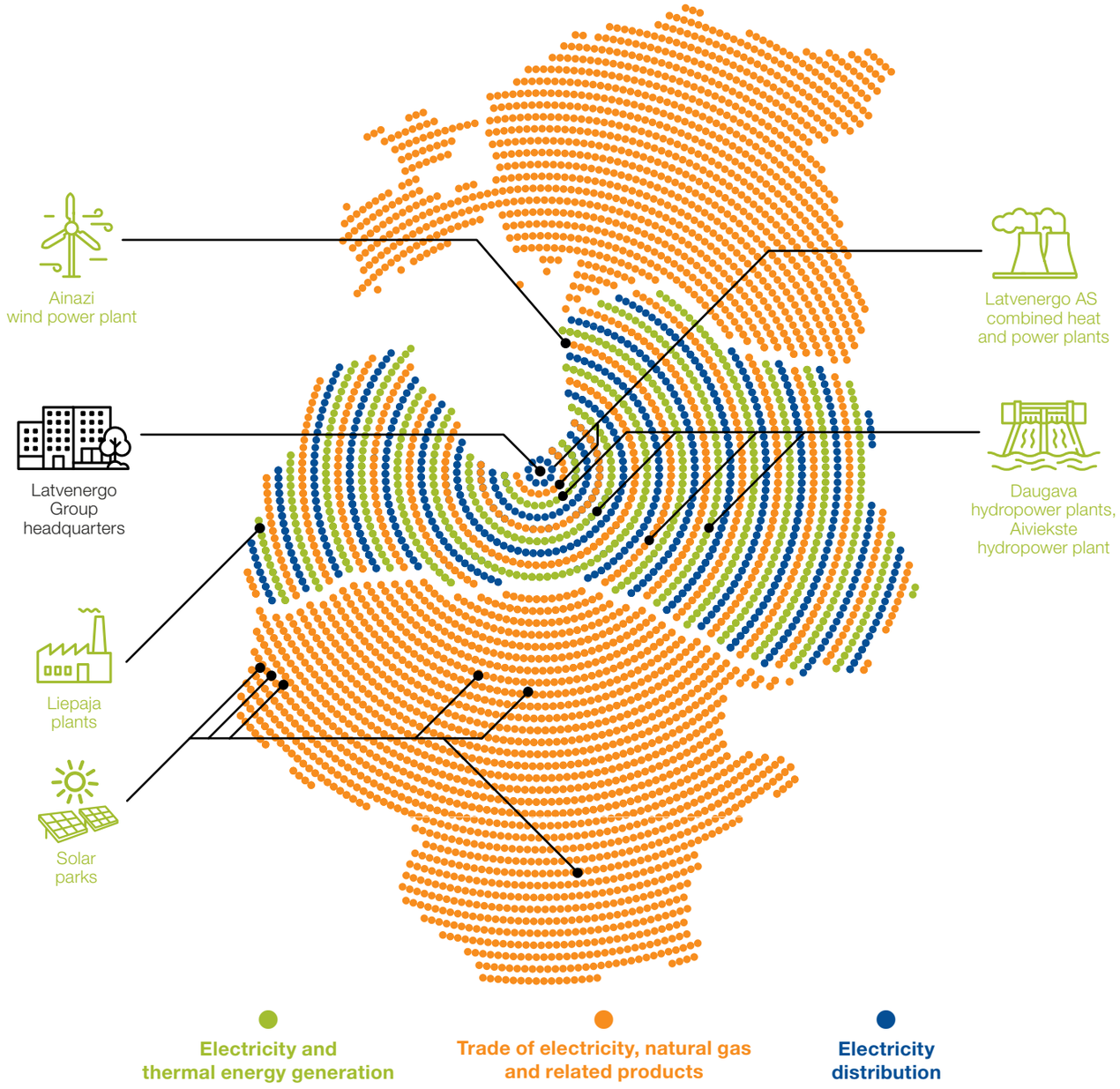
VALUES

With heart
We are open and passionate

With mind
We do the right things and learn continuously

With energy
We are brave and persistent

With a future outlook
We do good for clients and society

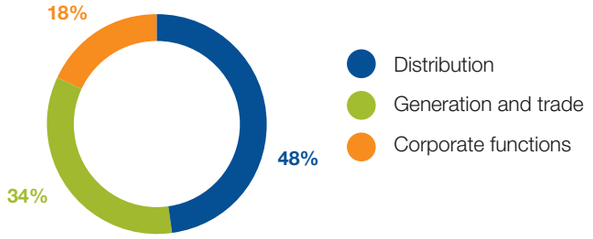


Facts 2023

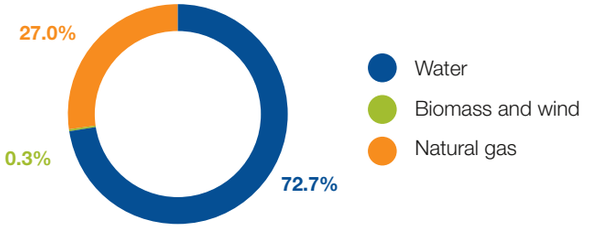
		2023	2022
Financial figures			
Revenue	MEUR	**2,034.4**	1,841.8
Profit	MEUR	**350.9**	183.9
Assets	MEUR	**4,127.9**	3,855.3
Investments	MEUR	**193.3**	121.7
Moody's credit rating		**Baa2**	Baa2
Moody's ESG credit impact score		**CIS-2**	CIS-2
Generation and trade			
Installed electrical capacity	MW	**2 636***	2,606
Installed thermal capacity	MW	**1,797**	1,793
Electricity output	GWh	**5,132**	3,822
Thermal energy output	GWh	**1,698**	1,777
Generation efficiency of the Daugava HPPs	m^3/kWh	**18.5**	17.8
Generation efficiency of the Latvenergo AS CHPPs	%	**82**	83
CO_2 emission intensity	t/MWh_{el}	**0.075**	0.083
Electricity market share in the Baltics	%	**23**	20
Retail electricity supply	GWh	**6,208**	5,452
Retail natural gas supply	GWh	**896**	930
Electricity retail customers	thsd.	**845**	818
Distribution			
SAIDI	min	**266**	240
SAIFI	number	**2.7**	2.5
Length of distribution lines	km	**92,323**	92,407
Transformer capacity	MVA	**5,969**	5,971

* incl. SPPs for customers in the Baltics

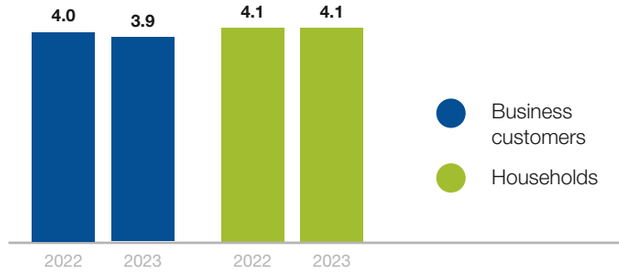
Employees **3,497**



Share of renewable resources in the electricity output **73%**



***Elektrum* customer satisfaction (on a scale 1–6)**



Highlights 2023

SUSTAINABILITY STRATEGY OF LATVENERGO GROUP FOR 2024–2026 APPROVED

The Sustainability Strategy of the Group was approved at the end of 2023 and complements the medium-term operational strategy with objectives and targets in environmental, social and governance areas. The strategy was presented to Group employees as well as representatives of external stakeholders.

THE NUMBER OF *ELEKTRUM* CUSTOMERS AND THE VOLUME OF ELECTRICITY SOLD INCREASED SIGNIFICANTLY

Electricity sales of *Elektrum* in the Baltic states also increased significantly. Total sales amounted to 6.2 TWh, which is a 14% increase from 2022. The growth was driven by a 29% increase in the number of customers outside Latvia. In the natural gas trading segment, the number of Latvenergo customers has more than doubled, reaching almost 50 thousand customers.

HIGH OUTPUT OF THE DAUGAVA HPPS POSITIVELY AFFECTED THE FINANCIAL PERFORMANCE OF THE GROUP

The Daugava HPPs generated the second largest amount of electricity in the last 25 years. The financial performance of the Group was positively affected by higher production volumes and lower electricity and natural gas procurement prices, with profits rising to EUR 350,9 million in the reporting year.

LATVENERGO GROUP IS DEVELOPING RES PRODUCTION CAPACITY IN THE BALTIC STATES

Three solar parks with a total capacity of 19 MW were launched in Lithuania in the reporting year. The total capacity of the SPPs reached almost 30 MW at the end of 2023. Solar parks with a total capacity of approximately 400 MW are at different stages of development in the Baltic states. The development of a wind power plant project in Akmenė, Lithuania, with a capacity of up to 15 MW, was also commenced.

ELEKTRUM EV CHARGING NETWORK – THE LARGEST IN LATVIA

By the end of the reporting year, the Baltic *Elektrum Drive* charging network had grown to 400 charging points, and it is also growing rapidly in Lithuania and Estonia. The *Elektrum Drive* app may be used to charge vehicles on the e-mobi network in Latvia and at LIDL charging stations in Lithuania as well, with a total of 571 charging ports available to customers.

LATVENERGO GROUP COMPANIES – LEADERS IN SUSTAINABILITY

In the reporting year, both Latvenergo AS and Sadales tīkls AS were awarded the Diamond category of the Latvian Sustainability Index. Liepājas enerģija SIA was awarded the Gold category.

LATVENERGO AS ONCE AGAIN RECEIVES THE AWARD FOR BEST INVESTOR RELATIONS

In February, Latvenergo AS received the Nasdaq Baltic stock exchange award for best investor relations on the bond market for the third time. The award confirms an outstanding performance in the areas of transparency, good corporate governance and investor relations.

Group Strategy

Overall strategic goal of Latvenergo Group approved by the Cabinet of Ministers of the Republic of Latvia

To promote the competitiveness and growth of a climate-neutral Latvia and increase the value of Latvenergo Group in the Baltic market and beyond by developing and providing goods and services in the energy and related business value chains in a sustainable, innovative, and economically sound manner and by efficiently managing strategically important resources and infrastructure.

2023 brought positive changes in the energy sector – the energy crisis of recent years was successfully overcome by restructuring energy supply sources and supporting the most vulnerable energy consumers. The priorities of the EU on climate change and environmental challenges remain unchanged. These issues are addressed by the European REPowerEU plan, as well as the European Green Deal, which focuses heavily on electricity savings, diversification of energy supply sources, use of RES, and the path towards climate neutrality by 2050. Latvenergo Group is consistently moving in the direction of developing new RES generation capacity that is fully in line with the long-term goals of the EU for the development of the energy sector.

The mid-term operational strategy of Latvenergo Group for 2022–2026 aims to achieve a high share of RES in electricity generation by significantly complementing existing generation capacity with solar and wind power plants. The development of RES generation capacity will help to prevent future electricity price hikes and strengthen the energy independence of Latvia and the Baltic region as a whole.

The Group's strategy has been developed in accordance with the requirements of the Law on Governance of Capital Shares of a Public Person and Capital Companies and the Guidelines for the Development of Medium-Term Operational Strategies for State Capital Companies approved by the Cross-Sectoral Coordination Centre* of the Republic of Latvia with consideration of the guidelines of the Organisation for Economic Co-operation and Development (OECD). The strategic priorities of the Group correspond to the overall strategic goal set by the Cabinet of Ministers of the Republic of Latvia, and they are further detailed in the operational and financial targets.

- Operational targets – set out the strategic development directions of Latvenergo Group and the main activities to achieve these targets, as well as provide a trajectory for the development of the Group towards the indicative targets for 2030 and beyond
- Financial targets – ambitious but realistic targets that can ensure the sustainable development of the company

* From 1 March 2023, the functions of the Cross-Sectoral Coordination Centre were transferred to the State Chancellery.

The Group's operational targets for 2022–2026

GENERATION

Expand and diversify the generation portfolio with green technologies.

The target is to grow the renewable energy generation portfolio, focusing on WPPs and SPPs:

- 2026: constructed or acquired WPPs and SPPs with total capacity of 600 MW
- 2030: constructed or acquired WPPs and SPPs with total capacity of 2,300 MW

The target also provides for:

- increasing the Daugava HPPs' asset value, guaranteeing their safe operation in the long run
- ensuring stable, efficient and economically viable operation of the CHPPs in the long run

TRADE

Strengthen the position of *Elektrum* as the most valuable energy trader in the Baltics.

The target is to increase the customer portfolio; promote microgeneration, electrification, energy efficiency and product innovation.

ELECTROMOBILITY

Develop electrification of the transport sector.

The target is to develop a public charging network in the Baltics:

- 2026: 1,200-1,500 charging ports
- 2030: about 3,000 charging ports

DISTRIBUTION

Ensure a sustainable and economically viable distribution service and improve the security and quality of electricity supply.

The target is to systematically and cost-effectively improve the quality and security of electricity supply:

- SAIDI reduced to 164 min. in 2026
- SAIFI reduced to 1.92 times in 2026

It also envisages the creation of a two-way network for the development of microgeneration and the implementation of digital transformation and efficiency measures.

By implementing the strategy of Latvenergo Group, we plan to achieve the following CO_2 emission saving targets*:

2026:
2.6 million tonnes

2030:
17.8 million tonnes

UN Sustainable Development Goals set as a priority and relevant to the Group's core business

* The calculation is based on the assumption that the green energy generated by Latvenergo Group's new capacity replaces the same amount of energy that would be produced using coal or oil shale.

In addition, the Group plans to develop innovative products, services and processes that are relevant to the Group's priority SDGs. This target provides for the introduction of a culture of innovation in the Group, which supports: 1) research and development of innovative technologies; 2) development and implementation of innovative products and services, business directions and models; 3) systematic and continuous innovation to increase the efficiency of technological and corporate processes.

Implementation of the Group's operational targets in 2023

Production target: to expand and diversify the generation portfolio with green technologies

The target is to grow the RES generation portfolio, focusing on WPPs and SPPs; to increase the value of HPPs' assets, ensuring their safe operation in the long term; and to ensure the stable, efficient and economically sound operation of CHPPs in the long term.

Latvenergo Group generated 5.1 TWh of electricity and 1.7 TWh of thermal energy in the reporting year. The electricity generated by the Group accounted for one third of the electricity generated in the Baltic states, and 73% of the electricity was generated from RES. Since the inflow of water into the Daugava River significantly exceeded the inflow of 2022, the Daugava HPPs generated the second highest amount of electricity in the last 25 years, 3.7 TWh: an increase of almost 40% compared to the previous year.

To increase the RES generation portfolio, the Group's companies are developing their own WPP and SPP projects, as well as considering acquisitions. The SPP projects are currently at a further stage of development. At the end of the reporting year, the total capacity of the SPPs installed in the Baltic states was 30 MW. The Group has SPPs in the project or construction stage with a total capacity of about 400 MW, including seven SPP projects in Latvia with a total capacity of 40 MW that were added to the Group's RES generation capacity portfolio in early 2024. Solar parks are expected to be commissioned gradually in 2024–2025.

Preparations for the construction of several major WPPs are in progress. Latvijas vēja parki SIA is continuing the development of strategically important WPPs in Latvia. It is expected that an onshore WPP with a total capacity of 800 MW will be added to the power generation portfolio of the Group. During the reporting year, wind measurements and the required surveys were in progress with the participation of experts. A development rights agreement was signed with Latvijas valsts meži AS regarding eight areas for the construction of WPPs with a total area of approximately 40 thousand ha. The strategy of Latvijas vēja parki SIA was approved and the permanent Board of Directors of the company started its operation in the second half of 2023. The development of a WPP project in Lithuania with a capacity of up to 15 MW was also commenced. The project is expected to be completed in the second half of 2025. The remaining WPP projects are in the early stages of development.

Restoration work on the hydropower units at the Daugava HPPs was continued during the reporting year. An internal equipment restoration service was established to ensure the restoration and repair work on the hydropower units, enabling the use of internal resources for work performance and, consequently, saving financial resources. The project for replacing voltage-boosting transformers of Riga HPP was also commenced, and work on the construction of the Pļaviņas HPP overflow project is in progress. The necessary land property was acquired; an engineering consultant and a construction supervisor were attracted.

Several projects are being implemented to improve the efficiency of the CHPPs, including the development of a heat carrier cooling system for the heating networks and the installation of a flue gas economiser.

Trade target: to strengthen the position of *Elektrum* as the most valuable energy trader in the Baltics

This target envisages increasing the customer portfolio and promoting microgeneration, electrification, energy efficiency and product innovation.

The number of electricity customers of Latvenergo Group increased by 3% in the reporting year, reaching 845 thousand. The number of customers has grown in the business as well as the household segment, with almost 230 thousand customers outside Latvia. The growth was significantly driven by the opening of the household market in Lithuania in 2022 – the number of household customers increased by approximately 50 thousand in this country. *Elektrum* has become the second largest electricity trader in the Lithuanian household customer segment.

In the natural gas trading segment, the number of *Elektrum* customers has more than doubled, reaching almost 50 thousand customers. The household segment has seen a significant increase in the number of customers.

Although the significant increase in electricity distribution tariffs affected the level of customer satisfaction and loyalty, *Elektrum* managed to keep customer satisfaction in Latvia above the average of its peer group in the reporting year.

Sales of other retail products and services in the Baltic states were successfully developed in the reporting year. More than 1,600 new contracts for the installation of solar panels and for the purchase of remote shares in solar parks were signed. The total installed capacity of solar panels for retail customers exceeded 70 MW in late 2023, making Latvenergo Group one of the leading providers of this service in the Baltic states. Almost three fourths of the total capacity is installed for customers outside of Latvia.

In 2024, work will continue on further increasing the number of customers and consolidating the Group's positions in the natural gas market.

Electromobility target:
to develop electrification of the transport sector

This target envisages the development of a public charging network in the Baltics.

Over the four-year period since Latvenergo Group first started offering electric car charging services, the *Elektrum Drive* charging network has grown into the largest in the country and is rapidly developing not only in Latvia but also in Lithuania and Estonia. By the end of the reporting year, the *Elektrum Drive* charging network in the Baltic states had grown to 400 charging ports; some of them were installed together with co-operation partners. The *Elektrum Drive* app may be used to charge vehicles on the e-mobi network in Latvia and at LIDL charging stations in Lithuania as well, with a total of 571 charging ports available to customers. The number of users of the mobile app more than doubled last year. In the reporting year, the largest electric car charging point in Latvia, with 28 charging ports, was opened at the office complex Jaunā Teika.

An increase in the number of *Elektrum Drive* public charging ports in the Baltic states to 800 is expected in 2024, including the first high-capacity stations to bring a 300-kW charging capacity to the table. Innovation in service provision and customer satisfaction will be given a stronger focus.

Distribution target:
to ensure a sustainable and economically viable distribution service and to improve the security and quality of the electricity supply

The target is to improve the quality and reliability of the electricity supply in a planned and cost-effective manner, as well as to develop a two-way grid appropriate for microgeneration and to implement digital transformation and efficiency measures.

The key performance indicators for the quality of the electricity supply are the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI). The year-on-year improvement in both indicators is driven by targeted investment in the maintenance, rebuilding and upgrading of electricity distribution networks. In 2023, the impact of natural disasters on electricity grids was particularly severe, with the worst damage caused between August and early October. Electrical technicians had to step up their efforts to repair the damage in Latvia, and they provided help to Estonia as well. Meanwhile, over the last five years, excluding mass damage, SAIFI has been reduced by 16% and SAIDI has been reduced by 21%.

The pace of microgeneration development stabilised in comparison with 2022, when an unprecedented growth in solar panels was observed; however, it was still relatively high. At the end of the reporting year, nearly 19 thousand micro-generators – mostly solar panels to generate electricity for household self-consumption – were also connected to the distribution system. Their total generating capacity amounted to 160 MW. Meanwhile, the number of generators connected to the distribution system, mostly solar power plants, reached one thousand, with a total generating capacity of around 400 MW.

For the convenience of customers and to improve the efficiency of service, the e-environment of Sadales tīkls AS is regularly improved. Customers are informed about these opportunities in a targeted way, and almost 99% of customer transactions took place in the e-environment in the reporting year.

On 1 July 2023, new tariffs of Sadales tīkls AS entered into effect, increasing the proportion of the fixed tariff to match the actual structure of distribution network maintenance costs. This has encouraged customers to use the opportunity of reducing their electricity connection capacity, thus reducing their monthly electricity bill. By the end of the reporting year, 30.7 thousand households and 4.3 thousand legal entities had reduced their connection capacity. In the longer term, society as a whole will benefit as the electricity network is gradually becoming more efficient, maintenance costs are being reduced and the cost of making new connections is also being reduced. From 1 January 2024 to 31 December 2025, the increase in the capacity payment of the electricity distribution tariff for household customers will be applied gradually.

Latvenergo Group's strategy sets the overall target for the distribution segment, with the operational targets and estimated outcomes of Sadales tīkls AS, which should be given priority in the context of the Group's strategic vision, subordinated to the overall target as sub-targets. For more information on the 2022–2027 strategy of Sadales tīkls AS, see the section Distribution.

Sustainability matters in the Group's strategy

The medium-term strategy of Latvenergo Group is based on sustainable growth, which is integrated into the business model and future development of the Group, thus also contributing to the UN Sustainable Development Goals. The need for such a course is also confirmed by the Group's stakeholders: sustainability must rank among the top priorities in the activities of state-owned companies, and economic development must proceed in line with the creation of value for society.

In line with the changes in recent years in the regulatory framework on sustainability, as well as in public perception, the Sustainability Strategy of the Group for 2024–2026 was developed under the leadership of the Sustainability Committee of Latvenergo AS and approved by the Management Board in 2023. It complements the medium-term operational strategy with a broad plan of specific actions covering environmental, social and governance issues. Each of these sections identifies key areas where targets and commitments, indicators to be achieved, the year of implementation and the unit responsible for implementation are defined. See the summary of the areas covered by the Sustainability Strategy on the next page, while the indicators that need to be achieved regarding essential sustainability aspects are disclosed under the relevant aspect in the section Sustainability Indicators.

In addition, the Sustainability Strategy includes a financial section, which provides for:

- at least 80% of investment in EU taxonomy-aligned activities
- allocation of funding in the amount of 0.5% of the Group's average turnover of the last five years to innovation, research and development

Commitments embedded in the Group's policies

The policies of Latvenergo Group set out the principles that guide the Group in its various areas of activity. The policies follow a common approach and structure, setting out the purpose of the policy, its scope, responsibility for maintaining the policy and reference to related and subordinate documents. The international legal norms that are binding on Latvia and the values and fundamental rights such as human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including minority rights, are incorporated in the policies of the Group by reference to the related external documents, i.e., legal acts. Policies are regularly reviewed and updated, typically at least once every three years.

Information on the key principles set out in the Corporate Governance Policy, the Risk Management Policy, the Internal Audit Policy, the Code of Ethics, the Communications Policy, the Anti-Money Laundering Policy, the Policy on Compliance with International and National Sanctions is publicly available on the Latvenergo website. A Sustainability Policy was also developed and approved in 2023, which sets out the following guiding principles for the sustainable development of the Group:

- contribution to the implementation of UN Sustainable Development Goals
- improving environmental performance in all operating segments
- respect for human rights
- a sustainable working environment and equal opportunities
- socially responsible business activity
- ethical business activity
- comprehensive transparency of operations
- conducting sustainability assessments that promote further growth
- stakeholder involvement
- cooperation with sustainable contractors

The purpose of the Environmental and Energy Management Policy is to continuously improve the Group's environmental performance in all operating segments and activities; prevent or reduce the impact of the Group's operations on the environment and climate change; and protect and preserve biological diversity, natural and energy resources, and the health and well-being of the population.

Other policies in force establish guiding principles in areas critical to the sustainability of the Group, such as procurement, employee remuneration, labour protection, fraud and corruption risks, and competition law.

Research and innovation

In the reporting year, Latvenergo AS increased its focus on future market modelling, as it is expected that with the construction of solar and wind power plants, green energy will be available on the market at prices and times that are different from the historical situation. This new situation presents both challenges and potential opportunities. The challenges are related to the surplus of green energy that needs to be stored for later use during peak production periods. The opportunities include the conversion of the generated energy into another form, such as hydrogen, and the further use thereof. Latvenergo AS is thus exploring both power-to-X and energy storage options. The development of such technologies would make solar and wind farms even more commercially attractive, which would create the right conditions for the further growth of green energy generation in the Baltic states.

Electricity transmission system operators in the Baltic states are preparing for the moment when local merchants will have the opportunity to regulate the power line frequency. New frequency regulation markets will develop, where Latvenergo AS will also be able to offer their services. Therefore, the company has explored commercial opportunities and launched a lithium-ion battery system project for frequency regulation during the reporting year.

Targets of the Group's Sustainability Strategy

The indicators that need to be achieved regarding essential sustainability aspects are disclosed under the relevant aspect in the section Sustainability Indicators.

Environment

Climate
achieve climate neutrality by 2050

Pollution
reduce pollution

Circular economy
reduce resource consumption and promote a circular economy

Water
reduce impacts on water resources

Biodiversity
reduce impacts on biodiversity

Technology and innovation
increase efficiency of current operations and develop new sources of revenue

Social area

Working environment
create a sustainable working environment for the development of future competencies

Critical resources
ensure the protection of critical resources for the benefit of the company and its customers

Education and science
promote education and science

Investments in society
invest in society and public know-how

Customers
promote sustainability on the customer side

Governance

Managing sustainability areas
ensure integrated and effective management of sustainability

Business ethics
ensure fair, just and respectful labour and business relations

Relations with suppliers
purchase goods and services responsibly

Transparency and openness
ensure transparency and openness in line with best practice

Sustainable finance

Investments
to invest responsibly

Funding for innovation, research & development
to develop products and services and improve operational efficiency

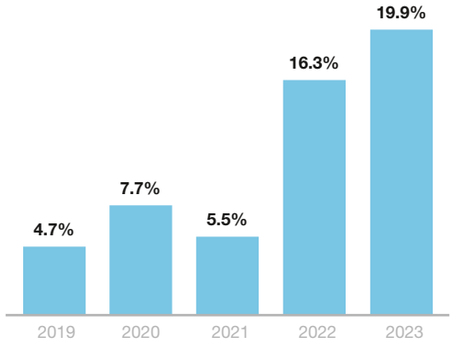
The Group's financial targets for 2026

Profitability

ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk

Return on equity (ROE) excluding distribution*

> 7%



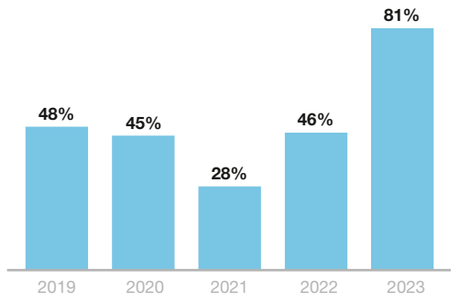
Latvenergo Group's profit in 2023 amounted to EUR 350.9 million, which is an increase of EUR 167.0 million from 2022. The increase in profits was mainly determined by higher electricity output at the Daugava HPPs, as well as lower electricity and natural gas procurement prices. The amount of electricity generated by the Daugava HPPs was 39% higher than in 2022. This is the largest amount of electricity generated since 2017 and the second largest in the last 25 years. The increase in profits in the reporting year has significantly improved the return on equity (ROE).

Capital structure

an optimal and industry-relevant capital structure that limits potential financial risks

Ratio between adjusted funds from operations and net debt (FFO / Net Debt)*

> 25%



The FFO / net debt ratio was 81% in 2023, which is the highest value in the last five years. The same factors that affected profitability had a positive impact on the ratio.

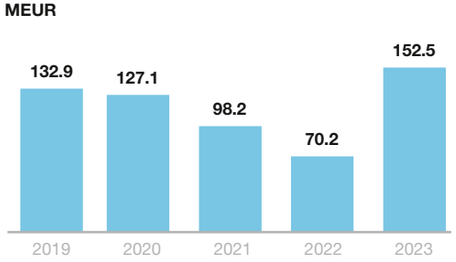
The comparative parameters have been recalculated to reflect the change in short-term intangible investments (CO_2 emission quotas) in operating cash flow as a change in current assets.

Dividend policy

a dividend policy that is consistent with the planned investment policy and capital structure targets

Dividend payout ratio

> 64%



Dividends are paid in compliance with the legislation of the Republic of Latvia. The strong capital structure provides for dividend payments that are larger than the industry average. Over the last five years, the average dividend payout ratio has been around 80%. For more information, see the section Key Figures of the Annual Report.

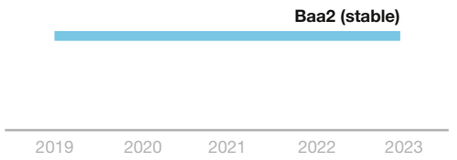
The dividend policy defined in the Strategy for 2022–2026 sets the dividend payout ratio at more than 64% of the profit, while each year's dividend payment is set by the Shareholder Meeting upon the evaluation of the actual results. For more information, see the section Dividend Policy.

Credit rating

investment-grade credit rating to ensure financing for the ambitious investment programme set out in the strategy

Moody's credit rating

To maintain an investment-grade credit rating



In March 2023, Moody's renewed its credit rating analysis of Latvenergo AS, keeping the credit rating unchanged at Baa2 with a stable outlook. The Baa2 rating has remained stable since 2015, confirming the stability and financial reliability of Latvenergo Group.

* For definitions of the financial ratios, see the section Key Figures in the Annual Report.

Corporate Social Responsibility

Latvenergo Group follows responsible business principles and implements statutory and voluntary activities, contributing to sustainable economic, environmental and social development. In its operations, the Group implements the principles of social responsibility in compliance with ISO 26000.

In line with current public expectations and practices of international energy supply companies, the Sustainability Policy of Latvenergo Group was developed and approved in 2023 (see the section Group Strategy). The Sustainability Policy also includes the principles and activity criteria of corporate social responsibility (CSR). CSR activities promote the involvement of large groups of society and ensure a considerable long-term impact and public benefit. They are implemented in three directions:

- education and science development
- cooperation with the local community
- biodiversity

According to a corporate reputation survey conducted by TNS Latvia in 2023, the majority of industry experts and media representatives, as well as about half of Latvia's population and companies, know or have heard about the CSR activities of the Group. As many as 95% of those who know about the activities rate them positively.

The sustainability performance of the Group's companies during the reporting year was assessed both in Latvia and internationally:

- Both Latvenergo AS and Sadales tīkls AS were awarded the highest category of the Latvian Sustainability Index, the Diamond category. Liepājas enerģija SIA was awarded the Gold category.
- The ISS ESG international rating agency granted the rating B- to Latvenergo AS, thus ranking it among the top 10% of companies in the industry. In addition, a Prime badge, which is awarded to companies that meet the strict ISS ESG requirements for sustainability performance in the industry, was received.

Latvenergo Group continued to support the Ukrainian people in 2023 as well. Several employee campaigns were organised: donations for a night-vision drone with thermal imaging camera, warm clothes, footwear and army equipment, as well as for the procurement of external batteries for mobile devices. *Elektrum*, the trade brand of the Group, launched a campaign on the responsible choice of natural gas supplier in every household. Within the framework of the campaign, one euro was donated to Ukraine for every *Elektrum* natural gas service contract signed in November and December. In the spring, the TV series Chernobyl 2022. Invasion was produced in the territory of CHPP-2. The series is based on real events at the Chernobyl NPP after the Russian invasion of Ukraine.

The UN Sustainable Development Goals

Recognizing its own role in and contribution to sustainable development, the Group is committed to processes, products and services that promote the achievement of the UN Sustainable Development Goals (SDGs). Three SDGs have been set as priorities and are relevant to the main activities of the Group. When implementing CSR activities, the Group also contributes to the achievement of other SDGs.

SDG	The Group's contribution to the achievement of the SDG	Section
 Ensure access to stable, affordable, sustainable and modern energy for all	A high share of renewable energy in the generation portfolio and CO_2 emission intensity significantly lower than the European average	Generation Environmental Topics
	Elektrum solar parks for customers and installation of solar panels at customer sites	Trade
	Customer-specific and modern electricity products (*Elektrum Green*, *Elektrum Smart House*, *Energo pulss*), sales of energy efficiency products	Trade
	Measures to promote energy efficiency for customers, such as educational events, webinars, publications, and consultations offered by the *Elektrum* Energy Efficiency Centre	Trade
	Automation and digitalisation of customer service processes	Social Topics
 Build resilient and sustainable infrastructure, promote inclusive and sustainable industrialization, and foster innovation	Reconstruction of hydropower units at the Daugava HPPs	Generation
	Renewal and digitisation of the distribution network, streamlining of the network structure	Distribution
	Innovative live work on medium voltage grids	Distribution
	Network of electric vehicle charging stations	Trade
	Participation in the Innovation Forum for Excellent Latvian Enterprises, Green Tech un Hydrogen X hackathons, organisation of the Innovation Forum AC/DC Tech	Stakeholder Engagement
	Innovation lab for developing processes and new, innovative product ideas	Corporate Strategy
 Take urgent action to combat climate change and its impacts	CO_2 emission intensity significantly lower than the European average secured by the considerable share of renewable energy sources in the consumption of primary energy sources and efficient CHPP generation modes	Generation Environmental Topics
	Modernisation of the electricity distribution network, which has allowed the Group to reduce distribution losses by 8% in the last five years	Distribution
	An energy management system corresponding to the international standard ISO 50001	Environmental Topics

Education and scientific development

The priority direction of CSR promotes young people's interest in sciences and engineering professions, complements teachers' and lecturers' teaching material base, promotes sports education for children and youth, supports energy researchers and teachers, and educates the public on energy efficiency and electrical safety.

28 years FIZMIX Eksperiments knowledge contest

3 years Physics festival

In 2023, the Group organised the only physics festival in the Baltic states for the third time, which involved the participation of more than 3,000 visitors in physics workshops and interactive games, watching experiments, listening to lectures and competing in contests. The festival also hosted a discussion on STEM education for Generation Alpha: what can we do today to make exact sciences more popular?

26 years *Elektrum* Energy Efficiency Centre

In 2023, Energopols, a strategy board game about energy efficiency and environmental protection, was created for company employees. A new excursion programme was developed for grade 6–12 pupils, which includes an attractive and educational break-in game, the Energy Efficiency Curiosity Chest, as well as the Efficient Detectives workshop. A section on the EEC website elektrum.lv/skola, which provides useful material on climate change, energy efficiency and electricity generation for students and teachers, was developed.

25 years Annual Science Award

16 years Scholarship contest

16 years Graduation contest

11 years FIZMIX portal

In 2023, training material on the efficient use of energy was added to the portal. The material includes exercises, demonstrations and answers/explanations for teachers. Teaching materials and devices for educating young people on efficient energy use were provided to teachers during the Conference of Latvian Physics Teachers.

9 years Donation of used computer equipment to educational institutions

10 years Education of people engaged in building, logging, and agricultural work on electrical safety

2 years Involvement in the development of the RTU Futurimo Riga Curiosity Centre

A wall of physics formulas was installed in the physics classroom to promote the interest of children and young people in physics.

18 years Education of children and young people on electrical safety

In 2023, employees of Sadales tīkls AS – electrical safety ambassadors – conducted 234 classes, educating almost 7,500 children and young people. The virtual reality electrical safety game and exhibition Apartment was produced in cooperation with Cinema City Cinevilla. Within the framework of the Children's World 2023 exhibition held at Kipsala International Exhibition Centre, the Electricity School was held, and an electrical safety quiz for participants of the Alfreds Krauklis Memorial Basketball Tournament was organised.

3 years Education of households on electrical safety

In 2023, Sadales tīkls AS implemented an electrical safety campaign on the safety of home wiring, reminding people of the basic principles of electrical safety and informing the public about the need to inspect the home wiring at least once every 10 years. The expert discussion "Electrically safe: the current situation and options for improving it", as well as an awareness campaign on delfi.lv, were organised.

Cooperation with the local community

The local community is one of the priority stakeholders of the Group. It is important for the Group to be in close touch with the local communities in the vicinity of the facilities and to contribute to the development of these communities.

29 years
Energy Museum

The collection of the Energy Museum was supplemented with three new interactive solutions: the exhibit Electricity in the City, an interactive model of the Ķegums HPP and an audio guide to the collection. The Virtual Energy Museum was complemented with an animation on solar energy solutions for households. To celebrate 50 years since the launch of CHPP-2, a digital exhibition on the history and growth of the plant was established.

16 years
Participation in the Museum Night

13 years
Employee Christmas charity event

12 years
Support for the Latvian Song and Dance Festival

1 year
Donation of smart home equipment to public benefit organisations

Biodiversity

Activities aimed at preserving biodiversity and minimising the environmental impact of the Group.

14 years
Fish protection projects

In April 2023, approximately 70 employees of the Group and their families took part in the creation of artificial fish spawning nests. More than 300 nests were prepared to help fish spawn in the reservoirs of the Daugava HPPs. To educate the public, a live stream of trout spawning in the Bērzene River was provided on the Group's website and Facebook account.

13 years
White stork monitoring

7 years
River cleaning

In September 2023, in Ķekava Municipality, employees of the Group, together with the association Mazās upes, cleaned up a stretch of the Bērzene River, which is a spawning site for salmonids: brook trout and brown trout.

Awards

Latvenergo Group – a leader in sustainability

- In 2023, both Latvenergo AS and Sadales tīkls AS were awarded the Diamond category of the Latvian Sustainability Index. Liepājas enerģija SIA was awarded the Gold category.

- In the European Sustainable Brands Index, the brand *Elektrum* of Latvenergo AS is recognised as the most sustainable brand of the energy sector in Latvia.
- The awareness-raising campaign of Elektrum Lietuva UAB on the services provided by the company won 2nd place in the Corporate Communication category in the *Mi:t&Links Baltic Communication Awards* competition.
- 1st prize in the Production Plant nomination of the Latvian Construction of the Year Award was awarded to the reconstruction of the hydropower units of the Riga HPPs.
- In the Safest Company Fleet competition, Sadales tīkls AS received the Gold Award in the Local (Baltic) Cargo Carriers and Special Purpose Fleets category. Latvenergo AS won a silver award in the category Lowest Risk, State and Municipal Fleets.
- In the competition *Golden Helmet* of the State Labour Inspectorate for best practice in labour protection, Sadales tīkls AS won 2nd place for labour safety measures and the adaptation of the labour environment and conditions to the impacts of climate change.
- The environmental, social and governance performance of Latvenergo AS was awarded a Prime rating in the ISS ESG assessment.

Corporate ESG Performance
Prime
RATED BY ISS ESG

Latvenergo Group companies – at the top of the most valuable companies

- Latvenergo AS is rated the second most valuable company in Latvia in the TOP 101 most valuable companies in Latvia. Latvenergo AS ranks as the most valuable energy company in the TOP 10 most valuable companies in the Baltics.
- In the Latvian Business Annual Report 2023, Latvenergo AS was assessed as the largest company in the energy sector. Sadales tīkls AS ranked third among Latvian electricity and gas companies.
- Latvenergo AS is recognised as the largest state-owned capital company, the largest energy company and the largest EBITDA earner in the TOP 500 Latvian Companies. Sadales tīkls AS is rated as the third largest company in the energy sector and the third largest state capital company.
- Latvenergo AS received the Nasdaq Baltic stock exchange award for best investor relations on the bond market in the Baltic states for the third time. On November 22, representatives of the company attended the closing ceremony of the trading session at the Nasdaq headquarters in New York.

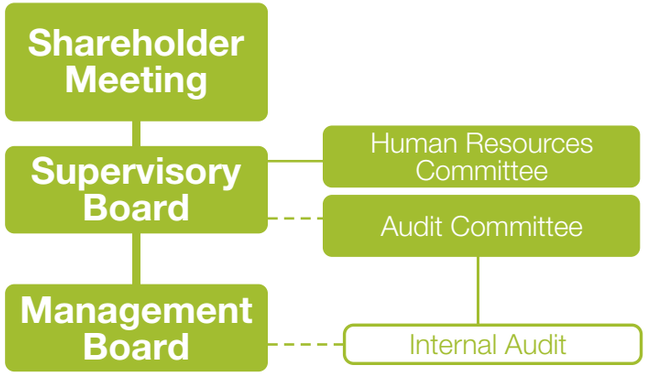
Governance Bodies

The corporate governance of Latvenergo Group is being organised and implemented in compliance with governance best practice, regulatory framework, and corporate governance guidelines. The principles and procedures of corporate governance are enshrined in the Corporate Governance Policy of the Group, which has been approved and is supervised by the Supervisory Board of Latvenergo AS. The Management Boards are responsible for implementing the policy at the capital companies of the Group. The corporate governance principles of the Group are published on the Latvenergo website.

In accordance with the requirements of the Financial Instrument Market Law and the Law on Governance of Capital Shares of a Public Person and Capital Companies, Latvenergo AS prepares a corporate governance report annually. The report for 2023 was drawn up based on the assessment of the capital company's compliance with the Corporate Governance Code published by the Corporate Governance Advisory Board established by the Ministry of Justice in 2020. In 2023, all the principles set out in the code were complied with in material respects, except for the criterion of representation of both genders on the Supervisory Board of the company. The report is available on the Latvenergo website and the Nasdaq Baltic website.

Sadales tīkls AS is also preparing a corporate governance report. In 2023, all the principles set out in the Code were complied with in material respects, except for the criterion to provide information in at least one other language that is understood by the majority of the foreign shareholders of the company and other stakeholders. The report is available on the website of Sadales tīkls AS.

Latvenergo AS governance bodies



Shareholder Meeting

The principal duties

- approval of the Annual Report and decision-making on distribution of the company's profit from the preceding year
- electing and dismissing members of the Supervisory Board and the Audit Committee, approval of their remuneration
- appointment of the auditor, determining the auditor's remuneration

100% of the shares of Latvenergo AS are owned by the state and held by the Ministry of Economics of the Republic of Latvia. Latvenergo AS is a nationally important economic company, and its shares may not be privatised or alienated.

The interests of the shareholder are represented at the Shareholder Meeting by the State Secretary of the Ministry of Economics or his/her authorised delegate. Meetings are convened in accordance with the requirements and timelines stipulated by the Law on Governance of Capital Shares of a Public Person and Capital Companies.

Five Shareholder Meetings were held in 2023. The main decisions of the Shareholder Meeting in the reporting year are as follows:

- distribution of profits for 2022 and payment of dividends
- appointment of the auditor of the Annual Report for 2023
- civil liability insurance for the members of the Supervisory Board and Audit Committee of Latvenergo AS
- payment of an additional dividend from retained earnings of 2022

Supervisory Board

The principal duties

- approval of the medium-term operational strategy and the current year's budget and monitoring their implementation
- continuous supervision of the Management Board's activities
- election and dismissal of Management Board members; approval of their remuneration
- monitoring the compliance of the company's operations with legislation, its Articles of Association and the decisions of the Shareholder Meeting

The Regulations of the Supervisory Board of Latvenergo AS stipulate that the Supervisory Board is composed of five members and its term of office is five years. All members of the Supervisory Board are independent specialists who do not hold other positions in the company and who are not involved in the Group's operations. The procedure for selecting members of the Supervisory Board is specified in the Law on Governance of Capital Shares of a Public Person and Capital Companies and the subordinate Regulations of the Cabinet of Ministers. For more information on the selection procedure, see the Corporate Governance Report.

Once a year, the chairman of the Supervisory Board organizes a self-assessment of the Supervisory Board, which includes the following areas: the effectiveness of the Supervisory Board's supervisory functions, the contribution to determining the strategy of the capital company, the adequacy of the competences and knowledge of the Supervisory Board's composition, and the Supervisory Board's dynamics and processes, i.e. how efficiently the Supervisory Board's work is organized.

As of 1 March 2024, the Shareholder Meeting of Latvenergo AS has removed the Chairman of the Supervisory Board, Ivars Golsts. On March 8, the Supervisory Board unanimously elected Aigars Laizāns as Chairman of the Supervisory Board. At the time of this report's publication, the Supervisory Board is composed of four members.

23 meetings of the Supervisory Board were held in 2023. The most important issues addressed at the meetings are as follows:

- assessing the conditions for the valuation of acquisition transactions related to the development of wind and solar power plants
- evaluating measures related to the safety of critical infrastructure
- evaluation of fundraising transactions
- analysis of key developments and trends in the energy sector
- quarterly evaluation of the financial and non-financial results of the Group, as well as of the implementation of strategic objectives

In compliance with the Regulations, the Supervisory Board of Latvenergo AS may form committees consisting of members of the Supervisory Board for reviewing particular matters. A Human Resources Committee is established to prepare proposals to the Supervisory Board for the selection, remuneration, performance assessment and combination of positions of employees of the Management Board, the Audit Committee and the Internal Audit. Five meetings of the committee were held in 2023.

The Regulations of the Supervisory Board of Latvenergo AS are available on the Group's website.

Management Board

The principal duties

- management and representation of the company
- responsibility for the commercial activities of the capital company and for compliance with accounting legislation
- management of the company's property
- implementing the strategic direction of the Group, its development plans, goals and policies

The Articles of Association of Latvenergo AS stipulate that the Management Board is composed of five members and their term of office is five years. Its members are elected by the Supervisory Board, assessing their compliance with the required competencies, experience, and planned area of responsibility. The Management Board operates according to the Articles of Association and the Regulations of the Management Board and reports to the Supervisory Board. Its members are independent in their operations and hold no interest in the capital of cooperation partners or related companies. The Management Board members are jointly liable for compliance with all binding laws and regulations, execution of the decisions of the Shareholder Meeting and the Supervisory Board, and the financial performance of the Group.

In September 2023, Kaspars Cikmačs left the Board, and it consisted of four members for the rest of the year. In January 2024, Ilvija Boreiko, Chief Development Officer of Latvenergo AS, joined the Board and will serve as a member until the selection of a permanent member of the Management Board is completed. The Supervisory Board of Latvenergo AS, in accordance with its mandate, has approved the requirements for the candidates running for the position and has established a nomination committee responsible for the announcement of the competition and candidate assessment. In January 2024, an open tender for the vacant position was announced.

68 Management Board meetings were convened in 2023. Number of meetings attended: M. Čakste (Chairman of the Management Board) – 56; G. Baļčūns – 59; K. Cikmačs (in office until 24 September 2023) – 42; D. Juskovecs – 58; H. Teteris – 62. The overall attendance rate was 87%.

The Regulations of the Management Board are available on the Latvenergo website.

Audit Committee

The principal duties

- to oversee the financial reporting process
- to supervise effectiveness of the internal control and risk management systems
- to supervise the work of the Internal Audit and the external auditor
- to supervise implementation of the Fraud Risk Management Plan

There is an independent Audit Committee at Latvenergo AS which reports on its operations and performance to the Supervisory Board. The Audit Committee is composed of five members and their term of office is three years. Two members of the Audit Committee are also members of the Supervisory Board, and all members of the Committee are independent. Nine meetings of the Audit Committee were held in 2023. The Regulations of the Audit Committee are available on the Latvenergo website.

In February 2024, all members of the Audit Committee were re-elected for a new term in office.

Audit Committee Report

The Audit Committee of Latvenergo AS operates under the Commercial Law and Financial Instruments Market Law of the Republic of Latvia and the Rules of the Audit Committee approved by the Shareholder.

No restrictions have been imposed on the actions of the Committee, and representatives of Latvenergo AS have ensured the availability of necessary information. The Audit Committee have informed the Supervisory Board of its conclusions and recommendations based on the work of the Committee.

In 2023, in addition to the principal duties, the Audit Committee:

- agreed upon the selection and evaluation criteria for the Group's external auditor for 2024–2026
- assessed the risks and mitigation measures related to physical threats and procurement
- assessed the maturity level of the organisation's sustainability efforts and recommendations for improving sustainability governance, and discussed CSRD and ESRS sustainability reporting requirements
- assessed and supported improvements in the Group's corporate governance of its foreign subsidiaries
- discussed and analysed significant events and trends in the energy sector and their impact on the Group's operations

Having assessed the information received from the Internal Audit Director, Compliance Control Manager, Risk Manager, external auditor and other assurance providers, nothing has come to our attention that would lead us to believe that the internal controls of Latvenergo AS are not operating adequately for the purpose of the preparation of the Annual Report 2023.

We submit our activity report and assessments to the Supervisory Board of Latvenergo AS in April 2024.

Svens Dinsdorfs, Chairman of the Audit Committee
Ilvija Grūba, Member of the Audit Committee
Torben Pedersen, Member of the Audit Committee
Gundars Ruža, Member of the Audit Committee
Toms Siliņš, Member of the Audit Committee

Remuneration Policy for the Supervisory Board, the Audit Committee, and the Management Board

The remuneration of the Supervisory Board and the Management Board is stipulated by the Law on Governance of Capital Shares of a Public Person and Capital Companies and regulations of the Cabinet of Ministers based thereon. The legislation provides for uniform regulation regarding the remuneration of members of supervisory boards and management boards of public companies.

The monthly salary of the Chairman of the Supervisory Board and the Chairman of the Management Board is linked to the average monthly salary of employees in Latvia during the preceding year, as published by the Central Statistical Bureau, multiplied by a ratio specified according to the indicators characterising the size of the capital company (turnover, assets and number of employees). According to the regulations of the Cabinet of Ministers, the maximum ratio for determining the monthly remuneration for the chairman of a supervisory board is 3. Meanwhile, the ratio applied to the monthly salary of the chairman of a management board is 10, based on the capital company's reference criteria.

The remuneration of supervisory board and management board members may not exceed 90% of the monthly salary of the chairman of a supervisory board or management board respectively. Management board members are entitled to compensation for the performance of additional duties at the company. 20% of the uniform monthly salary of the Chairman and Members of the Management Board comprises remuneration for performing the duties of Chief Executive Officer and Chief Officers.

The Supervisory Board may decide on the payment of bonuses to the Management Board members once a year following the approval of the Annual Report. Three main criteria are considered when determining the payment of bonuses:

- results of the operation of the capital company in the previous reporting year (fulfilment of budget)
- execution of the medium-term operational strategy and the results of the capital company in accordance with the defined goals, incl. sustainability goals
- individual performance results of the Management Board Member/Chief Officer and the fulfilment of individual goals

The annual goals of Management Board Members/Chief Officers include the sustainable development goals of the organisation, which represent 10–40% depending on the area of responsibility of the Management Board Member/Chief Officer. The sustainability strategy approved during the reporting year provides for the integration of sustainability into decision-making processes, including by promoting the involvement of the Management Board in the governance of sustainability matters.

The amount of bonuses for Management Board members may not exceed double the monthly salary of a Management Board member. In accordance with the legislation of the Republic of Latvia, bonuses are not paid to members of the Supervisory Board, and a link between remuneration and the management of sustainability issues is not foreseen. The authorisation agreements signed with the members of the Management Board provide for the possibility to receive a severance payment in the amount of three months' salary if they are recalled from their duties before the expiration of their term of office, including in the event of reorganisation or liquidation of the company. The remuneration policy does not provide for an option to pay remuneration in the form of shares or share options.

The remuneration of the Audit Committee is stipulated by the Regulations of the Audit Committee. The remuneration of the members of the Audit Committee is determined by the Shareholder Meeting, and the maximum amount thereof corresponds to the average monthly salary of employees in Latvia during the preceding year, as published by the Central Statistical Bureau of the Republic of Latvia. The monthly salaries of the Audit Committee members are determined for the entire term of their office, with the right to revise them once per year. Members of the Audit Committee, who are simultaneously members of the Supervisory Board of Latvenergo AS, are not compensated for duties performed in the Audit Committee.

Authorisation agreements are signed with the members of the Management Board, the Supervisory Board and the Audit Committee, and the provisions of the Collective Employment Agreement do not apply to them.

Remuneration for 2023

Chairman of the Management Board and Chief Executive Officer M. Čakste – EUR 201,007.07; Member of the Management Board and Chief Financial Officer G. Baļčūns – EUR 189,137.51; Member of the Management Board and Chief Development Officer K. Cikmačs (in office until 24 September 2023) – EUR 153,015.35; Member of the Management Board and Chief Commercial Officer D. Juskovecs – EUR 184,039.22; Member of the Management Board and Chief Operating Officer H. Teteris – EUR 182,242.17.

Chairman of the Audit Committee T. Pedersen – EUR 16,695.64; committee members S. Dinsdorfs and I. Grūba – EUR 15,324.00 each.

Chairman of the Supervisory Board I. Golsts – EUR 45,972.00; Members of the Supervisory Board A. Laizāns, K. Rokens, G. Ruža and T. Siliņš – EUR 41,376.00 each.

The annual total compensation ratio in 2023 was 5.8 to 1 (in 2022: 6.5 to 1). The indicator is calculated as follows:

annual total compensation for the highest paid individual / median annual total compensation for all employees excl.the highest paid individual

The change in the ratio of annual total salary increase compared to 2022 was 0.37 (in 2022, compared to 2021: -0.11). The indicator is calculated as follows:

percentage increase in annual total compensation for the highest paid individual / median percentage increase in annual total compensation for all employees excl.the highest paid individual

A methodological adjustment has been made to the calculation of both indicators: starting from 2023, the median is used instead of the mean, in accordance with GRI 2-21. The 2022 values indicated in brackets have been recalculated accordingly.

Dividend Policy

The distribution of Latvenergo AS dividends is regulated by the laws of the Republic of Latvia

- Law on the National Budget and Budgetary Framework
- Law on Governance of Capital Shares of a Public Person and Capital Companies and Regulations of the Cabinet of Ministers issued on the basis thereof

According to the law "On the state budget for 2024 and the budget framework for 2024, 2025 and 2026", the estimated amount of dividends to be paid by Latvenergo AS is as follows:

- In 2024 (for the reporting year 2023), 64% of the profit of the reporting year, but not less than EUR 199.3 million
- In 2025 (for the reporting year 2024), 64% of the profit of the reporting year, but not less than EUR 129.2 million
- In 2026 (for the reporting year 2025), 64% of the profit for the reporting year, but not less than EUR 129.4 million

The actual amount payable by Latvenergo AS in dividends is determined by the Shareholder Meeting after the approval of the Annual Report, upon the evaluation of the results for the previous year.

Internal Audit

The Internal Audit is an independent unit of Latvenergo AS and its objective is to evaluate and improve the effectiveness of the internal control, risk management and governance processes. Internal audits are performed in compliance with the International Standards for the Professional Practice of Internal Auditing. The compliance of the Internal Audit activities with the standards is evaluated by a qualified external assessor once in five years. The last evaluation was carried out in 2019, and the assessor provided a positive attestation of compliance; the next one is scheduled for 2024. Between external assessments, an internal assessment is carried out in accordance with the requirements of the standards. The last one was carried out in 2022 with a positive conformity assessment.

The activities of the Internal Audit are supervised by the Audit Committee, which endorses the annual internal audit plan, which is then approved by the Supervisory Board of Latvenergo AS. The internal audit reports on Latvenergo AS are submitted to the Audit Committee, while internal audit reports on the Group's subsidiaries are submitted to the Supervisory Board of the relevant company or the Shareholder Meeting. Once a year, based on the audit results and results of other inspections, an overall opinion on the effectiveness of the internal control and risk management systems and recommendations for the improvement thereof are submitted to the Audit Committee, the Management and Supervisory Boards.

Every year, the Internal Audit submits its activity report to the Supervisory Board, the Management Board and the Audit Committee of Latvenergo AS. It comprises information on the audits carried out, assessments of the areas reviewed and recommendations made, and quality assurance of the internal audit and its compliance with international standards.

External Auditor

The external auditor audits the financial statements of Latvenergo AS and provides the limited assurance of the sustainability report. The auditor is selected as a result of the most economically advantageous tender for a period of three years (2021–2023), evaluating the price of the service, the qualifications of the staff involved, the audit execution plan and the number of audit hours. Ernst & Young Baltic SIA, a commercial company of certified auditors authorised to provide auditing services in 2021–2023, was appointed the annual report auditor of Latvenergo AS for 2023.

Governance of Subsidiaries

Latvenergo Group subsidiaries are governed through strategy, organisational structure built around functional units, and policies.

- The supervisory authority of Sadales tīkls AS is its Supervisory Board; its members have been selected through a competition.
- The Management Board of Enerģijas publiskais tirgotājs SIA is supervised by the Shareholder Meeting, at which the interests of Latvenergo AS are represented by its Management Board.
- The supervisory body of Elektrum Eesti OÜ and Elektrum Lietuva UAB, which operate outside the territory of Latvia, is their Supervisory Board. Employees of Latvenergo AS who are responsible for the relevant areas of operation at Latvenergo AS are appointed to the Supervisory Boards of these subsidiaries.
- The Management Boards of Latvijas vēja parki SIA and of subsidiaries for RES projects are supervised by the General Shareholder Meeting, where a member of the Management Board of Latvenergo AS is authorised to represent the interests of Latvenergo AS.
- Supervisory functions at Liepājas enerģija SIA, where the equity share of Latvenergo AS is 51%, are carried out by its own Supervisory Board; half of its members are representatives of Latvenergo AS.

Changes in governance bodies of subsidiaries

- In August 2023, Zane Norenberga, a member of the Management Board of Latvijas vēja parki SIA, resigned and Baiba Zauere joined the Board. In October, Ilvija Boreiko, Chairperson of the Management Board, left the Board and Jānis Urtāns joined it as the Chairman.
- In October 2023, Agnes Makk joined the Management Board of Elektrum Eesti OÜ.

To diversify the energy generation portfolio of the Group, increase its long-term value and reduce the long-term trading price of electricity, the Group aims to increase RES generation capacity, incl. through asset mergers and acquisitions. Since the end of the reporting year in January 2024, seven solar power plant projects have been acquired in Latvia. The acquired companies were incorporated into the structure of the Group as subsidiaries of Latvenergo AS. Ivars Inkins was appointed to the Management Board of these companies.

Governance of Sustainability Issues

At the end of 2022, the Sustainability Committee of Latvenergo AS was established, whose activities are supervised by the Management Board of the Company. The Head of the Committee is the Chief Financial Officer. Seven business units of Latvenergo AS that are responsible for different areas of sustainability are permanently represented on the committee. Other functions are involved in addressing issues that concern them. The purpose of the committee is to provide consultative functions for the governance of sustainability issues and to facilitate the improvement of the sustainability performance of Latvenergo Group. The main tasks of the committee are defined in its regulations, which are published on the Latvenergo website. The Committee shall meet as necessary, but at least four times a year. At the level of the Supervisory Board, sustainability issues are discussed and evaluated in its full composition, without forming a separate committee.

In 2023, under the guidance of the Sustainability Committee, the Sustainability Strategy of Latvenergo Group was developed to complement the Medium-Term Operational Strategy of the Group. The development involved the departments and experts responsible for the sustainability topic, as well as the subsidiaries of the Group. Discussions and working group sessions were organised. Prior to the approval of the Sustainability Strategy, seminars were organised – for Latvenergo AS and Sadales tīkls AS employees, external stakeholders and employees of *Elektrum* companies in Lithuania and Estonia.

The Sustainability Strategy was approved by the Management Board of Latvenergo AS in December 2023. Its implementation is overseen by the Sustainability Committee, which reports annually to the Management Board on the status of the implementation of the Sustainability Strategy. The implementation of the objectives and activities and the achievement of the set indicators are the responsibility of the unit indicated under the activity. The subsidiaries of the Group will carry out the activities that are attributable to them. The Sustainability Strategy was developed for the period from 2024 to 2026, which corresponds to the Medium-Term Strategy period. For more information on the performance and sustainability strategy of Latvenergo Group and objectives, see the Group Strategy and Sustainability Indicators sections.

To deepen the understanding of the governance of sustainability issues, at the beginning of 2023, members of the Supervisory Board and Management Board of Latvenergo AS participated in the seminar *ESG Insights for the Boards: Overall Landscape and Target Setting, held by the Baltic Institute of Corporate Governance*.

Both the Management Board and the Supervisory Board of Latvenergo AS participate in determining the sustainability aspects that are important for the operation of the Group. The materiality matrix, which summarises the aspects of sustainability, is evaluated and approved by the Management Board. The sustainability report is signed by the Management Board, reviewed by the Supervisory Board and approved by the shareholders.

At the end of 2022, the Corporate Sustainability Reporting Directive was adopted, which stipulates that a number of companies will have to prepare their sustainability reports in accordance with the European Sustainability Reporting Standards (ESRS) deriving from the Directive. In 2024, Latvenergo Group plans to carry out a double materiality assessment of sustainability aspects in accordance with the requirements set out in the Directive and ESRS.

Latvenergo AS Supervisory Board

Aigars Laizāns

Chairman of the Supervisory Board

Term of office

10.06.2025

Committee membership

Human Resources Committee

Experience

2013–present: Latvia University of Life Sciences and Technologies, Professor and Lead Researcher

2016–2021: Latvijas Dzelzceļš VAS, Member of the Supervisory Board

1984–2013: Latvia University of Life Sciences and Technologies, Researcher and Professor

Education

LLU, Doctor of Sciences in Agricultural Engineering (2011)

RTU, Riga Business Institute, Master of Business Management (1996)

LLU, Master's Degree in Agricultural Engineering (1992)

Kaspars Rokens

Deputy Chairman of the Supervisory Board

10.06.2025

Human Resources Committee (Chairman)

2024–present: Latvijas pasts VAS, Chairman of the Supervisory Board

2023–present: Volburg SIA, Deputy Director

2020–2022: Velve SIA, Chairman of the Management Board and Chief Executive Officer

2017–2019: RB Rail AS, Member of the Management Board and Chief Operating Officer

2011–2016: Schneider Electric Latvia SIA, Member of the Management Board, Chief Executive Officer

1998–2010: Machinery Latvia SIA, Member of the Management Board, Chief Executive Officer

1994–1998: ABB Latvia, Production Director / Power Plant Department Manager

SSE Riga, Master of Business Administration (2007)

RTU, Master's Degree in Energy Supply Optimisation (1996)

KTH Royal Institute of Technology, Licentiate Degree in Combustion Processes (1996)

Toms Siliņš

Member of the Supervisory Board

10.06.2025

Audit Committee

2020–present: Helvetica Green Investments AG, Director

2020–2023: Air Baltic Corporation AS, Member of the Supervisory Board

2018–2020: Remaco Asset Management AG, Group Chief Financial Officer and Investment Advisor, Member of the Executive Management

2013–2016: Sberbank (Switzerland) AG, Chief Financial Officer, Member of the Executive Board

2005–2012: Swedbank AB Group, Member of the Management Board, Member of the Supervisory Board, Chief Financial Officer in the Group's companies in Latvia, Estonia, Lithuania

1993–2002 and 2004–2005: Bank of Latvia, Analyst, Investment Portfolio Manager, Head of the Trading and Investment Division, Deputy Head of Foreign Exchange Operations Management

New York University, Leonard N. Stern School of Business, MBA (2004)

University of Latvia, Master of Social Sciences in Business Management (1999)

University of Latvia, Bachelor's Degree in Business Management (1996)

Gundars Ruža

Member of the Supervisory Board

10.06.2025

Audit Committee

2020–present: LATRAPS, Cooperative Society of Agricultural Services, Member of the Management Board and Chief Financial Officer; LATMALT SIA, Chairman of the Management Board

2017: Moller Auto Baltic AS, Chief Executive Officer of the Group, Member of the Management Board in subsidiaries in Lithuania, Latvia and Estonia

2009–2016: Moller Auto Baltic AS, Chief Financial Officer of the Group, Member of the Management Board in subsidiaries in Lithuania, Latvia and Estonia

2006–2008: Moller Baltic Import SE and Moller Baltikum Holding, Chief Financial Officer

2002–2006: Ernst & Young Baltic SIA, Member of the Management Board, Head of the Business Outsourcing Department, Audit and Business Advisory Senior Manager

1994–2002: Arthur Andersen SIA, Audit and Business Advisory Project Manager/Senior Consultant on Tax and Law

University of Latvia, Economist's Diploma in Accounting (2001)

University of Latvia, Master's Degree in International Law (2000)

University of Latvia, Bachelor's Degree in Law (1998)

Members of the Supervisory and Management Boards

who left office in 2023-2024:

Ivars Golsts

Chairman of the Supervisory Board (until 29.02.2024)

Kaspars Cikmačs

Member of the Management Board and Chief Development Officer (until 24.09.2023)

Latvenergo AS Management Board

Mārtiņš Čakste

Chairman of the Management Board and Chief Executive Officer

Term of office

02.01.2027

Experience

2022–present: Eurelectric. Member of the Directors' Council

2022–present: Vice President of the Latvian National Committee at the World Energy Council

2022–present: Latvenergo AS, Chairman of the Management Board, Chief Executive Officer

2017–2021: Pure Chocolate SIA, Co-owner, Chairman of the Management Board

2008–2016: Melnā kafija/Lofbergs Baltija SIA, Member of the Management Board, Procurator, General Manager

2008–2015: Officeday Baltics, Chairman of the Management Board; Officeday Latvija SIA, General Manager, Chief Executive Officer in the Baltics

2000–2008: Zepter International, General Manager in Latvia, Executive Director in Russia, Executive Director in Ukraine, Chief Executive Officer in the Baltics

Education

RTU, Doctor of Economics in Business/Managerial Economics (2007)

RTU, Master of Engineering Economics (1999)

RTU, Bachelor of of Engineering Economics (1997)

Guntars Baļčūns

Member of the Management Board and Chief Financial Officer

15.11.2025

2016–present: Elektrum Eesti OÜ, Member of the Supervisory Board

2016–present: Elektrum Lietuva UAB, Member of the Supervisory Board

2016–2022: Baltic Institute of Corporate Governance, Member of the Supervisory Board

2015–present: Latvenergo AS, Member of the Management Board, Chief Financial Officer (2020–2021: Chairman of the Management Board)

2014–2015: Enerģijas publiskais tirgotājs AS, Member of the Management Board

2005–2015: Latvenergo AS, Business Planning and Control Director, Corporate Strategy Project Manager

RTU Riga Business School, Master of Business Administration (2016)

University of Latvia, Master of Economics (2005)

SSE Riga, Bachelor of Economics and Business Administration (2003)

Ilvija Boreiko

Member of the Management Board and Chief Development Officer

until a new member of the management board is selected based on competitive procedure

29.01.2024–present: Latvenergo AS, Member of the Management Board, Chief Development Officer

2022–2023 Latvijas vēja parki SIA, Chairwoman of the Management Board

2022–2023 Latvenergo AS, Director for Wind and Solar Park Development

2017–2021 Latvenergo AS, Generation Projects Director

2010–2017 Latvenergo AS, Head of Maintenance Project Unit

2006–2010: Latvenergo AS, Head of Development and Maintenance Project Preparation Unit

2001–2006 Latvenergo AS, Head of Contract and Investment Analysis Unit at Daugava HPPs

RTU, Professional Master's Degree in Occupational Safety (2015)

University of Latvia, Master's degree in International Law (2006)

RTU, Master's degree in Management (2003)

Turība University, Higher Professional Qualification of Lawyer (2002)

RTU, Bachelor's degree in Business Management and Organisation (2000)

Dmitrijs Juskovecs

Member of the Management Board and Chief Commercial Officer

02.01.2027

2022–present: Elektrum Eesti OÜ, Chairman of the Supervisory Board

2022–present: Elektrum Lietuva UAB, Chairman of the Supervisory Board

2022–present: Latvenergo AS, Member of the Management Board, Chief Commercial Officer

2015–2020: RePharm Group, Chairman of the Management Board

2013–2014: Elko grupa AS, Regional Manager in the CIS countries

2010–present: SSE Riga, Lecturer

2005–2008: Recipe Plus AS, Chief Executive Officer

2000–2005: Magnum Medical SIA and A.Aptieka SIA, Chairman of the Management Board

American Graduate School of International Management (Thunderbird, USA), Master of International Management (1997)

SSE Riga, Bachelor of Economics and Business (1996)

Harijs Teteris

Member of the Management Board and Chief Operating Officer

02.01.2027

2022–present: Latvenergo AS, Member of the Management Board, Chief Commercial Officer

1993–2021: Linde Gas SIA, Member of the Management Board (production and logistics)

1984–1991: Sigulda SCO, Chief Engineer

RTU Riga Business School, Professional Master's Degree in Business and Organisation Management (2002)

RTU, Civil Engineer (1981)

Latvenergo AS Audit Committee

Svens Dinsdorfs Chairman of the Audit Committee	**Torben Pedersen** Member of the Audit Committee	**Ilvija Grūba** Member of the Audit Committee
Term of office		
02.02.2027	02.02.2027	02.02.2027
Experience		
2023–present: Latvenergo AS, Chairman of the Audit Committee 2017–present: INDEXO IPAS, Member of the Supervisory Board 2015–present: Elko Grupa AS, Director, Member of the Management Board 2012–2023: Latvenergo AS, Member of the Audit Committee 2006–2014: Elko Grupa AS, Finance Director, Member of the Management Board 2004–2006: Sirowa Riga AS, Finance Director 1998–2004: Air Baltic Corporation AS, Vice President of Strategic Development, Business Control Director	2023–present: Latvenergo AS, Member of the Audit Committee 2018–present: BDO Latvia AS, Member of the Council 2015–present: Electronic House UAB, Member of the Supervisory Board 2013–present: Vilnius International School, Shareholder Representative 2012–2023: Latvenergo AS, Chairman of the Audit Committee 2013–2014: Rus-Agro Team AS, Member of the Management Board 2012–2020: Baltic Engineers UAB, Chairman of the Management Board 2011–2016: Danish Chamber of Commerce in Lithuania, Member of the Supervisory Board 2001–2010: Deloitte, Partner 1994–2001: Arthur Andersen, Partner	2021–present: Latvenergo AS, Member of the Audit Committee 2022–present: AstraZeneca, Compliance Assurance Lead for Middle East and Africa 2019–2022: AstraZeneca, Compliance Assurance Lead for Europe, Canada, Russia and Eurasia 2016–2019: AstraZeneca, Compliance Assurance Partner for Germany, Switzerland, Austria, Scandinavia and the Baltic Countries and for the Production Unit in Sweden and Russia 2013–2015: AstraZeneca, Compliance Assurance Manager in the Baltic Countries, Iceland and Norway 2011–2012: AstraZeneca Latvija SIA, Compliance Assurance Manager in the Baltic Countries 2009–2011: PricewaterhouseCoopers Latvija, Risk Management, Internal Audit Services Manager
Education		
SSE Riga, Master of Finance and Economics (2003) SSE Riga, Bachelor of Economics and Business Administration (1998)	Aarhus School of Business, Master of Economics and Auditing (1974) Chartered Accountant Qualification (Denmark)	Institute of Internal Auditors (USA), Certified Internal Auditor (2008) University of Latvia, Economist's Qualification in Accounting (2003) University of Latvia, Master of Social Sciences in Business Management (2000)

Members of the Audit Committee who are also members of the Latvenergo AS Supervisory Board:

Toms Siliņš

Term of office: 02.02.2027

Information about experience and education is available in the subsection Latvenergo AS Supervisory Board.

Gundars Ruža

Term of office: 02.02.2027

Information about experience and education is available in the subsection Latvenergo AS Supervisory Board.

Group Management

Latvenergo Group's management model is based on corporate governance best practice. To ensure effective Group governance, decision-making, and achievement of goals, strategic and operational management are separate.

The Group's strategic management is implemented by the Management Board, whose accountability is joint according to the Commercial Law, and operational management is ensured by Chief Officers, whose accountability is individual. The main duty of the Management Board is to lead the Group to reach the objectives set in the strategy. At minimum, the Management Board reports to the Supervisory Board on a quarterly basis and to the Shareholder on an annual basis. Chief Officers ensure the operational management of Latvenergo AS, including goal achievement and policy implementation; they also ensure their division's cooperation with the functions of other divisions and adoption of decisions in compliance with the Group's strategy and delegation. The divisions have been established in accordance with the strategic goals of the Group.

Considering their previous experience and knowledge of the Group's operations, the Members of the Management Board of Latvenergo AS perform the duties of Chief Officers. In September 2023, Kaspars Cikmačs left the positions of Member of the Management Board and Chief Development Officer. Ilvija Boreiko is acting as Member of the Management Board and Chief Development Officer until the selection of the permanent Management Board member is completed.

At the time of the report's publication, the duties of the Chief Officers are divided as follows:

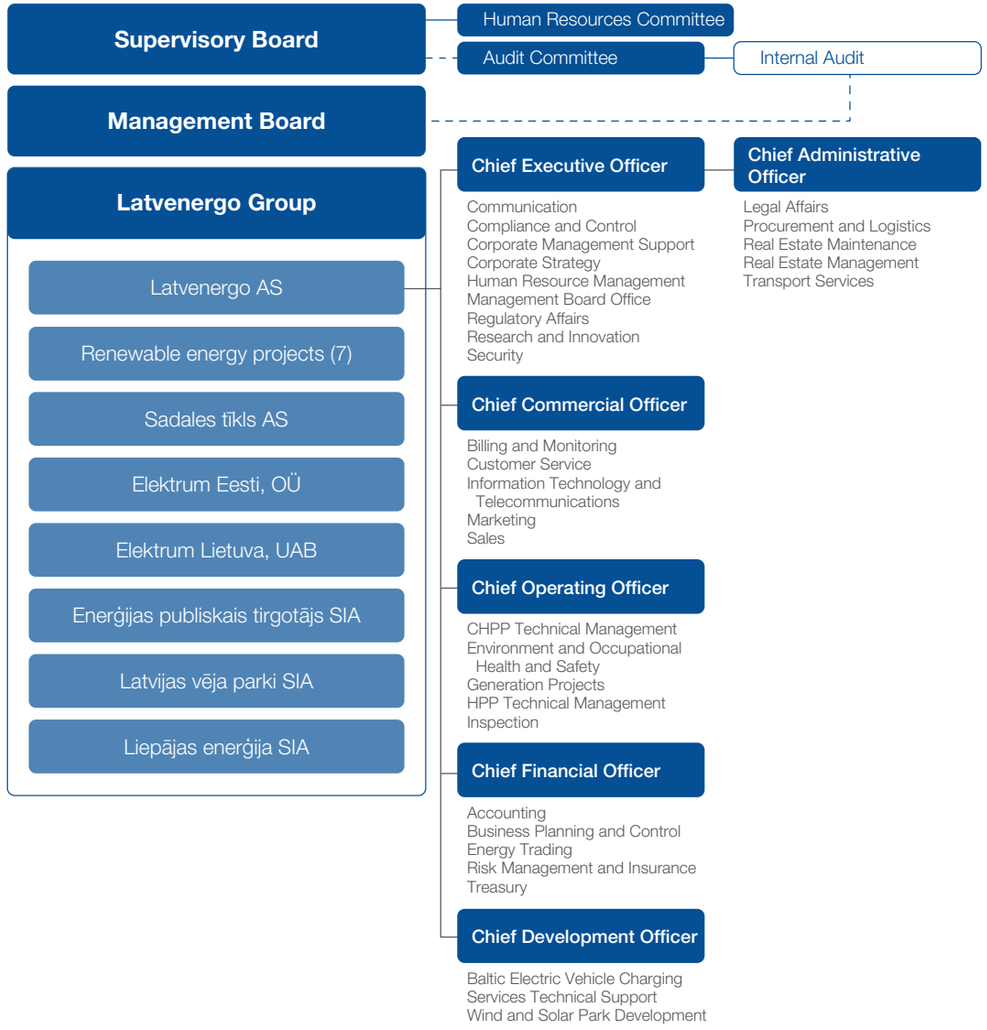
- Mārtiņš Čakste – Chief Executive Officer
- Guntars Baļčūns – Chief Financial Officer
- Ilvija Boreiko – Chief Development Officer
- Dmitrijs Juskovecs – Chief Commercial Officer
- Harijs Teteris – Chief Operating Officer

A certain group of administrative functions is supervised by the Chief Administrative Officer Arnis Kurgs, who is not a Member of the Management Board.

Changes in the organizational structure

The strategy of Latvenergo Group is to increase RES production capacities, including through active mergers and acquisitions of assets. Since the end of the reporting year in January 2024, seven solar power plant projects have been acquired in Latvia. The acquired companies were incorporated into the structure of the Group as subsidiaries of Latvenergo AS.

Organisational structure of Latvenergo Group (as of 1 March 2024)



Internal Control System and Risk Management

Internal Control System

To ensure the achievement of Latvenergo Group's strategic goals, and to successfully control its operations, there is an internal control system within the Group. The Internal Control Integrated Framework guidelines of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) have been taken into account in the design and continuous improvement of the system.

The three key objectives of the internal control system are efficiency of operations, credibility of the information disclosed, compliance with external legislation.

Efficiency of operations

The operational efficiency of Latvenergo Group is achieved and regularly improved by setting targets at the level of the Group, each company and each business unit. Targets are interlinked and cascade down from the Group level to the unit level and, in some cases, to the individual employee level. Progress is measured and evaluated at least quarterly, and Oracle Business Intelligence and Microsoft Power BI data analysis and reporting tools are used for daily monitoring.

Credibility of the disclosed information

Reporting includes both internal and external reports on financial and non-financial operations. The accuracy and completeness of internal information is ensured by building integrated information systems that reduce the impact of human error. Meanwhile, external information is primarily based on accurate and complete internal information, which is reviewed and approved by the responsible unit before dissemination. A responsible is identified for key external reports, and regular training on the requirements for external reporting is provided to the staff involved.

Compliance

The Group operates in compliance with laws and other external regulations. The Group is subject to extensive external regulation, and processes for the monitoring of regulatory developments in areas of key importance to the Group have been introduced. A responsible unit or staff member is identified for key regulatory areas, and the staff involved are regularly informed about changes in external requirements.

To achieve these objectives of the internal control system, the following elements of the system are continuously improved at the level of the Group, companies and business units: control environment, risk assessment, control measures, information and communication, monitoring.

Control environment

The management of the Group promotes business activities that are in line with the principles of good faith and comply with ethical standards. It also implements actions to prevent the risk of fraudulent conduct and corruption and to improve the control environment. Responsible persons for the establishment and implementation of control measures are appointed at all organisational levels. The management of the Group actively communicates its values to employees and sets a good example through its actions. Employees receive training on a regular basis, thus promoting a common understanding of the elements of the internal control environment. The Internal Audit annually provides a comprehensive opinion on the effectiveness of the internal control and risk management system as well as recommendations for its improvement.

Risk assessment

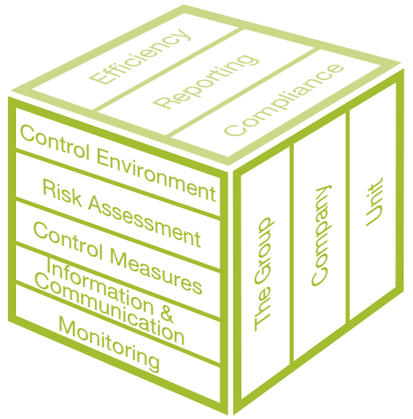
The Group continuously improves its risk management process to adapt to the changing business environment and market developments. Risk assessment is integrated into all governance processes of the company.

Control measures

Integrated control measures have been introduced and are continuously being improved at the Group – policies, departmental regulations, assignment of duties and responsibilities, etc. Their role is to promote the implementation of the strategy and the achievement of its objectives by ensuring ethical, productive and efficient operations.

Information and communication

Integrated information systems are being built and data quality is being monitored to ensure that the information provided by the Group



is accurate and complete. The financial information of the Group is prepared in accordance with International Financial Reporting Standards and financial statements of the Group are audited by an international audit company with relevant experience in the energy sector.

The management of the Group regularly informs employees of long-term and short-term plans and performance, including by organising online meetings with employees, where questions can be asked. The main internal communication channels are the intranet *LEports*, the employee magazine *Latvenergo Vēstis*, and internal record-keeping systems and work meetings. Employees' opinions are collected in internal surveys and development interviews.

Monitoring

The Group's management is responsible for the regular assessment and improvement of the control system, while the management's performance is monitored by the Supervisory Board and the Audit Committee. The Internal Audit examines the functioning of the control system and evaluates the effectiveness thereof. All of these supervisory institutions are independent in their operations. Latvenergo AS performs an annual self-assessment of the internal control system, which allows for a structured assessment of the functioning of the existing system's elements, identification of deficiencies, and determination of further actions for the system's improvement. This self-assessment is part of a regular system for the evaluation and improvement of controls.

Supervisory institutions

	External Auditor	Supervisory Board	Audit Committee	Human Resources Committee	Internal Audit
Objective	To provide an opinion on compliance of the Group's financial reports with the IFRS	To represent the interests of the Shareholder in between the Shareholder Meetings and supervise the operation of the Management Board	To supervise the preparation of the Group's financial reports and the operation of internal control systems, thus stimulating transparency of company operations	To ensure the supervisory functions of the Supervisory Board in the area of human resource management	To evaluate and improve the effectiveness of internal control, risk management and governance processes
Monitoring scope and tasks	✓ Auditing financial reports and checking the sustainability report ✓ Evaluation of accounting principles and justification of major management accounting estimates (as part of auditing financial reports)	✓ Supervision of the Management Board's operations ✓ Approval of the medium-term operational strategy and the current year's budget and monitoring of their implementation ✓ Evaluation of the Audit Committee's work ✓ Supervision of the Company's compliance with legislation, the Articles of Association and the decisions adopted by the Shareholder Meeting	✓ Supervising the preparation of financial reports ✓ Supervising the effectiveness of the internal control system and risk management ✓ Supervising the activities of the Internal Audit and the auditor as well as the implementation of the Fraud Risk Management Plan ✓ Ensuring the selection process of the external auditor	✓ Ensuring the selection of the Management Board, the Audit Committee and the Internal Audit Director ✓ Evaluation of the remuneration, performance and combining of positions of the Management Board and the Internal Audit Director	✓ Evaluation of the effectiveness of internal control, risk management and governance processes, providing recommendations and supervising their implementation
Reporting	Once a year, following the finalization of the consolidated financial statements, the external auditor reports to the Shareholder Meeting.	At least once a year, the Supervisory Board reports to the Shareholder Meeting.	At least once a year, the Audit Committee reports on its activities and performance to the Supervisory Board.	The Human Resources Committee reports on its activities and performance to the Supervisory Board.	Every quarter, the Internal Audit reports to the Audit Committee on the audits performed and the implementation of audit recommendations.

Risk Management

The objective of the Group's risk management is to identify significant risks in a timely manner and manage them to ensure achievement of the strategic goals and minimise potential losses or harm to the Group's reputation. Risk management is integrated into strategy development and implementation as well as operational activities. The basic principles of risk management are defined in the Group's Risk Management Policy.

Significant risks are analysed in internal working groups and in the Group's Risk Management Committee, which is a specially established institution on the level of the Management Board. Within the analysis, the probability and impact of a risk is evaluated, critical controls are identified, risk mitigation measures are developed, and the implementation of these control measures is supervised. Any risks identified are conveyed to the internal audit system, thus allowing the risk assessment to be used for planning the activities of the Internal Audit.

In 2023, the Group stepped up its proactive risk management approach. Forecasts of risk appetite and key risk indicator scores, risk changes and major incidents are provided to the management of the Group on a monthly basis, while actual risk indicator and risk appetite scores are provided in a quarterly report.

An initial identification of environmental, social and governance risks was carried out in the reporting year alongside the development of the Sustainability Strategy, noting which of the existing risks that have already been identified are relevant to the environmental, social and/or governance domain and identifying new ones. The environmental risk assessment methodology has been updated with climate change assessment criteria, and assessment of physical risks from climate change in accordance with the principles of the TCFD guidelines has been initiated. Projected changes in weather patterns which can cause potentially greater negative consequences are being assessed. Pursuant to the assessment of climate risks, decisions on the need for climate adaptation measures will be made. In 2024, the Group plans to further develop the management of sustainability risks and opportunities and to start identifying and assessing them at subsidiaries as well.

The Group's risks

Strategic risks	Operational risks	Financial risks	Legal and compliance risks	Fraud and corruption risks	Sustainability risks
Risks related to the implementation of strategically important capital expenditure projects, introduction of new, innovative technologies and expanding into new market and business areas.	Risks related to energy generation and ensuring the functionality of power plants and energy distribution. They are also associated with loss of assets, human health and safety, information technologies, environmental impact and other issues. These risks arise from imperfect or insufficiently effective processes and systems, errors or insufficient competence on the part of employees, damage to equipment or external events.	Market risk, credit risks, liquidity and cash flow risk.	Risks arising from laws and regulations of the EU and the Republic of Latvia.	Likelihood that an employee or a group of employees will act intentionally to serve their own interests or interests of another person, gaining undue benefits and causing financial or reputational damage to the Group.	Risks related to environmental, social and governance aspects.
Main risk management tools					
• monitoring change and development trends in the energy sector and the political environment, participating in developments that affect the Group's operational aspects • evaluating and implementing necessary changes in the Group	• maintenance of the internal control system and its continuous improvement • regular inspection and maintenance of equipment • ensuring qualifications of personnel at the necessary level (briefings, trainings, knowledge tests) • use of insurance services	• risk management committee for the generation and trade portfolio • risk assessment report for the trade portfolio • derivative financial instruments • delivery of natural gas for a fixed price • balanced trade portfolio • balanced allocation of financial assets and liabilities • raising of funding in a timely manner (incl. credit lines)	• monitoring changes and development trends in the legal environment that apply to the Group's operations • participation in the development process of new regulatory documents and implementation of necessary changes in the Group	• ban on accepting and offering gifts (except for items of insignificant material value) • restrictions on combining of positions (to combine positions employees must receive the employer's written consent, and combining of positions shall not create conflicts of interest) • ban on conflicts of interest (conflict of interest declarations, employee declaration on averting conflicts of interest) • regular training of employees on issues of ethics, prevention of conflicts of interest, and prohibiting fraud and corruption	• civil protection, emergency situation management and accident risk mitigation plans • monitoring changes and trends in environmental, social and governance aspects related to the Group's operations • internal and external communication on environmental, social and governance aspects

Group Procurement

To ensure its operations, Latvenergo Group procures electricity, energy resources, and various types of construction work, goods and services. Most of the Group's procurement comes from suppliers and service providers in the Baltics and the Nordic countries. The total number of suppliers amounts to several thousand. The procurement process is implemented in accordance with the laws and regulations of the EU, Latvia and other countries where the Group operates and is based on the principles of Directive 2014/25/EU of the European Parliament and of the Council and the Law on the Procurement of Public Service Providers. The procurement process is organised in a manner that promotes competition, openness and equality. All procurement is carried out electronically with the use of information technology.

The companies of the Group operating outside the Republic of Latvia also comply with the Procurement Policy of the Group, which is regularly updated in accordance with EU and Group requirements. This ensures that uniform principles of fair procurement are applied and managed across all Group companies.

Responsibility for the environment and people

In procurement procedures, the Group follows the principles of green procurement where possible and economically feasible. The capital companies of the Group which operate in the Republic of Latvia comply with Cabinet Regulation No. 353 "Requirements for Green Public Procurement and the Procedure for their Application" of 20 June 2017 and apply the green procurement criteria to the groups of procurement goods and services referred to in the Regulation.

The basic rules of Latvenergo AS for the procurement procedures include internal green procurement guidelines. In 2024, Latvenergo AS plans to improve the accounting of green procurement and look for opportunities to implement such procurement in all procurement categories. Measures for the support of the company's units will be developed and implemented to ensure more extensive implementation of green procurement.

Latvenergo AS strictly observes the labour law and imposes the same requirements on its suppliers. The company does not enter into contracts with suppliers found to have violated labour rights.

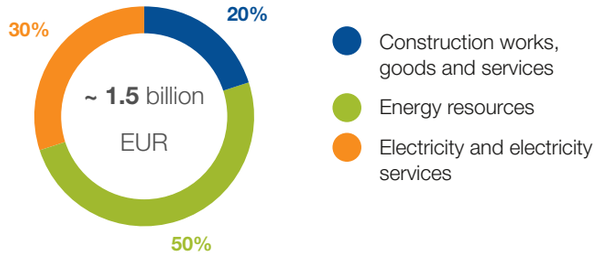
Supply chain governance

When selecting suppliers, the Group complies with the Law on International Sanctions and National Sanctions. Before concluding a procurement contract, the companies of the Group check whether the potential winner and its subcontractors have been sanctioned, which could adversely affect the performance of the contract.

To ensure the monitoring of the supply chain, Latvenergo AS has implemented an electronic qualification system (EQS), where suppliers register for participation in procurement. For the development of wind farm projects, the qualification systems "Environmental Impact Assessment Services" and "Natural Expert Services" have been set up within the framework of the EQS, with 15 suppliers already qualified.

Latvenergo AS is already assessing the performance of contracts and suppliers. In 2024, the development of a supply chain risk assessment and sustainability requirements for suppliers are planned. The supply chain assessment also includes supplier mapping – identifying the most critical suppliers, determining their impact on the sustainability objectives of the Group and categorising suppliers into risk groups.

Types of procurement in 2023



Procurement of construction work, goods and services

In 2023, costs incurred by Latvenergo Group for construction work, goods and services amounted to approximately EUR 300 million. The largest share of these costs comprised investments in the reconstruction of the existing assets and construction of new ones, with EUR 193.3 million invested in the reporting year. To ensure the high quality of network services, technical performance and operational reliability, a considerable amount of investment has been made in distribution networks. This represents around half of the total investment. The Group is also continuing the reconstruction of the hydropower units of the Daugava HPPs, with EUR 8.2 million invested in the reporting year. EUR 34.9 million were invested in the development of *Elektrum* solar parks, which amounts to almost one fifth of the total investment. The other expenses related to the procurement of construction work, goods and services consist of procuring materials, repairs and various service costs.

Key procurement procedures in 2023:

- Contracts for the construction of Birži SPP and Jaunciems SPP were concluded.
- The procurement process for the construction of Priekule WPP was launched and contracts for environmental impact assessments (EIAs) for several WPP sites were concluded.
- Both Elektrum Lietuva UAB and Elektrum Eesti OÜ are actively developing SPPs and WPPs, which will complement the RES generation capacity of Latvenergo Group.
- A dynamic procurement system has been set up for the purchase of electric car charging equipment to facilitate the efficient and rapid growth of the charging network.

Procurement of electricity

The total expenses of electricity procurement at Latvenergo Group amounted to approximately EUR 460 million, also comprising the expenses of ancillary electricity services, including transmission service costs, and electricity futures to reduce price risks. The Group sells all the electricity it generates and at the same time procures electricity for its customers on the Nord Pool power exchange, thus ensuring the full transparency of its transactions. The Baltic states are fully integrated into the Nordic electricity market through transmission interconnections, and electricity price formation in Latvia is determined by the Nordic, Polish and German electricity price relationships as well as the available interconnection capacity. Electricity price fluctuations are largely linked to general trends across Europe.

Procurement of energy resources

The energy resource procurement of the Group comprises natural gas, woodchips and diesel fuel, as well as CO_2 emission allowances for the generation of electricity and thermal energy. In 2023, the total expenses amounted to approximately EUR 750 million. The Latvenergo AS CHPPs accounted for approximately 60% of energy resource procurement costs. Natural gas makes up the largest share of these expenses. It is used as the primary fuel by the CHPPs and as one of the fuel sources by the Liepaja plants. The Group organises natural gas supplies to the CHPPs through wholesale purchases of natural gas (including inventories for the next heating season). Meanwhile, Liepājas enerģija SIA buys natural gas from natural gas trade companies in Latvia. Consumption of natural gas depends on the electricity market conditions and the demand for thermal energy.

As of 1 January 2023, supplies of natural gas from Russia are prohibited by law in Latvia. The prohibition does not affect the natural gas supply of Latvenergo AS, as the company has already stopped purchasing natural gas from Russia as of 24 February 2022, switching to liquefied natural gas (LNG) supplies from other countries. A contract with the Norwegian company Equinor ASA for deliveries of 6 TWh through the Klaipeda LNG terminal has been signed for the period from 2024 to 2026. Latvenergo AS is entitled to use 6 TWh of Klaipėda LNG terminal capacity annually for regular supplies of natural gas until 2032.

To ensure the reliability of thermal energy supply in situations where the supply of natural gas is limited, the CHPPs store backup fuel reserves of diesel. Diesel is also used in the boiler house of Liepājas enerģija SIA. Procurement of diesel fuel accounts for an insubstantial share of the overall expenses of energy resources.

The Liepaja plants mainly use a renewable energy source, woodchips, to generate electricity and thermal energy, which accounted for about 1% of the Group's total energy resource expenses in 2023. Like all other goods and services, woodchips and diesel fuel are procured under the conditions of free competition.

The expenses of CO_2 emission allowances in 2023 accounted for approximately 5% of total energy resource expenses. For more information on the allocated CO_2 emission allowances, see the section Environmental Topics.

Purchased electricity

	Units	2019	2020	2021	2022	2023
Purchased electricity	GWh	3,569	3,823	4,208	3,354	3,546

Fuel consumption

	Units	2019	2020	2021	2022	2023
Natural gas (incl. the volume of natural gas sold)	thsd. nm^3	674,889	492,263	581,799	422,022	503,205
Wood chips	loose m^3	225,166	237,511	268,947	266,135	293,328
Diesel fuel	m^3	11	10	10	17,230	6,286

Stakeholder Engagement

Stakeholder engagement is an important element of Latvenergo Group's responsible business conduct. Stakeholders are identified, evaluated and grouped taking into account the GRI guidelines and the AA1000 Stakeholder Engagement Standard. The Group assesses the social, environmental and economic impact of its activities and engages stakeholders in addressing issues of mutual interest. Stakeholder engagement takes place at the level of consultations, negotiations, involvement and/or partnership.

Key stakeholder engagement activities implemented in the reporting year:

- The Group organised quarterly online discussions with analysts and economists from the Bank of Latvia, the Council for Fiscal Discipline, and Latvia's largest commercial banks. The discussions provided insights into the operations and financial performance of the Group and analysed how energy interacts with other sectors of the economy.
- In February, the Group organised an online stakeholder seminar, *Wind – the energy of the future today*, in cooperation with the EC Representation in Latvia, RTU and the association *Zaļā brīvība*.
- The Supplier Day 2023 held in June provided an opportunity for construction companies and suppliers of electrical equipment and materials to learn about the future development plans of the companies of the Group, the expected scope and timing of partner involvement, and the operating principles of procurement and other organisational systems.
- In May and June, Sadales tīkls AS, in cooperation with local governments, held meetings with Latvian entrepreneurs. During the meetings, the impact of the new tariffs on business, types of connections and their advantages, electricity generation facts and forecasts, and news on the services of Sadales tīkls AS were discussed. The meetings were held in all regions and major cities of Latvia and were attended by approximately 500 companies.
- In November, an onsite seminar was organised for external stakeholders to discuss the draft Sustainability Strategy of the Group and proposals for further strategy development and implementation. Almost 90% of stakeholders believe that state-owned companies should be examples of best practice in sustainable development. The majority of participants also consider wind and solar energy to be the most promising areas for developing electricity generation assets.
- At the end of the year, webinars on the sustainability strategy of the Group were also organised for employees. Representatives of the Group's management and the Sustainability Committee presented sustainability objectives and activities and discussed sustainability management practices and key challenges. The majority of employees who participated in the survey on the Group's intranet are convinced that environmental, social and governance criteria are important for the sustainable development of the company.

For more information on the sustainability topics jointly defined by stakeholders and the Group, see the section Materiality Assessment.

Latvenergo Group's stakeholders, mutual impact and material topics

Shareholder – Ministry of Economics

- the Group's contribution to the national economy
- the Group's strategy, governance, investments and performance
- compliance with the requirements of laws and regulations and fair competition

Business partners

- clear and transparent procurement tenders, investments, compliance with laws and regulations and fair competition
- efficiency, availability and security of distribution services

Employees, trade union

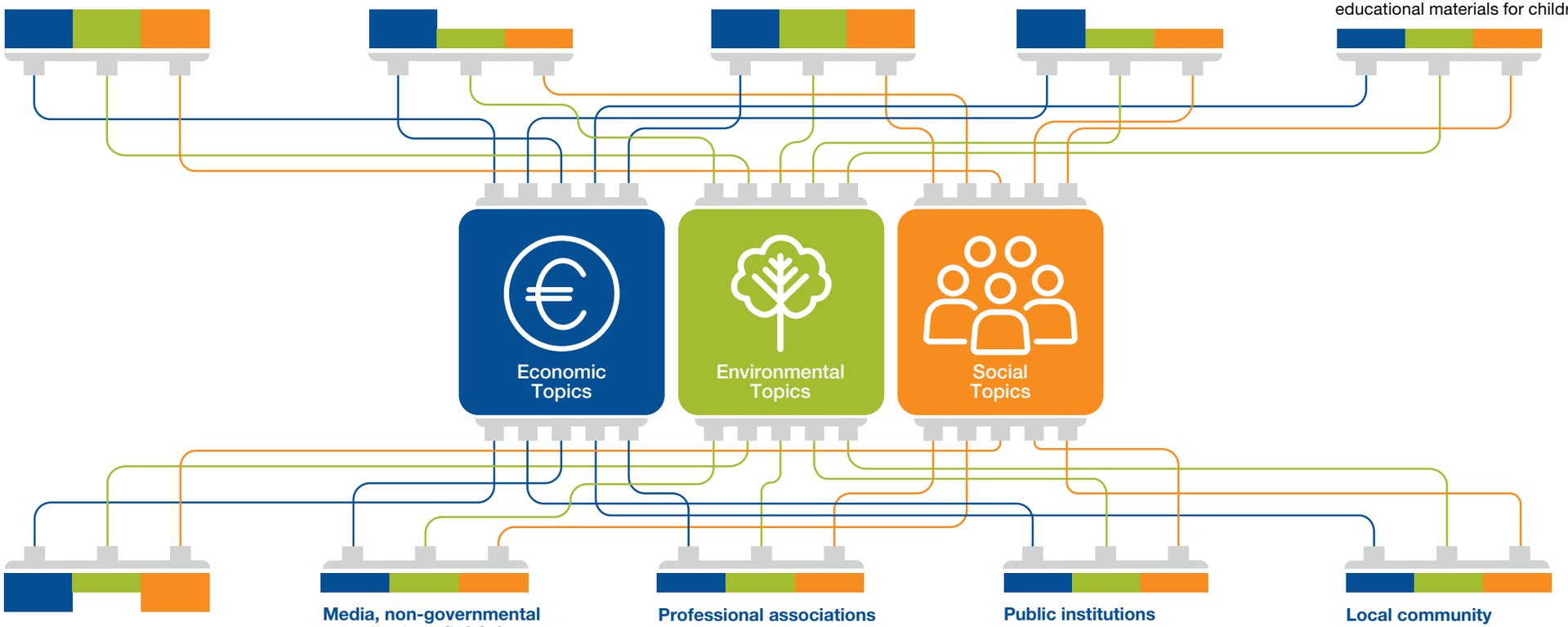
- occupational health and safety
- collective bargaining agreement
- involvement, development, productivity and motivation of employees

Funders and investors

- the Group's financial results, significant events, compliance with laws and regulations and agreements
- fair competition and communication practice

Educational and scientific institutions

- involvement of the Group in the development of educational programmes that meet the requirements of the labour market and involvement of the Group's experts in educational programmes
- science and education projects, educational materials for children and youth



Customers

- products, services, their quality and price
- reducing the frequency and duration of unscheduled power outages
- availability of information

Media, non-governmental organisations (NGOs)

- availability of information on the Group's core operations and governance
- current issues in energy sector policy
- compliance with laws and regulations and fair competition

Professional associations and sector specialists

- efficiency of generation facilities and involvement in shaping energy sector policy
- compliance with laws and regulations and fair competition
- community contribution
- availability of information

Public institutions

- development of Latvian and EU energy policies
- efficiency of energy generation facilities and contingency management plans
- compliance with laws and regulations and fair competition
- data security

Local community

- modernisation of generation facilities and network development projects; efficiency and availability of distribution services
- compliance with environmental protection requirements
- the Group's CSR activities

material impact less material impact

Stakeholders

	Shareholder – Ministry of Economics	Business partners	Employees, trade union	Funders and investors	Educational and scientific institutions
Level of engagement	collaboration	involvement	negotiation, involvement	consultation, collaboration	collaboration
Engagement description	See the section Governance Bodies.	See the section Group Procurement.	See information on employees and the working environment in the section Social Topics.	See the section Corporate Governance.	See information on science and education projects in the section Corporate Social Responsibility.

Stakeholders

	Customers	Media, non-governmental organisations (NGOs)	Professional associations and sector specialists	Public institutions	Local community
Level of engagement	involvement	consultation, involvement	consultation, involvement	consultation, involvement	consultation, involvement, negotiation
Engagement description	See the section Trade and Product Responsibility.	Cooperation with national and regional media includes press releases, media events and press conferences. In 2023, the main topics were the financial and operational results of the Group, governance of the Group, generation of electricity from renewable energy sources, availability and prices of energy resources, procurement of the Group, biodiversity, development of the electric transport charging network, responsible business activities and support for Ukraine. The Group regularly provides information on its activities and answers questions from journalists on its website and social media. The Group also provides NGOs with information related to its core operations.	See the section Representation at Associations, Organisations and Unions.	In 2023, the Cabinet of Ministers of the Republic of Latvia decided to grant the right to acquire construction rights in certain territories of Latvijas valsts meži AS to the joint venture Latvijas vēja parki SIA to implement the construction of wind parks of strategic importance for the country. In compliance with the procedure stipulated by laws and regulations, the Group cooperates with the Competition Council and provides regular information on its operations and financial results. Information on the Group's involvement in shaping energy sector policy is available in the section Society.	The Group cooperates with local governments on environmental impact assessment of the modernisation projects of the Group's facilities, while Sadales tīkls AS regularly informs local governments about improvements in electricity supply and the planned electricity network renovation projects. Every spring, regular interinstitutional meetings are held to secure the preparedness of responsible services, institutions and local governments and their action during the spring flood period in the Daugava River basin. The Group engages the local community in discussing the modernisation projects of the Group's facilities, regularly surveys the opinion of Latvian residents through various opinion polls and implements different CSR activities – see the section Corporate Social Responsibility. In 2023, surveys by certified experts on species, species groups and habitats were in progress, and environmental impact assessments were launched at eight potential WPP sites.

consultation – identification of current issues

negotiation – participatory discussions

involvement – participation in joint activities, development of solutions and action plans

collaboration – joint decision-making and cooperation

Representation at associations, organisations and unions

Membership in industry associations, unions and organisations provides Latvenergo Group with information on current developments in energy and related industries and ensures the representation of its interests during the drafting of national and international policy documents, legislative acts and standards. Representatives of the Group regularly discuss the issues of energy and development of related sectors at various forums, conferences, seminars and working groups with industry experts.

The most significant events in which the Group's representatives participated in 2023 include:

- the conferences *Energy 2023*; *WindWorks. Moving Energy*; *Energy for Future Society*; *Nuclear Energy for Latvia*; *Birds and WPP Development: How to Find the Best Solution?*; and *The Energy Trilemma: Energy Transition Framework – Baltic Sea Region Focus*
- *Lampa* Conversation Festival
- Energy Innovation Forum *AC/DC Tech*
- *Green Tech Hackathon III* and *Hydrogen X Future Hackathon*
- *Market of Responsible Ideas*

International organisations and unions

Baltic Institute of Corporate Governance

European Network for Cyber Security

European Distribution System Operators' Association for Smart Grids

European Wind Energy Assocation WindEurope

Union of the Electricity Industry – Eurelectric

Technical Association for Power and Heat Generation vgbe energy e.V.

International Business Network Organization for Economic Cooperation and Development

National associations and professional organisations

Latvian Association of Power Engineers and Energy Constructors

World Energy Council, Latvian National Committee

Latvian Association of Large Dams

Latvian Chamber of Commerce and Industry

Latvian Association of Heat Supply Companies

Latvian Hydrogen Association

Institute for Corporate Sustainability and Responsibility

Employers' Confederation of Latvia

Wind Energy Assocation

Latvenergo

The business model of Latvenergo Group

	Resources	Operating segments	Results	Impact
Economic	• Assets – EUR 4.1 billion • Generation capacity – 2,606 MW_{el} and 1,797 MW_{th} • Solar parks for customers – 30 MW_{el} • Electricity distribution network – 92 thousand km of power lines • Energy consumed: - 3.5 TWh of electricity - 0.5 billion nm^3 of natural gas - 0.3 million m^3 of woodchips - 6 thousand m^3 of diesel • Moody's credit rating: Baa2	Latvenergo Group – one of the largest providers of energy supply services in the Baltics. **Generation and Trade** Generation of electricity and thermal energy, trading electricity and natural gas, trading products and services related to electricity consumption and energy efficiency in the Baltic states. Administration of mandatory electricity procurement in Latvia. **Distribution** The distribution service ensures the flow of electricity from the transmission network to consumers. Sadales tīkls AS is the largest distribution system operator in the country, covering about 99% of the territory of Latvia. Tariffs for distribution system services are approved by the Public Utilities Commission (PUC).	• Latvenergo AS – the most valuable energy company in the Baltics • Profit – EUR 351 million • 5.1 TWh of electricity and 1.7 TWh of thermal energy generated • SAIDI – 266 min and SAIFI – 2.7 times • Distribution losses – 3.72% • Electricity market share in the Baltics – 23%	• Investments – EUR 193 million • EUR 153 million paid in dividends to the state • EUR 410 million paid in taxes • Personnel costs – EUR 142 million • Raw materials, supplies, operating and other costs – EUR 1.3 billion • Share of EU taxonomy-aligned activities in CAPEX – 83%
Social	• 3,497 employees in three Baltic countries • ISO 45001-compliant occupational health and safety management system • Personnel training • Code of Ethics for employees and ethical principles for contractual partners • 845 thousand electricity customers in the Baltics – 811 thousand households and 34 thousand business customers • *Elektrum* Energy Efficiency Centre • Diverse CSR activities		• Employee engagement index – 69 • 22 training hours per employee on average • 94 internships provided • Total accident index – 0.34; 0 fatal accidents • *Elektrum* customer satisfaction index (scale 1–6): - households – 4.1 - companies – 3.9 • Customer satisfaction index of Sadales tīkls AS (scale 1–100): - households – 67 - companies – 62 • 93% of Latvian residents who know/have heard about the CSR activities of the Group rate them positively.	• A safe and supportive working environment • A wide and modern range of products and services • Increased public awareness of the Latvian energy sector, energy efficiency and electrical safety • Children and young people engaged in science subjects • Improved educational and scientific equipment and teaching materials • Diamond category in the Latvian Sustainability Index
Environmental	• The Daugava HPPs' cascade – the most important source of renewable electricity in the Baltics • Latvenergo CHPPs and Liepaja plants – natural gas and woodchips • consumption of primary energy resources: - 53% renewable resources - 47% fossil resources • 77 thousand free CO_2 emission allowances for thermal energy generation • ISO 14001 and ISO 50001-compliant environmental and energy management system		• 73% of electricity is generated from renewable energy sources. • Approx. 700 thousand tonnes of direct CO_2 emissions • Approx. 3 million tonnes of indirect CO_2 emissions • 8.4 million fish fry and larvae were released into rivers and 450 fish spawning nests were installed • 743 nest bases installed for white storks	• The CO_2 emissions intensity of Latvenergo Group – 0.075 t CO_2/MWh, which is significantly lower than the European average • Primary energy savings – 1,1 GWh • CO_2 savings of more than 18 thousand tonnes • Latvenergo AS scores almost 97% in environmental performance on the Sustainability Index

Generation and Trade

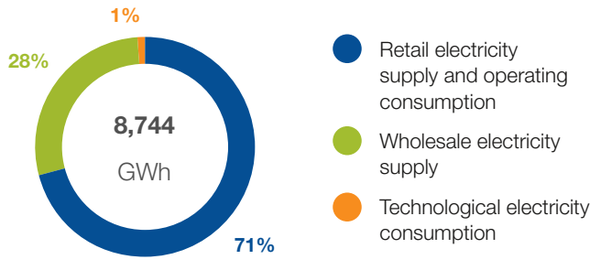
Generation and trade is the largest operating segment of Latvenergo Group in terms of revenue and EBITDA. In 2023, 88% of the segment's revenue was comprised of revenue from the trade of electricity, natural gas, and associated services, while thermal energy revenue accounted for 12%. Most of the operating revenues of the generation and trade segment are unregulated, while the tariff-regulated operating revenues consist of thermal energy generation and fees for installed electric capacity at the Latvenergo CHPPs.

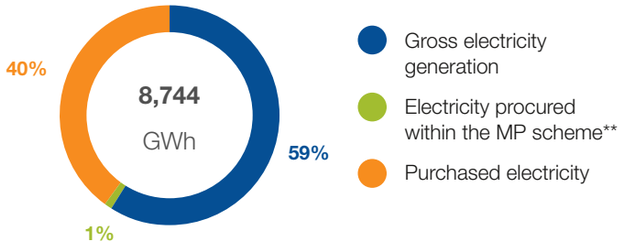
In 2023, the Group generated 5.1 TWh or 83% of the total amount of electricity sold in the retail trade. 73% of the amount generated came from renewable energy sources. Daugava HPPs generated the second largest amount of electricity in the last 25 years – 3.7 TWh. CHPP electricity generation increased by 23% compared to 2022, with 1.4 TWh of electricity generated at both plants in the reporting year. For more information, see the section Generation.

With a 23% market share, Latvenergo Group is one of the largest electricity traders in the Baltics. In the reporting year, the total amount of electricity sold, including auxiliary consumption, was 8.7 TWh. For more information, see the section Trade.

In the reporting year, the Group sold approximately 1 TWh of natural gas in the Baltics. Although demand for natural gas decreased significantly due to the increase in natural gas prices, the volume of natural gas sold by the Group remained at around the same level as in the previous year. In 2023, the total amount of natural gas consumed by the Group for its own use and sold to customers comprised 5.4 TWh.

Latvenergo Group electricity balance sheet in 2023*





Latvenergo Group electricity balance sheet*

	Units	2019	2020	2021	2022	2023
Retail electricity supply and operating consumption	GWh	6,773	6,670	6,983	5,612	6,208
incl. retail electricity supply	*GWh*	*6,505*	*6,394*	*6,706*	*5,452*	*6,208*
Wholesale electricity supply	GWh	2,754	2,460	2,554	1,894	2,450
Technological electricity consumption	GWh	121	85	96	67	85
TOTAL	**GWh**	**9,648**	**9,216**	**9,632**	**7,573**	**8,744**
Gross electricity generation	GWh	4,880	4,249	4,517	3,822	5,132
Electricity procured within the MP scheme**	GWh	1,199	1,144	907	397	66
Purchased electricity	GWh	3,569	3,823	4,208	3,354	3,546
TOTAL	**GWh**	**9,648**	**9,216**	**9,632**	**7,573**	**8,744**

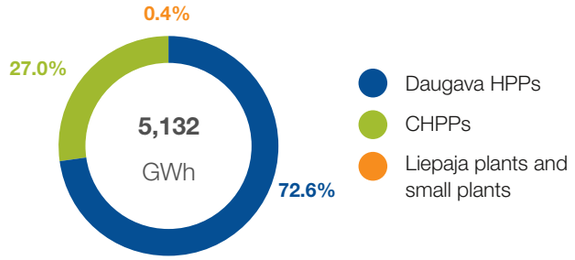
* the amount of electricity generated at the Group's facilities which has been traded and procured on the electricity exchange for auxiliary consumption purposes is not included in the Group's electricity balance sheet

** excluding electricity generated by the Group

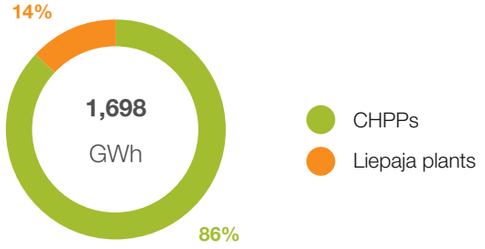
Generation

Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. Most of the electricity is generated by the three Daugava hydropower plants (HPPs) and two combined heat and power plants (CHPPs) of Latvenergo AS. The CHPPs also produce a significant part of the thermal energy required for the heat supply of the city of Riga. Energy is also generated by Liepājas enerģija SIA, Aiviekste HPP and Ainaži Wind Power Plant (WPP). The total installed electrical capacity at the generation facilities of the Group is 2,606 MW and the thermal capacity is 1,797 MW. In 2023, 5.1 TWh of electricity and 1.7 TWh of thermal energy were generated. The share of electricity generated from RES reached 73% in 2023.

Electricity output in 2023



Thermal energy output in 2023



Installed electrical capacity of generation facilities

	Units	2019	2020	2021	2022	2023
Daugava HPPs	MW	1,558	1,558	1,558	1,558	1,558
CHPPs*	MW	1,025	1,039	1,039	1,039	1,039
Liepaja plants and small plants	MW	8	8	9	9	9
TOTAL	**MW**	**2,591**	**2,605**	**2,606**	**2,606**	**2,606**

* installed capacity when CHPP-2 is in condensation mode

Installed thermal energy capacity of generation facilities

	Units	2019	2020	2021	2022	2023
CHPPs	MW	1,617	1,617	1,617	1,617	1,617
Liepaja plants	MW	221	221	180	176	180
TOTAL	**MW**	**1,838**	**1,838**	**1,797**	**1,793**	**1,797**

Electricity output

	Units	2019	2020	2021	2022	2023
Daugava HPPs	GWh	2,047	2,528	2,636	2,670	3,725
CHPPs	GWh	2,780	1,685	1,854	1,123	1,385
Liepaja plants and small plants	GWh	53	37	26	29	21
TOTAL	**GWh**	**4,880**	**4,249**	**4,517**	**3,822**	**5,132**

Thermal energy output

	Units	2019	2020	2021	2022	2023
CHPPs	GWh	1,603	1,475	1,800	1,531	1,457
Liepaja plants	GWh	239	227	272	247	241
TOTAL	**GWh**	**1,842**	**1,702**	**2,072**	**1,777**	**1,698**

Kegums HPP

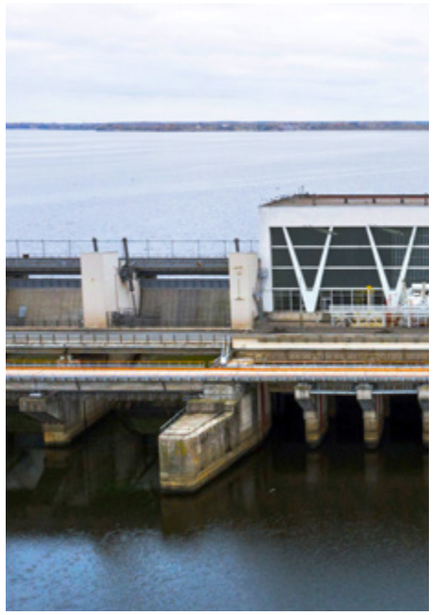
Start of operations: 1939
Capacity: 248 MW
Hydropower units: 7
Energy source: water

Kegums HPP is the oldest Daugava hydropower plant. It consists of two separate power plants built at different times on the right and left banks of the Daugava River.

Plavinas HPP

Start of operations: 1965
Capacity: 908 MW
Hydropower units: 10
Energy source: water

Plavinas HPP is the largest hydropower plant by installed capacity in the Baltic states and one of the largest in the EU. It plays an important role in ensuring the stability of the Baltic power system in the event of unplanned outages or accidents at base load power plants. Plavinas HPP also serves as a synchronous compensator for voltage regulation in high voltage electricity networks.



Riga HPP

Start of operations: 1974
Capacity: 402 MW
Hydropower units: 6
Energy source: water

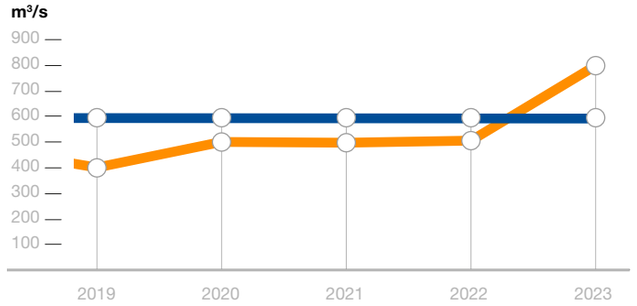
Riga HPP is the newest of the Daugava hydropower plants. It also serves as a synchronous compensator for voltage regulation in high voltage electricity networks. In 2022, the reconstruction of Riga HPP was completed.

Daugava HPPs

The Daugava HPPs are the biggest hydropower plants in the country, providing a large share of renewable energy not only in the Group, but also in Latvia as a whole. Their ability to generate electricity depends on the water inflow in the Daugava River. During the spring flooding, it is possible to cover the demand for electricity of all Latvenergo Group's customers and trade the excess on the *Nord Pool* exchange. Outside the flood season, the Daugava HPPs provide for the possibility to accumulate water in short term and adjust generation of electricity when the demand and prices on the exchange are higher.

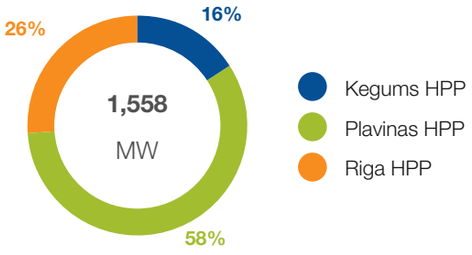
In the reporting year, due to the significantly higher water inflow, the Daugava HPPs generated the second largest electricity output in the last 25 years: 3.7 TWh of electricity were generated, which constituted 73% of the Group's total electricity output.

Water inflow in the Daugava River

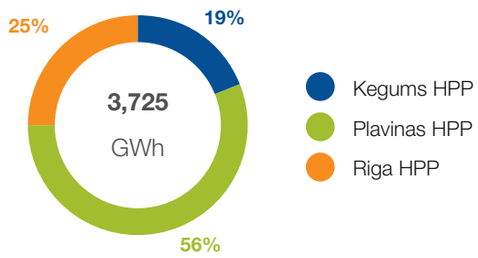


Source: Latvian Environment, Geology and Meteorology Centre

Installed electrical capacity at Daugava HPPs in 2023



Electricity output at Daugava HPPs in 2023



Installed electrical capacity at Daugava HPPs

	Units	2019	2020	2021	2022	2023
Kegums HPP	MW	248	248	248	248	248
Plavinas HPP	MW	908	908	908	908	908
Riga HPP	MW	402	402	402	402	402
TOTAL	**MW**	**1,558**	**1,558**	**1,558**	**1,558**	**1,558**

Electricity output at Daugava HPPs

	Units	2019	2020	2021	2022	2023
Kegums HPP	GWh	402	493	512	522	715
Plavinas HPP	GWh	1,150	1,420	1,474	1,487	2,098
Riga HPP	GWh	495	615	650	661	912
TOTAL	**GWh**	**2,047**	**2,528**	**2,636**	**2,670**	**3,725**

Investments in Daugava HPPs

	Units	2019	2020	2021	2022	2023
Reconstruction of hydropower units	MEUR	16.6	18.4	11.7	4.2	8.2
Other projects	MEUR	4.8	2.6	4.5	7.8	9.1
TOTAL	**MEUR**	**21.4**	**21.0**	**16.2**	**12.0**	**17.4**

Investments in the Daugava HPPs

In the reporting year, investments in the Daugava HPPs' assets amounted to EUR 17.4 million, including EUR 8.2 million invested in the programme for the reconstruction of hydropower units, which will ensure their operation for more than 40 years. By the end of 2023, eight hydropower units have been commissioned, and activities for reconstruction of the remaining three hydropower units were carried out.

Replacement of outdated hydro turbines contributes to an increase in the Daugava HPPs' capacity, efficiency rate and a decrease in water consumption per 1 kWh. This promotes reliable, efficient and competitive operations of the Daugava HPPs within the overall energy system and in the electricity market. More efficient use of water resources mitigates the negative impact of the Group on climate change. In the reporting year, each megawatt hour of electricity generated by the Daugava HPPs reduced CO_2 emissions by 0.379 tonnes, assuming that this energy would otherwise be generated in condensation mode at combined heat and power plants by using natural gas as fuel.

CHPP-1

Start of operations: 1955
Electrical capacity: 158 MW

Thermal capacity: 493 MW
Energy source: natural gas

In 2005, a completely new plant was commissioned in the territory of the CHPP-1 and the old plant was closed down. Two gas turbines, one steam turbine and three water boilers are operated at the CHPP-1.

CHPP-2

Start of operations: 1973
Electrical capacity:
832 MW (in cogeneration mode)
881 MW (in condensation mode)
Thermal capacity: 1,124 MW
Energy source: natural gas

Reconstruction of two power units was carried out from 2006 to 2013. Currently, Riga CHPP-2 is the most efficient and advanced combined-cycle power plant in the Baltics.

Two combined-cycle gas turbine units and five water boilers are operated at the plant. The CHPP-2 has the largest heat storage system in the Baltics.

Latvenergo AS CHPPs

The upgraded CHPPs of Latvenergo AS are mostly operated in the highly efficient cogeneration mode in accordance with the thermal energy demand, which in turn depends on weather conditions, the duration of the heating season and competition in the thermal energy market. The operation of these plants can be flexibly adjusted to the electricity market conditions and guarantees a significant baseload electricity capacity for Latvia. Both CHPPs can cover Latvian electricity consumption almost completely in circumstances where, due to certain factors, electricity imports from foreign countries are limited.

In the reporting year, the CHPP electricity generation increased by 23%: the electricity output at these plants was 1.4 TWh which constitutes 27% of the Group's total electricity output. The increase was due to the relatively low output in 2022 that was characterized by high prices on natural gas. The amount of thermal energy generated by the CHPPs was 1.5 TWh, which is almost equal to the amount generated in the previous year. The heat produced is sold at regulated tariffs to Rīgas siltums AS, as well as to the local external heat users of CHPP-2.

Electricity output at CHPPs

	Units	2019	2020	2021	2022	2023
CHPP-1	GWh	598	364	310	111	198
CHPP-2	GWh	2,182	1,321	1,544	1,012	1,187
TOTAL	**GWh**	**2,780**	**1,685**	**1,854**	**1,123**	**1,385**

Thermal energy output at CHPPs

	Units	2019	2020	2021	2022	2023
CHPP-1	GWh	883	729	757	650	528
CHPP-2	GWh	720	746	1,043	881	929
TOTAL	**GWh**	**1,603**	**1,475**	**1,800**	**1,531**	**1,457**

Investments in CHPPs of Latvenergo AS

	Units	2019	2020	2021	2022	2023
Investments	MEUR	10.1	17.8	3.7	1.7	13.0

Liepājas enerģija SIA and small plants

Liepaja plants

Liepājas enerģija SIA was founded in 2005
Electrical capacity: 6 MW
Thermal capacity: 180 MW
Energy source: natural gas, woodchips

Latvenergo AS holds a 51% share in Liepājas enerģija SIA. The company ensures the generation, transmission, distribution, and trade of thermal energy in the city of Liepaja as well as the generation of electricity in cogeneration mode. The primary fuel for energy generation is woodchips, which account for 87% of the fuel balance of 2023.

In the reporting year, the Liepaja plants generated 241 GWh of thermal energy and 16 GWh of electricity. Contracts have been concluded for the connection of 18 new objects to the district heating networks with a total planned capacity of 6.2 MW. 46 new contracts for the servicing of 48 heating units were concluded, five heating units were installed, and nine contracts for the delivery and installation of individual heating units were concluded. At the end of the year the total number of sites was around 1.2 thousand, with a total capacity of around 300 MW.

The company's newest woodchip boiler house with a capacity of 4 MW was launched in October 2023. It provides heating to 15 apartment buildings, Liepāja Regional Hospital, and one commercial site.

Ainazi WPP

Start of operations: 1995
Electrical capacity: 1 MW
Energy source: wind

In 2023, 0.9 GWh of electricity were generated at Ainazi WPP. A decision was taken to renovate the plant in 2024.

Aiviekste HPP

Fully renovated: 2021
Electrical capacity: 1.5 MW
Energy source: water

Aiviekste HPP was the first hydropower plant in Latvia; it started generating electricity back in 1925. In 2021, the reconstruction of the hydropower plant was completed, and the plant's capacity increased from 0.8 MW to 1.5 MW. The connection of Aiviekste HPP to the electricity network was also rebuilt.

In 2023, 4.2 GWh of electricity were generated at Aiviekste HPP.

Development of wind and solar parks

Latvenergo Group is continuing active work on expanding its generation capacity from renewable energy sources, which will contribute to the achievement of national climate goals and strengthen energy security. The focus is on the development of wind power plants (WPPs) and solar power plants (SPPs).

In 2023, three solar parks with a total capacity of 18.7 MW were commissioned in Lithuania; thus, by the end of the year, six solar parks with a total capacity of approximately 30 MW were producing electricity under the *Elektrum* brand in Lithuania. The capacity of solar parks in Lithuania will be split into three revenue streams: capacity sold to customers, capacity leased to customers and supply of the energy generated to *Elektrum* customers. The first solar park in Latvia, with a total capacity of 11.7 MW, is scheduled to be launched in May 2024. The total capacity of SPPs under design or construction in the Baltic states amounts to approximately 400 MW, which includes the expansion of the RES generation capacity portfolio of Latvenergo AS with seven more SPP projects in Latvia with a total capacity of 40 MW after the end of the reporting year – in early 2024. Gradual commissioning of the SPPs is expected in 2024–2025.

In November, Latvijas vēja parki SIA, which aims to develop onshore WPPs of strategic importance, signed a development rights contract with Latvijas valsts meži AS regarding building feasibility studies and construction of WPPs in state forests of Latvia. The total area of the above sites amounts to approximately 40 thousand ha and is earmarked for the construction of WPPs with a total capacity of at least 800 MW. The projects will be implemented in accordance with market principles, without the involvement of any state financial support mechanisms.

Several meetings were held with municipal authorities and residents during the reporting year, to hear the opinions of stakeholders and to provide information and explanations on the importance of the development of WPPs. Dialogue with environmental institutions and organisations is in progress, and nature experts are surveying and studying potential WPP sites. Considering the results of the study, the possible location of the power plants and associated infrastructure is being specified to avoid significant negative impacts on the environment, including those hosting habitats and species of high conservation value. Eight applications have been submitted to the Environment State Bureau, and environmental impact assessment procedures have been launched.

The strategy of Latvenergo Group provides for the development of offshore wind farms as well. Several discussions with potential strategic partners were held during the reporting year. The development of a new wind power plant project in Akmenė, Lithuania, with a capacity of up to 15 MW has also been commenced. The project is slated for completion in the second half of 2025. More information on wind park development and wind energy use is available on the Latvenergo website.

Principles for developing WPPs

Working and contributing to Latvia

We are a state-owned company, and the implementation of the projects benefits all of society.

Respecting the environment

We work alongside environmental organisations and comply with recommendations and applicable environmental requirements.

Being socially responsible

We anticipate financial benefits for municipalities and are already involving local communities in the planning stages.

Choosing suitable solutions

When selecting technologies, we choose solutions that are suitable for the environment and society.

GRI EU3

Trade

Latvenergo Group is one of the largest electricity traders in the Baltic states; it offers electricity and natural gas as well as an extensive range of related products and services under the *Elektrum* brand.

Electricity

At the end of 2023, Latvenergo Group had about 845 thousand customers in the Baltic states, including more than 227 thousand customers outside Latvia. The total number of electricity customers increased by 3%. The growth was significantly driven by the opening of the household market in Lithuania in 2022 – the number of household customers increased by approximately 50 thousand in this country. Of the total number of electricity customers, 96% are household customers and 4% are business customers.

The total electricity consumption of the Baltic states in 2023 amounted to 26.9 TWh, which is approximately 3% less than in 2022. A decline in consumption has been observed in all the Baltic states over the last two years. Consumption is mainly influenced by the increasing amount of microgeneration on the electricity grid, where customers generate some of the electricity they need themselves.

In the reporting year, the market share of Latvenergo Group in the electricity market of the Baltic states was 23%. In 2023, sales to retail customers in the Baltic states reached 6,208 GWh, which is 14% more than in 2022. The increase was mainly driven by the increase of sales in the business customer segment as well as in the Lithuanian household market.

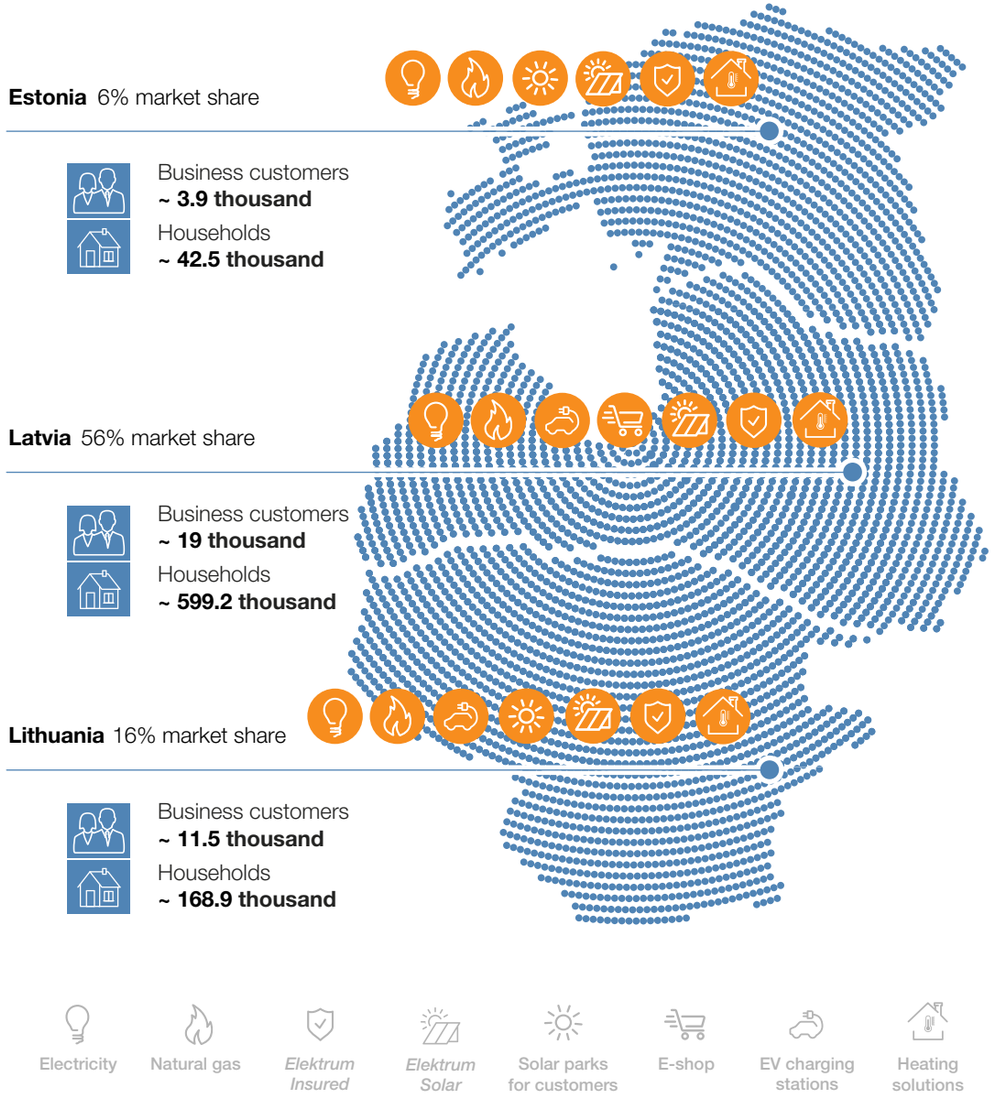
Natural gas

In 2023, Latvenergo Group sold 896 GWh of natural gas to retail customers in the Baltic states, which is 4% down from 2022. The decrease in sales is due to a general decline in natural gas consumption in the Baltic market; for instance, in the Latvian market, natural gas consumption in the reporting year, excluding the Latvenergo Group's consumption was 16% lower than in 2022.

The number of natural gas customers in the Baltic states has continued to grow, further strengthening the position of *Elektrum* in the strategically important small business and household segments. At the end of 2023, the number almost reached 50 thousand, which is an increase of 127% compared to the previous year. Of the total number of natural gas customers, 95% are household customers and 5% are business customers.

On 1 May 2023, the Latvian household natural gas market was opened; now all household users can choose their natural gas trader. By the end of 2023, as many as 46.7 thousand household customers had opted for *Elektrum* services, bringing the market share to 13%.

***Elektrum* in the Baltic electricity market**

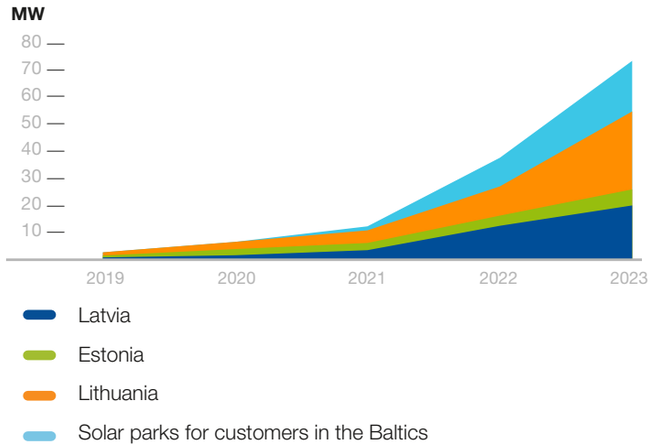


Solar panels and parks for customers

During the reporting year, the construction of solar parks for *Elektrum* customers continued actively and the total capacity of panels installed for customers increased significantly. More than 1,600 new contracts for the installation of solar panels and for the remote purchase of shares in solar parks have been signed in the Baltic states.

The total installed capacity of solar panels for retail customers of *Elektrum* in the Baltic states reached 74 MW, making *Latvenergo* Group one of the leading providers of this service in the Baltic states. Three fourths of the total capacity is installed for customers outside of Latvia. Three solar parks with a total capacity of almost 19 MW were commissioned in Lithuania in 2023. A total of seven *Elektrum* solar parks are operating in the Baltic states with a total capacity of 30 MW. The capacity of solar parks is will be split into three revenue streams: capacity sold to customers, capacity leased to customers and supply of the energy generated to *Elektrum* customers.

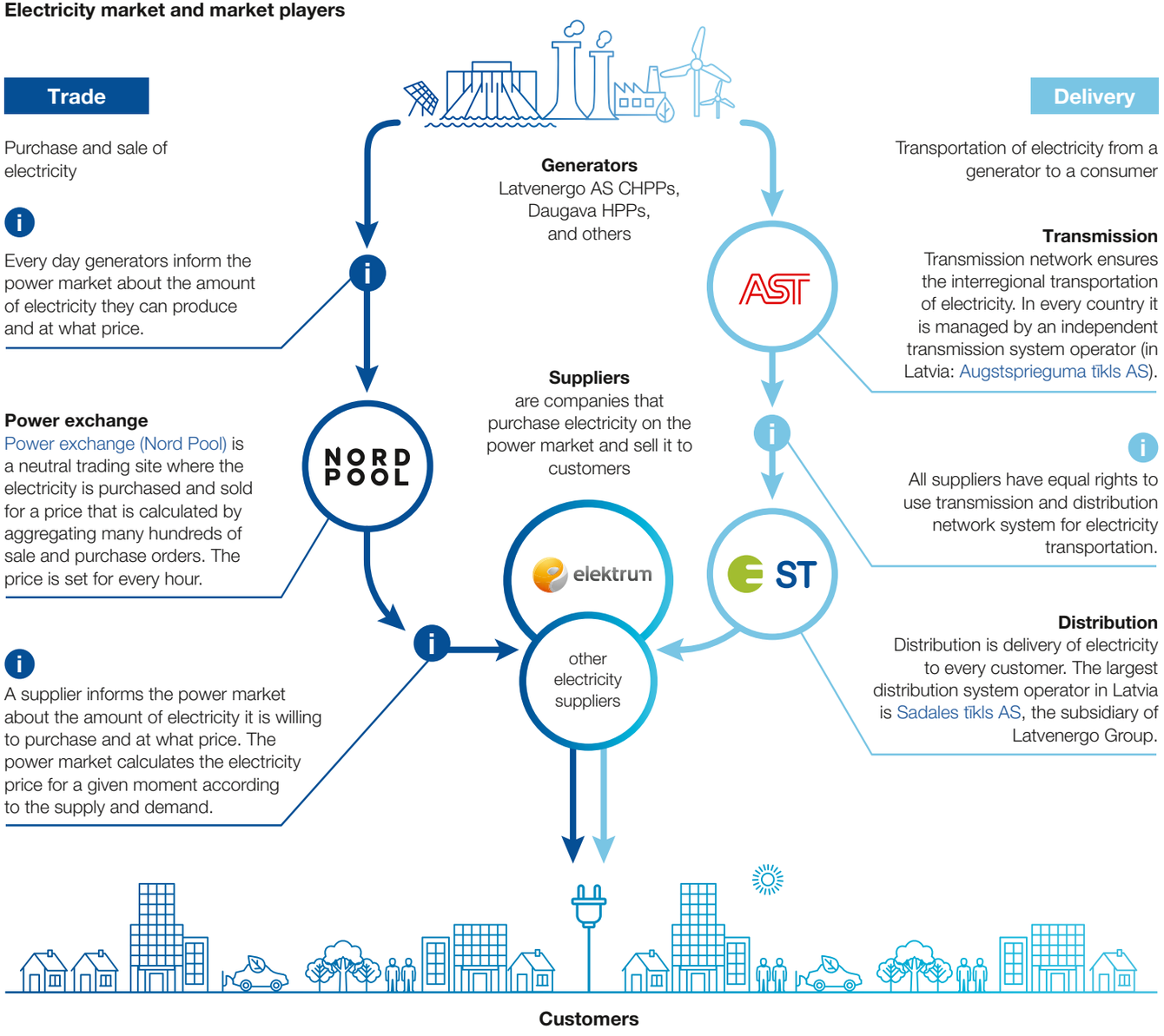
Customer solar panel capacities (cumulative)



Development of the charging network for electric cars

The development of the charging network for electric cars continued in the reporting year as well. By the end of the reporting year, the Baltic *Elektrum Drive* charging network had grown to 400 charging ports, and it is also growing rapidly in Lithuania and Estonia. The *Elektrum Drive* app may be used to charge vehicles on the e-mobi network in Latvia and at LIDL charging stations in Lithuania as well, with a total of 571 charging ports available to customers.

Electricity market and market players



The price of electricity on the bills of end-users in Latvia consists of:

- the price of electricity, which includes generation and trading costs
- charges for transmission and distribution system services provided by Augstspriegumu tīkls AS and Sadales tīkls AS (for more information on distribution tariffs, see the section Distribution)
- value-added tax

Customers can calculate the breakdown of their electricity bills according to electricity consumption and products they choose using the *Elektrum* calculator.

Energy efficiency

In September 2023, the new Energy Efficiency Directive was adopted, requiring Member States to collectively ensure a reduction in final energy consumption of at least 11.7% in 2030 compared to the 2020 projections of consumption in 2030. The new directive is a step towards climate neutrality in 2050 and requires energy efficiency to be treated as a fully-fledged energy resource. “Energy efficiency first” is a general principle that should be observed in all sectors.

The annual energy savings target for final energy consumption will gradually increase from 2024 to 2030 and will amount to new annual savings:

- in the amount of 1.3% from 2024 to 2025
- in the amount of 1.5% from 2026 to 2027
- in the amount of 1.9% from 2028 to 2030

The Energy Efficiency Directive obliges retail undertakings or system operators in the energy sector to take measures to improve the energy efficiency of energy end-users under the Energy Efficiency Obligation Scheme (EEOS). In Latvia, the EEOS was established in 2017, while Latvenergo AS has been implementing energy efficiency measures since 2014. During this period, the company has achieved significant energy savings and will continue to implement energy efficiency improvement measures in the future.

The following energy efficiency improvement activities of end-users were implemented in the reporting year:

- individual consultations, including at public events: Museum Night, the House I exhibition, Latvian Forest Days, the Song and Dance Festival, Father’s Day, etc.
- educational seminars, webinars and training for legal entities and household clients
- face-to-face *I Am Effective* classes and the *Effective Detectives* workshop, as well as online lectures for pupils and educators
- media campaigns on ways for households to reduce energy consumption (for instance, the radio feature Energy Efficiency Expert, the TV campaign *Keep the heat in*, the Economic Life column on the jauns.lv portal) and informing customers about energy efficiency on the *Elektrum* app and elektrum.lv website, where customers can also track their hourly energy consumption
- an electricity consumption assessment tool, *Energo Pulse*, which allows the customer to compare the consumption of their home with similar households in Latvia and get personalised recommendations for increasing energy efficiency
- A face-to-face training programme on energy efficiency and environmental protection has been designed for company employees. It involves employee teams playing the strategy board game Energopols.
- The section elektrum.lv/skola, which provides useful material on climate change, energy efficiency and electricity generation for students and teachers, has been developed.
- Energy efficiency tips have been published in the customer publications *Elektrum for Your Home* and *Electricity Market Review*, as well as on *Elektrum’s* social media accounts.
- participation in industry seminars, conferences, discussions, innovation hackathons and the competitions Energy Efficient Building in Latvia 2023 and Ventspils IT Challenge 2023

Mandatory Procurement

Electricity mandatory procurement (MP) is a state-regulated support mechanism for electricity generators in Latvia. It is implemented as electricity procurement or guaranteed payments for the capacity installed at power plants.

Until 2012, the right to sell electricity generated within MP or receive guaranteed payments for installed capacity at power plants was granted by the Ministry of Economics. The payments could be obtained by generators who generated electricity in efficient cogeneration or from renewable energy sources. Cogeneration plants with installed capacity above 4 MW were eligible for support in the form of payment for the guaranteed capacity. The provisions for electricity generation, MP pricing and the amount of guaranteed capacity payments are governed by regulations of the Cabinet of Ministers. The amount of MP support depends on the type of energy source used (wind, water, biomass, biogas or natural gas) and the installed capacity. For biogas cogeneration plants, the amount of support also depends on the type and proportion of resources used to produce biogas. The MP regulatory framework has been constantly improved to strengthen supervision of the beneficiaries, ensure justification of the support provided and promote the reduction of total MP costs.

In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by. The public trader is compensated for expenditures associated with MP and support for energy-intensive processing industry companies through state budget grants. In 2023, the costs of support for energy-intensive processing industry companies amounted to EUR 0.7 million, and a state budget grant was received to cover these. More information about MP can be found on the website of Enerģijas publiskais tirgotājs SIA.

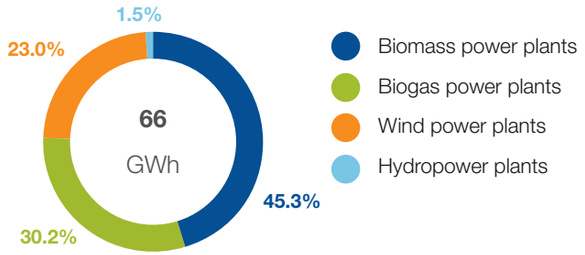
In September 2022, the Cabinet of Ministers of the Republic of Latvia adopted Order No. 584 *On Complex Measures to Solve the Problems of the Mandatory Procurement Component and to Develop the Electricity Market*, which set the average MPC rate for electricity at 0 EUR/MWh from 1 September 2022. On 1 May 2023, amendments to the Electricity Market Law came into force, abolishing MPC payments to electricity end-users, with costs related to MP being covered by the state budget. A portion of the dividends of Latvenergo AS is allocated to cover MP costs. To increase the competitiveness of Latvian energy-intensive processing companies, MPC reduction support was provided to companies of this category.

Mandatory procurement: key indicators

In the reporting year, 340 GWh or 84% less electricity was procured under the MP framework than in 2022. The decrease in purchased electricity was due to the cancellation of MP support permits in 2022, including the withdrawal of producers from MP permits, driven by record-high electricity prices on the Nord Pool, as well as by the end of the support period for an increasing number of power plants. At the end of the reporting year, there were nine power plants exercising the right to sell the electricity they produce under MP or to receive guaranteed capacity payments for the electrical capacity installed at the power plants.

MP costs above the market price increased to EUR 32 million in the reporting year, which is EUR 20.5 million more than in 2022. This increase was determined by the significantly lower market price of electricity – as all electricity purchased under MP is sold by Enerģijas publiskais tirgotājs SIA on the Nord Pool exchange, a lower price means lower revenues and, consequently, higher MP costs above the market price.

Electricity purchased within the MP in 2023



Mandatory procurement: key indicators

	Units	2019	2020	2021	2022	2023
Power plants (at the beginning of the year)	number	364	337	306	261	16
Installed capacity (at the beginning of the year)	MW	1,354	1,331	1,168	1,087	887
Electricity purchased within MP	GWh	1,246	1,172	923	406	66
MP costs above the market price	MEUR	150.9	150.7	75.8	11.5	32.0
MPC reduction: state aid to energy-intensive companies	MEUR	6.2	3.0	2.9	3.7	0.7

Distribution

Electricity distribution ensures the flow of electricity from the electricity transmission network and electricity generators connected to the distribution networks to electricity consumers.

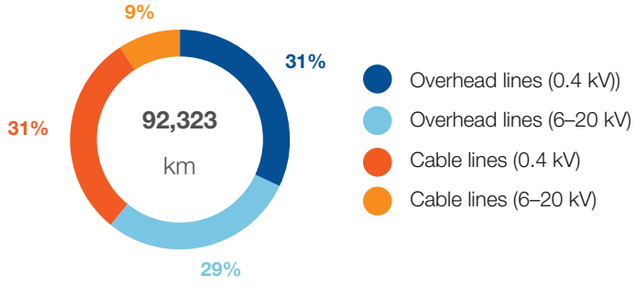
Sadales tīkls AS, a subsidiary of the Group, is the largest distribution system operator in Latvia, providing electricity distribution service to more than 780 thousand customers (for information on customer satisfaction, see the section Product Responsibility). The distribution network consists of low-voltage and medium-voltage lines formed by cables and overhead lines. The total length of the electricity network has been reduced by approximately 600 km over the last five years, as technical solutions are being optimised and long-unused parts of the network are being dismantled. As a result of the reconstruction of the network, the share of cable lines increases year by year – it has grown from 37% to 40% of the overall line length of power lines over the last five years. Investments in the electricity grid and the increasing use of cable lines improve the resilience of power lines to both natural and man-made damage and increase the quality of the electricity supply.

The share of electricity losses in the distribution network amounted to 3.72% in the reporting year. Over the last five years, losses have been reduced by 51 GWh or 17%. For more information on the efficiency and availability of the distribution service, see the section Economic Topics.

The amount of distributed electricity in 2023 decreased by 3.5% or 220 GWh, which was due to the rapid development of microgeneration for self-consumption, a drop in sectoral production and exports, and warmer weather conditions in the winter months at the beginning of the year. The decrease in distributed electricity can be observed in all user groups. The largest decline in volume was in the legal entity segment, especially in the industrial and commercial segment, where consumption fell by 4–5%. Electricity consumption of households (private individuals) decreased by approximately 2% in the reporting year.

Distribution system service tariffs are approved by the PUC. In 2022, taking into account the increase in costs caused by the sharp rise in electricity prices due to the energy crisis, changes in macroeconomic indicators and the increase in the tariff of the transmission operator Augstsprieguma tīkls AS, a new draft tariff was submitted to the PUC, which was approved and entered into force on 1 July 2023. Taking into account changes in electricity prices and general inflation, as well as the decrease in the tariff of Augstsprieguma tīkls AS, costs for the next tariff period – 2024 – were revised during the reporting year. In November 2023, Sadales tīkls AS published changes to the differentiated tariffs, which include cost reductions compared to the costs planned in the original draft tariffs.

Length of electricity distribution lines



Electricity received in distribution network

	Units	2019*	2020	2021	2022	2023
From transmission network	GWh	5,531	5,334	5,693	5,622	5,479
From small generators	GWh	1,295	1,228	1,048	875	784
incl. microgeneration	*GWh*	–	*2*	*4*	*25*	*82*
TOTAL	**GWh**	**6,825**	**6,563**	**6,741**	**6,497**	**6,263**

Distributed electricity and losses

	Units	2019*	2020	2021	2022	2023
Distributed electricity	GWh	6,532	6,286	6,470	6,241	6,021
Electricity distribution losses, technological and operating consumption	GWh	293	277	271	256	242
incl. accumulated microgeneration electricity losses	*GWh*				*4*	*19*
TOTAL	**GWh**	**6,825**	**6,563**	**6,741**	**6,497**	**6,263**
Electricity losses	%	4.05%	3.99%	3.79%	3.73%	3.72%

* in 2020, the transmission system operator recalculated the amount of electricity supplied in 2019; electricity losses in the distribution network were recalculated accordingly

Under the Law on Measures to Reduce the Extraordinary Increase in Energy Resource Prices, the fixed part of the distribution tariff (capacity maintenance fee) for all households was reduced by 60% from 1 September to 31 December 2023. In accordance with the defined criteria, fee reductions were applied to legal entities as well. The reduction was offset by the dividends of Latvenergo AS received by the Latvian state budget.

To limit sharp increases in the distribution tariff and to ensure predictability of changes in the future, caps on the increase in the fixed part of the distribution tariff for household customers over a twelve-month period from 1 January 2024 to 31 December 2025 have been established. The difference between the approved tariff and the tariff applied to customers will be compensated from the dividends of Latvenergo AS received by the Latvian state budget.

Investments

Smooth renewal and upgrading of the electricity system is one of the main tasks of the electricity distribution system operator. Implementation of the planned capital investment projects improves the reliability and quality of the electricity supply every year while ensuring that the average age of the system components and the scope of the electricity network that needs to be renewed does not change significantly and the amount of repairs does not increase significantly in the long term.

In December 2023, the PUC approved the development plan of Sadales tīkls AS for the next 10 years. From 2024–2033, the company will continue the reconstruction and upgrading of the distribution system in accordance with industry trends and consumer demand to increase the reliability of the electricity grid. It will also implement the development of the smart grid, the reconstruction of real estate and the upgrading of the fleet of special equipment while improving the quality of services in the electricity grid.

The main areas for investment under the development plan are:

- smooth rebuilding of the electricity network – renewing power lines and 110 kV substations, increasing the proportion of insulated mains (cable, insulated wire or overhead cable)
- improving the quality of the electricity supply – reducing the duration of outages (SAIDI), the number of outages (SAIFI) and the number of faults, as well as improving the quality of voltage
- smart network management – replacement of existing transformers with more energy-efficient equipment, verification of smart meters, integration of smart grid elements and improving grid management systems to ensure high-quality and fast data exchange, including bi-directional data flow

EU funding under the Recovery and Resilience Mechanism is also being attracted to meet the objectives of upgrading the energy distribution system. The total funding of the project is almost EUR 42 million. The contract for the project's implementation was signed on 24 March 2023 and implementation is scheduled until 31 May 2026. The programme will include several large-scale projects:

- compensation of technical losses in distribution transformers with solar energy
- replacement of distribution transformers
- construction and rebuilding of medium-voltage lines
- improving buildings' energy efficiency and heating supply solutions
- establishing distribution connections with appropriate technical parameters to promote the use of RES
- development of a national platform for the exchange and storage of electricity market data
- introduction of a smart electricity metering system

Sadales tīkls AS has also submitted a proposal for the implementation of activities under the REPowerEU plan. If granted, the funding will be used to improve the digital management and technical solutions of the cable network, as well as to ensure the availability of capacity for electricity users.

Microgeneration

The pace of microgeneration development has stabilised in comparison with 2022, when an unprecedented growth in solar panels was observed; however, it is still relatively high.

At the end of the reporting year, nearly 19 thousand micro-generators – mostly solar panels to generate electricity for household self-consumption – were connected to the distribution system. Their total generating capacity amounts to 160 MW. The number of generators connected to the distribution system, mostly solar power plants, has reached one thousand, with a total generating capacity of around 400 MW. In addition, 49 connection ports were built for customers to set up EV charging stations in the reporting year.

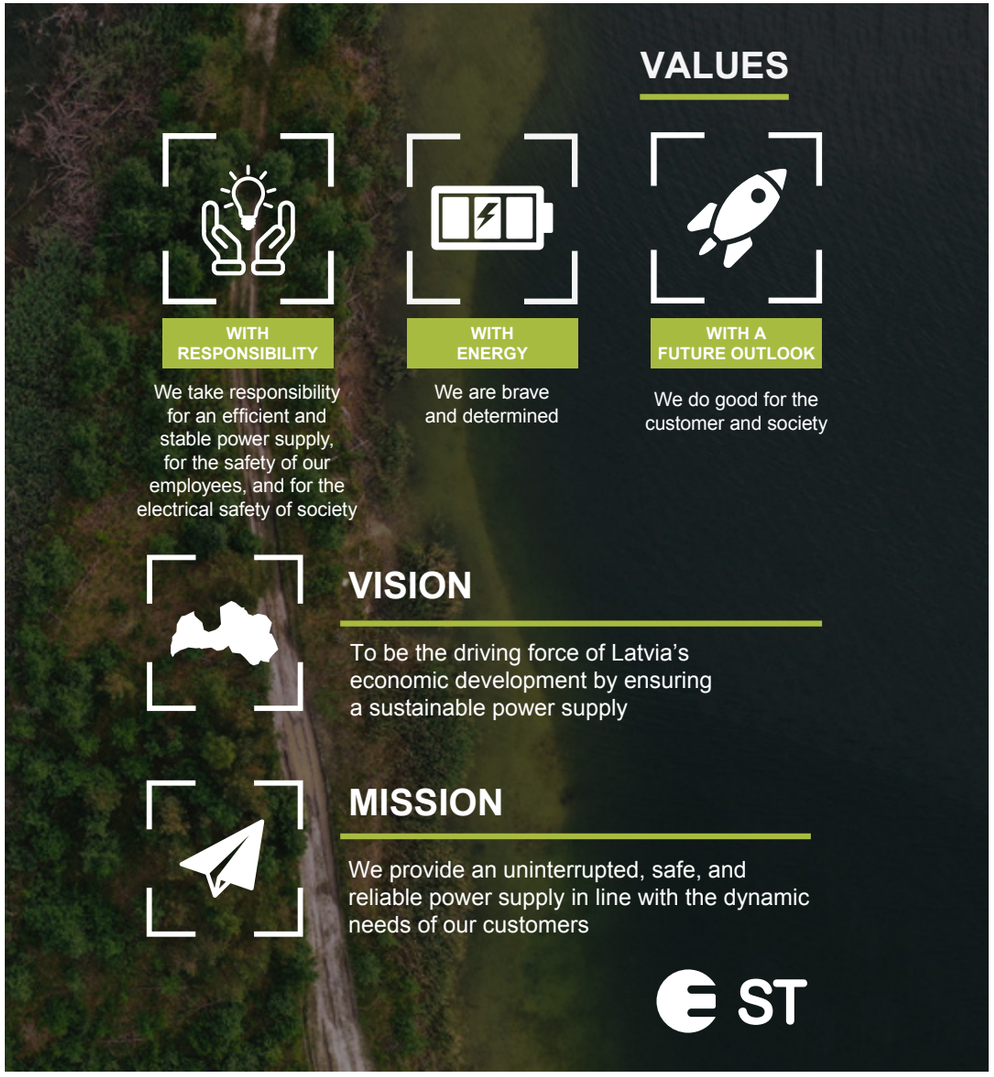
Interest in connecting new micro-generators is gradually decreasing, mainly due to the relatively low electricity price. Additional influencing factors are the financial capacity of customers; physical constraints such as roof location, roof construction, trees, etc.; and the conditions of available public funding and changes in the metering system of electricity transferred to the network. On the other hand, the number of applications to increase the load of existing micro-generators increased in 2023 and this customer interest is likely to continue in the coming years.

Investments in distribution assets

	Units	2019	2020	2021	2022	2023
Investments	MEUR	95.1	87.4	84.8	84.6	99.6

Reconstruction and construction

	Units	2019	2020	2021	2022	2023
Overhead lines (0.4 kV)	km	81	367	718	573	404
Cable lines (0.4 kV)	km	711	571	525	392	380
TOTAL low-voltage power lines	**km**	**792**	**938**	**1,243**	**965**	**784**
Overhead lines (6–20 kV)	km	621	885	905	606	502
Cable lines (6–20 KV)	km	199	149	124	97	156
TOTAL medium-voltage power lines	**km**	**820**	**1,034**	**905**	**703**	**658**
Transformer substations reconstructed	number	690	605	522	460	462
Connections constructed	number	11,079	12,410	14,747	13,592	11,597



In 2021, the Supervisory Board of Sadales tīkls AS approved the Sadales tīkls AS strategy for 2022–2027. It is integrated into the Strategy of Latvenergo Group for 2022–2026.

The overall long-term goal of Sadales tīkls AS is to provide a sustainable and economically justified electricity distribution service by efficiently managing the electricity network and improving the security and quality of the electricity supply, which is important for economic competitiveness and growth while promoting climate neutrality goals. To achieve the vision and overall strategic goal of the company, four objectives have been set for 2022–2027:

- **high-quality and reliable electricity supply** – The main areas of operation to achieve this objective include reducing the frequency and duration of power outages and developing and managing an efficient electricity network, including a smart grid.
- **digital transformation of the company** – The company purposefully develops digital solutions based on automated, standardised processes and a centralised data exchange and improves the digital environment and services for customers.
- **continuous improvement of the company and increase in value** – In the strategy period, the company plans to continue increasing the efficiency of its operations. The main directions for achieving this objective are the development of the company's processes, synergy with other operators and utility owners, and financial sustainability and efficient management of resources.
- **sustainable development and climate neutrality** – The key actions to achieve this goal include maintaining customer and employee satisfaction, reducing GHG emissions and creating public connections for charging electric cars.

For each of the objectives, the key performance indicators to be achieved are also set, which allows one to determine the progress towards the objective. For more information on the SAIDI and SAIFI indicators on the quality and safety of the electricity supply, see the section Economic Topics. Regarding the company's digital transformation, see the section Product Responsibility. The performance of the other targets is discussed in the annual report of Sadales tīkls AS.

EU Taxonomy

To promote sustainable investment and the implementation of the European Green Deal, the European Commission has set up a special classification system for economic activities: the EU taxonomy. It aims to identify which activities can be considered sustainable and to facilitate the reorientation of capital flows towards sustainable investment.

To identify environmentally sustainable economic activities, the Taxonomy Regulation (EU) 2020/852 sets six environmental objectives:

1) climate change mitigation
2) climate change adaptation
3) sustainable use and protection of water and marine resources
4) transition to a circular economy
5) pollution prevention and control
6) protection and restoration of biodiversity and ecosystems

An economic activity is considered environmentally sustainable if it contributes significantly to one or more environmental objectives, does not cause significant harm to other environmental objectives and is carried out with at least the minimum social and governance safeguards specified. Companies in non-financial sectors that meet the criteria set out in the Taxonomy Regulation are required to report the share of turnover, capital expenditure (CAPEX) and operating expenditure (OPEX) accounted for by taxonomy-eligible and taxonomy-aligned economic activities.

It is important to note that not all activities not included in the taxonomy are harmful to the environment. The taxonomy currently includes those sectors and activities that have the greatest impact on the objectives set out in the Taxonomy Regulation, primarily on the climate change mitigation and adaptation. In the coming years, both the list of sectors included in the taxonomy and the list of economic activities will be expanded.

Taxonomy-eligible and aligned activities

Taxonomy-eligible activities are identified based on Delegated Regulations (EU) 2021/2139 and (EU) 2022/1214. Further, Latvenergo Group has carried out a detailed assessment of its taxonomy-eligible activities to determine which of these are considered taxonomy-aligned, namely:

1) whether the economic activity contributes significantly to climate change mitigation or adaptation

2) whether the economic activity causes significant harm to other environmental objectives included in the Taxonomy Regulation

3) whether the economic activity is carried out in compliance with the minimum safeguards set out in Article 18 of the Taxonomy Regulation

The first two steps were accomplished using the technical screening criteria for the respective economic activities published in Delegated Regulation (EU) 2021/2139.

In 2023, the list of taxonomy-eligible activities and technical screening criteria were published for the remaining four environmental objectives. Latvenergo Group has assessed whether any of these activities are relevant for the Group's core business or material activities and concluded that none of the activities listed for water resources, circular economy, pollution, and biodiversity were relevant for the Group in the reporting year.

Taxonomy-non-eligible activities include energy trading and related services and certain economic activities that are insignificant at the Group level.

Taxonomy-eligible activities	Activity description	Taxonomy-aligned activities
4.1. Electricity generation using solar photovoltaic technology	SPPs in the Baltic states in the design and construction stage with a total capacity of around 400 MW, incl. RES projects acquired in early 2024.	✓
4.3. Electricity generation from wind power	Ainažu WPP – 1 MW. In 2023, Latvijas vēja parki SIA signed a development rights agreement with Latvijas valsts meži AS regarding eight areas for the construction of WPPs with a total planned capacity of at least 800 MW. A new WPP project with a capacity up to 15 MW was started in Lithuania.	✓
4.5. Electricity generation from hydropower	The Daugava HPPs' cascade and the Aiviekste HPPs with a combined capacity of 1,560 MW.	✓
4.9. Transmission and distribution of electricity	Electricity distribution network providing distribution services to 780 thousand customers in Latvia.	✓
4.11. Storage of thermal energy	Thermal storage system at CHPP-2, which allows thermal energy generated in cogeneration mode to be stored and CHPP operation modes to be adapted more optimally to market conditions and peak loads, achieving more efficient energy consumption and CO_2 emission savings.	✓
4.15. District heating/cooling distribution	Liepājas enerģija SIA heat networks, which provide centralised heating to more than 1,2 thousand buildings in Liepāja.	✓
4.20. Cogeneration of heat/cool and power from bioenergy	Liepājas enerģija SIA cogeneration plant, which uses woodchips to generate thermal energy and electricity. Its capacity is 10 MW_{th} and 2 MW_{el}.	✓
4.24. Production of heat/cool from bioenergy	Liepājas enerģija SIA generation plants using woodchips for thermal energy generation. Their total capacity is 36 MW_{th}.	✓
4.29. Electricity generation from fossil gaseous fuels	Latvenergo AS CHPP-2, which uses natural gas for electricity generation in condensation mode. The condensation capacity of the plant is 881 MW_{el}.	
4.30. High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	Latvenergo AS CHPP-1 and CHPP-2 and Liepājas enerģija SIA cogeneration plant, which use natural gas for thermal energy and power generation. The total capacity of these plants is 693 MW_{th} and 994 MW_{el} (with CHPP-2 in cogeneration mode).	
4.31. Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	The Latvenergo AS CHPPs and Liepājas enerģija SIA (1,059 MW_{th}), which use natural gas for thermal energy generation and transfer the thermal energy generated to the centralised heating system.	
6.15. Infrastructure enabling low-carbon road transport and public transport	The *Elektrum* electric vehicle charging network, which included around 400 charging points by the end of 2023. The *Elektrum Drive* app may be used to charge vehicles at partners' charging stations, with a total of 571 charging ports available to customers.	✓

Accounting policy

The calculations have been made in accordance with Taxonomy Regulation (EU) 2020/852, its delegated regulations and related documents. The calculations are based on several assumptions described below. For detailed indicator proportions, see the annex EU Taxonomy Tables.

CAPEX

The share of taxonomy-eligible and aligned activities in CAPEX is determined by assessing capital investments in operational segments and more specifically in project segments. The most significant part of eligible investments consists of investments in distribution network renewal and development, and development of SPPs.

Revenue

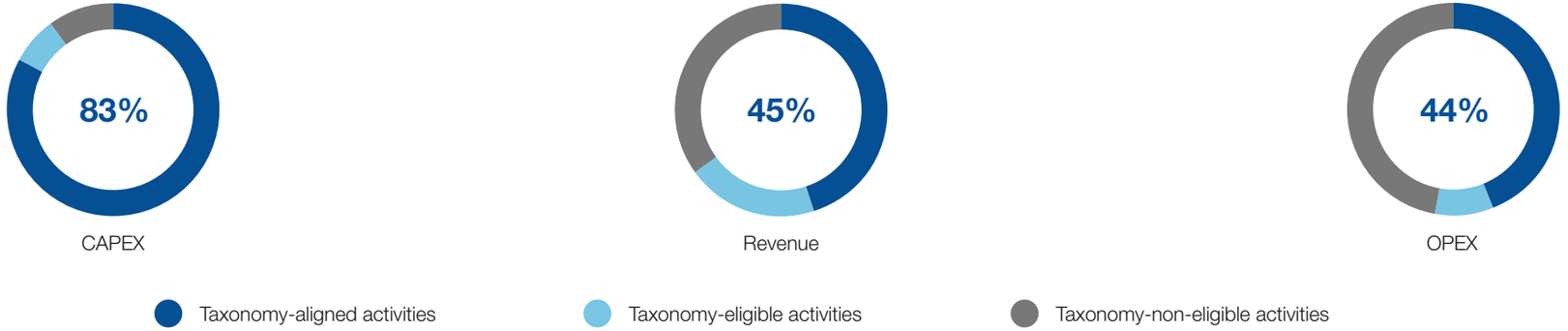
The share of taxonomy-eligible and aligned activities in revenues is based on an analysis of operating segments (e.g., the electricity distribution segment) and product and service revenues (e.g., generation and trade of thermal energy, electric vehicle charging services). In turn, electricity is provided to customers both from Latvenergo Group power plants that meet taxonomic requirements and by purchasing part of the energy on the market; therefore, taxonomic activities are basically attributed to a proportionate share of the total electricity sales revenue corresponding to the proportion of electricity generated by the Group's power plants to the total electricity sold.

OPEX

The share of taxonomy-eligible and aligned activities in OPEX are determined by assessing the costs by operating segments, for example, for the distribution service, as well as by analysing in detail the directly attributable costs for other activities, such as thermal energy and electricity generation at Latvenergo Group power plants. These expenses include directly attributable operating expenses for the operation of the plants, such as personnel, repairs, material expenses and other operating expenses. In cases where expenses are attributable by their nature to more than one of the types of electricity and thermal energy generation listed in the taxonomy, they have been reallocated in proportion to the amount of energy generated in each of these activities. The expense analysis does not include the cost of support services provided between Group companies.

The principles used for the allocation of revenue, CAPEX and OPEX ensure that these indicators are not allocated to several activities in the taxonomy at the same time.

Proportion of taxonomy-aligned activities



Latvenergo

Materiality Assessment

The content of the Latvenergo Group Sustainability Report is based on economic, social and environmental topics important to the Group and its stakeholders. These material topics have been defined in compliance with the GRI Guidelines and the materiality assessment methodology developed by the Group. Defining the topics and the relevant disclosures can be divided into four steps.

Step 1

Identifying relevant sustainability topics. Identifying priority stakeholders.

The list of potentially relevant topics initially comprised topics attributable to the operation of the Group that are potentially relevant to both the Group and its stakeholders. The list was based on the following sources of information:

- GRI Guidelines and Electric Utilities Sector Disclosures
- information disclosed by similar companies in the energy sector
- Latvenergo Group strategy and policies
- stakeholders' opinions
- a study of the Group's communications, including information provided in previous sustainability reports

During this step, a total of 23 sustainability topics were identified as relevant to the operations of Latvenergo Group. Priority stakeholders were determined through a management survey of the Group and assessed by the responsible managers of the respective areas.

Step 2

Determining material sustainability topics.

To determine material sustainability topics, Latvenergo Group organises stakeholder seminars. They are attended by the management of the Group, incl. the Management and the Supervisory Boards of Latvenergo AS and representatives of the shareholder as well as of priority stakeholders.

In November 2023, a face-to-face seminar was organised for external stakeholders to discuss the draft of the Group's Sustainability Strategy and proposals for its further development and implementation. At the end of the year, webinars on the Group's Sustainability Strategy were also organised for employees.

In 2024, the Group plans to conduct a double materiality assessment of sustainability impacts, risks and opportunities in accordance with the requirements set out in the Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards.

Step 3

Aggregating material sustainability topics into a matrix and verifying it. Selecting relevant disclosures.

Within this step, the results of the stakeholder vote and the Latvenergo Group management vote are compiled, and a materiality matrix of sustainability topics is drawn up. The matrix is reviewed and approved by the management of the Group.

The materiality matrix comprises 23 sustainability topics that are relevant to the operations of Latvenergo Group. The vertical axis of the matrix reflects the importance of the sustainability topics to the Group's stakeholders, and the horizontal axis reflects the importance of these topics from the Group's point of view. Topics that have been recognised as material and of medium relevance have been included in the Sustainability Report. Following the GRI Guidelines, disclosures corresponding to these topics were identified. The report discloses information on 17 material sustainability topics for the Group and 36 specific standard disclosures (see the GRI Index).

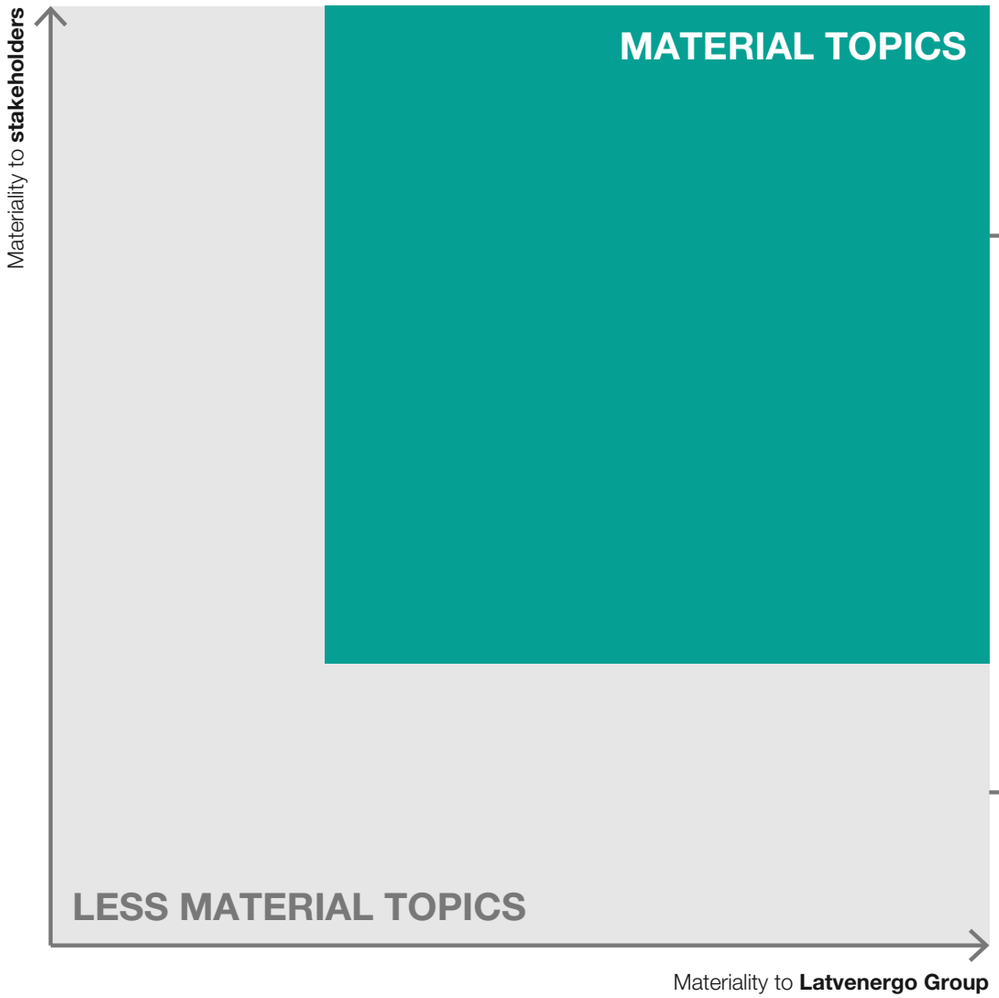
Step 4

Reassessing sustainability topics and disclosures.

Preparation of the report includes an annual re-evaluation of stakeholders' opinions, topics identified and relevant disclosures. This is done by the persons responsible for the relevant areas, considering changes in the operational environment and the Group's operations as well as feedback from stakeholders. In preparing the report for 2023, the Group has concluded that stakeholder interest in biodiversity has increased significantly, and this is also a key topic in the context of the European Green Deal and the resulting initiatives and legislation. The topic "Biodiversity" has therefore been transferred to the group of material topics, and GRI disclosures 304-1, 304-2 and 304-4 have been identified to describe it.

As of 2023, the environmental topic "Air pollution and climate change" also includes data on scope 3, category 1 and 2 GHG emissions (GRI 305-3).

Materiality matrix



Economic topics
- Efficiency of generation plants
- Contribution to the economy
- Efficiency and availability of distribution system
- General compliance and fair business

Social topics
- Customer satisfaction
- Emergency planning
- Occupational health and safety
- Safety of distribution services
- Public policy engagement
- Employee involvement and development
- Security of personal data
- Information availability

Environmental topics
- Environmental compliance
- Air pollution and climate change
- Resource and energy consumption
- Renewable energy and strengthening energy independence
- Biodiversity

- Work-life balance
- Community contribution
- Impact on local communities
- Human rights and diversity in the workplace
- Freedom of association
- Waste and wastewater

Economic Topics

Ekonomic responsibility

Efficiency of generation plants

Contribution to the economy

Efficiency and availability of distribution system

General compliance and fair business

The energy sector contributes significantly to the growth and competitiveness of many sectors, promoting the overall economic development of the country. Latvenergo Group, as the largest provider of energy supply services in Latvia, is aware of its role in ensuring long-term growth of the country's economy. Sound long-term investments at power generation facilities and in distribution network infrastructure not only contribute to the country's energy security and independence but also promote its progress towards climate neutrality. According to the Strategy of Latvenergo Group, the Group invests significant resources in RES generation capacity, which will reduce GHG emissions and promote the climate neutrality of Latvia by 2050.

In its activities, the Group complies with laws and regulations as well as high professional ethical standards and encourages its partners to comply with equivalent ethical principles.

Efficiency of generation plants

The European Union is committed to ensuring a climate-neutral economy by 2050, and the energy sector and therefore Latvenergo Group have a key role to play in achieving the climate goals. The most important development tasks at the European as well as the Latvian level are to reduce GHG emissions, increase the share of RES, and increase energy efficiency.

Maintenance and improvement of Latvenergo Group's facilities is also essential to ensure high generation efficiency. The programme for reconstruction of the Pļavinas and Ķegums HPPs continued in the reporting year. Several projects are being implemented to improve the efficiency of the CHPPs, including the development of a heat carrier cooling system for the heating networks and the installation of a flue gas economiser.

Efficiency indicators of facilities are also affected by the chosen operating modes, which are adjustable to market conditions. The CHPPs of Latvenergo AS can generate energy in condensation mode and in the highly efficient cogeneration mode, which allows for the most efficient use of fuel and significantly reduces emissions per unit of energy generated. Under unfavourable market conditions, the CHPPs are operated to a lesser extent using the opportunity of purchasing electricity at the Nord Pool Exchange. However, electricity generation at the CHPPs increases in conditions of increased electricity market demand.

GRI EU11

Average generation efficiency of power plants

Generation efficiency indicators are calculated as the ratio of electricity and thermal energy generated and the energy necessary for their generation. These indicators are affected by the operation modes chosen at the generation facility, which are adjusted to market conditions. For the CHPPs and Liepaja plants, a numerically higher indicator means higher generation efficiency, while in the case of the HPPs, the numerically lower the efficiency indicator, the more efficiently each cubic metre of water is used.

The generation efficiency indicator of the Daugava HPPs was lower in 2023 because more hydropower units were operating at the same time under unusually high inflow conditions that were observed at the beginning, at the end, and in the flood period of the year. This means a lower head and, consequently, higher water consumption per unit of electricity generated. In the last days of March, the gates of the Daugava HPPs were opened, releasing water that exceeded the throughput capacity of the turbine, which also reduced the head. The CHPP generation efficiency indicator did not demonstrate significant changes in the reporting year compared to 2022.

Generation facility efficiency indicators

	Units	2019	2020	2021	2022	2023
Daugava HPPs	m^3/kWh	17.9	18.1	17.9	17.8	18.5
CHPPs	%	72	76	81	83	82
Liepaja plants	%	90	90	89	89	88

GRI EU30

Average plant availability factor

The power plant availability factor for the generation facilities is calculated as the time period during which a plant provides its rated capacity. The remaining time is intended for scheduled and unscheduled repairs.

The availability parameter of the Daugava HPPs in 2023 decreased due to the renovation of the hydropower units of Pļaviņas HPP and warranty repairs of the hydropower units of Riga HPP. The availability parameter of the CHPPs decreased by 10 percentage points, as the number of planned repair hours of the second unit of CHPP-2 was almost four times higher compared to 2022. The increase in planned repair hours was due to an out-of-cycle inspection of the air compressors of the gas turbines at CHPP-1 at the request of the manufacturer and the elimination of defects detected in the steam turbine of the second unit of CHPP-2.

In the reporting year, one hydropower unit of the Daugava HPPs on average operated for 3,602 hours (including the synchronous compensator mode) and spent 3,003 hours in generator mode. The average annual duration of scheduled repair work per hydropower unit was 940 hours, which also included warranty and renovation repair work. Unscheduled repairs to all hydropower units amounted to 8,713 hours in total.

The CHPPs were operational for an average of 1,712 hours and on back-up for an average of 5,850 hours. The average annual duration of scheduled repair work per unit was 1,061 hours. Unscheduled repairs amounted to 6,721 hours.

Average plant availability

	Units	2019	2020	2021	2022	2023
Daugava HPPs	%	85	84	89	93	89
CHPPs	%	85	81	81	85	75

Contribution to the economy

Latvenergo Group is one of the largest energy companies in the Baltic states, providing a wide range of products and services to more than 845 thousand customers. The Group is also one of the largest employers in Latvia and provides competitive salaries, pension contributions, and career development and training opportunities to almost 3.5 thousand employees.

Given the scale of the Group's operations, it has a significant impact on economic growth throughout the Baltic states. This impact is particularly significant in Latvia, as Latvenergo AS is a state-owned company that pays a significant share of its profits to the state in dividends each year. Over the last five years, almost EUR 600 million has been paid out in dividends. Dividend payments go into the state budget and are earmarked for the relevant needs of Latvian society and business, as well as for state aid programmes. In 2023, the various support measures set out in the Law on Measures to Reduce the Extraordinary Increase in Energy Resource Prices remained relevant. Meanwhile, in 2024 and 2025, gradual levelling of the electricity distribution tariff increase will be performed from the dividends of Latvenergo AS received by the state budget, thus ensuring a sustainable approach and predictability regarding changes in the future.

Energy is a capital-intensive sector which regularly requires large investments. Russia's invasion of Ukraine has prompted many European countries to step up their use of solar and wind energy to reduce their dependence on Russian fossil fuels. In line with these trends, Latvenergo Group is also moving towards an increase in RES capacity. The total investment of the Group in 2023 increased by 59% to EUR 193 million. Almost EUR 60 million has been invested in RES projects. Meanwhile, approximately half of the investments made in the reporting year had the objective of improving the reliability and quality of the electricity supply.

The Group is one of the largest taxpayers in Latvia. In the reporting year, EUR 333.2 million was paid to the state budget and EUR 152.5 million was paid in dividends for the use of state capital. In Lithuania and Estonia, EUR 64.0 million and EUR 13.1 million respectively were paid in taxes.

At the end of the reporting year, the Group's assets amounted to EUR 4 billion, while equity was almost EUR 3 billion. More information on the performance of the Group is available in the Latvenergo Consolidated Annual Report.

Tax payments by Latvenergo Group (by cash flow)

	Units	Latvia		Lithuania		Estonia		TOTAL	
		2022	2023	2022	2023	2022	2023	2022	2023
Taxes borne	**MEUR**	**36.5**	**71.1**	**0.7**	**5.4**	**0.2**	**0.4**	**37.4**	**76.9**
Corporate income tax	MEUR	2.6	31.3	0.0	0.7	0.0	0.1	2.6	32.1
Payroll taxes paid by the employer	MEUR	19.8	23.0	0.1	0.2	0.2	0.3	20.1	23.5
Other taxes (excise, environmental, electricity, real estate taxes)	MEUR	14.1	16.8	0.6	4.5	0.0	0.0	14.7	21.3
Taxes collected	**MEUR**	**237.0**	**262.1**	**27.5**	**58.6**	**17.8**	**12.7**	**282.3**	**333.4**
Value-added tax	MEUR	213.0	232.8	25.8	54.8	17.7	12.5	256.5	300.1
Payroll taxes paid by employees	MEUR	24.0	29.3	1.7	3.8	0.1	0.2	25.8	33.3
TOTAL	**MEUR**	**273.5**	**333.2**	**28.2**	**64.0**	**18.0**	**13.1**	**319.7**	**410.3**

Contributions to the pension fund

	Units	2019	2020	2021	2022	2023
Contributions	MEUR	2.1	3.5	4.7	4.8	4.6

GRI 201-3

Defined benefit plan obligations

In compliance with the Collective Bargaining Agreement, the Group makes contributions to a pension fund and pays termination benefits to employees upon their retirement. These benefits apply to 88% of the total number of employees of the Group.

Monthly contributions in the amount of 5% of the monthly remuneration are paid into Pirmais Slēgtais Pensiju Fonds AS until the employee reaches pensionable age (until April 2020, employees could redirect part of this 5% towards endowment health insurance). The accumulated private pensions become available to employees employed at the Group after they reach the age of 60 and to employees no longer employed at the Group after they reach the age of 55 or in the case of Group 1 disability. If the employee draws on the accumulated pension after reaching the age of 60, the Group suspends contributions. In 2023, EUR 4.6 million was paid into the pension fund. The operations of Pirmais Slēgtais Pensiju fonds AS are supervised by the Financial and Capital Market Commission.

Termination benefits upon retirement apply to employees who terminate employment and are eligible for a state old-age pension or disability pension. The amount of the benefits depends on the duration of service at the Group. Latvenergo Group grants a benefit in the amount of an average weekly wage for each year of employment. The amount of the benefit plan obligations of Latvenergo Group is disclosed in Note 27 of the Annual Report.

GRI 201-1

Direct economic value generated and distributed

In 2023, the economic value generated by Latvenergo Group reached EUR 2.1 billion, which corresponds to 5% of Latvia's GDP. Distributed economic value reached 82% of the economic value generated and was distributed among the following stakeholders:

- business partners – remuneration for resources and services delivered to ensure the Group's operations
- employees – direct and indirect remuneration for work
- state authorities – taxes and duties paid, remuneration for the use of state capital (dividends)
- providers of debt capital and investors – remuneration for the use of borrowed capital
- the local community – donations and support

Latvenergo AS is one of the largest dividend payers for state capital used in Latvia. In the reporting year, EUR 152.5 million was paid into the state budget as dividends, while in 2024 EUR 212 million will be paid in dividends. The company's dividends are earmarked for the public, including the social budget, support to protected users for the payment of electricity bills and covering the costs of mandatory procurement.

In the reporting year, the retained economic value of the Group amounted to EUR 375.6 million or approximately 18% of the economic value generated. In 2023, EUR 193.3 million was earmarked for investment. A share of the retained economic value of 2023 will be paid out in dividends in 2024.

Economic value generated and distributed*

	Units	2022	2023
Economic value generated	**MEUR**	**1,850.4**	**2,051.6**
Revenue and other income	MEUR	1,849.0	2,042.3
Income from financial activities	MEUR	1.4	9.2
Economic value distributed	**MEUR**	**1,596.6**	**1,676.0**
Resources, materials, operational and other costs	MEUR	1,384.5	1,309.4
Employee remuneration	MEUR	117.0	141.9
Payments for the use of state capital	MEUR	70.2	152.5
Payments to providers of debt capital	MEUR	10.8	25.3
State imposed payments	MEUR	13.1	46.3
Charity and sponsorships	MEUR	1.0	0.6
Retained economic value	**MEUR**	**253.8**	**375.6**

* excluding the CHPPs' compensation recognized in the profit or loss statement

GRI 201-4

Funding received from the state

In the reporting year, Sadales tīkls AS received EU co-financing of EUR 12.6 million to upgrade the electricity distribution system, which will ensure improvement regarding the reliability and quality of the electricity supply, the development of control and automatic management solutions for information systems, and an increase in electricity system capacity for the integration of RES.

EU co-funding of EUR 2.6 million has been attracted for the development of the *Elektrum Drive* electric vehicle charging network. By the end of 2025, charging stations will be built on the TEN-T road network and in the city of Daugavpils.

To promote the use of local RES in centralised heating, Liepājas enerģija SIA has built a new woodchip boiler house in Liepaja with the attraction of EU co-funding of EUR 1.1 million.

In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by Enerģijas publiskais tirgotājs AS, a subsidiary of the Group, which receives a targeted grant from the state budget to cover MPC costs. Its main funding comprises revenues from dividends paid by Latvenergo AS. In 2023, Enerģijas publiskais tirgotājs AS received a targeted grant in the amount of EUR 0.7 million.

Funding received from the state and the EU

	Cofunding source	Units	2019	2020	2021	2022	2023
Modernisation of the distribution system	EU	MEUR	0.0	0.0	0.0	0.0	12.6
Development of the EV charging network	EU	MEUR	0.0	0.0	0.0	0.0	2.6
Liepaja plants	EU	MEUR	0.3	0.0	0.0	0.0	1.1
Energy IT platform	EU	MEUR	0.0	0.2	0.0	0.0	0.0
Heat accumulation system at CHPP-2	EU	MEUR	0.2	1.4	0.7	0.0	0.0
Grant for limiting MPC*	state	MEUR	5.5	3.8	5.7	16.9	0.7
TOTAL		**MEUR**	**6.1**	**5.3**	**6.4**	**16.9**	**17.0**

* incl. payments to energy-intensive processing industry companies

Efficiency and availability of the distribution system

Sadales tīkls AS is developing a customer-orientated smart power grid, which improves the continuity and stability of the electricity supply and its resilience to the effects of nature. This is done through an ever-expanding range of smart technologies and remote-controlled devices, as well as the introduction of new digital solutions and automation of network management.

The key performance indicators for the quality of the electricity supply are the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI). Both indicators are calculated as an average indicator on a per-customer-per-year basis. Sadales tīkls AS conducts a regular detailed analysis of these indicators and takes measures to improve them. In the reporting year:

- more than 1,400 km of power lines were reconstructed, including almost 500 km of cable lines, and 462 transformer substations were reconstructed or built
- clearance work on power line routes totalling almost 4,500 km was performed
- 133 remote-controlled circuit breakers were built, separating power lines in densely populated places and forested rural areas

When performing work on the power grid, a set duration of scheduled outages is mostly observed – up to 5 hours during winter and 6 hours during the rest of the year. In 2023, application of the voltage-active working method (working without de-energising) in the maintenance of the 20-kV overhead power grid continued in order to reduce interruptions in the power supply to customers. Use of this method saved up to 15 minutes of scheduled SAIDI in the reporting year. To reduce electricity losses in the distribution network, older transformers are replaced with more energy-efficient equipment, monitoring of electricity consumption is improved, and the technical capabilities of smart meters are used.

Sadales tīkls AS takes care to ensure the quality of services provided and continuously improves its customer service-related processes. The connection of electricity micro-generators has been simplified, with the option of arranging the required documentation (from the application to the conclusion of the contract) available in the customer portal e-st.lv. The power plant connection service was also digitalised in the reporting year. Work on facilitating and speeding up installation and load change of the electricity connection is still in progress.

For more information on distribution as a segment of the Group's operations, see the section Distribution.

GRI EU12

Distribution losses as a percentage of total energy

One of the most important indicators describing the efficiency of the distribution segment is distribution losses as a percentage of total electricity received in the grid. In 2023, Latvenergo Group maintained a low electricity loss rate of 3.72%.

Distribution losses

	Units	2019*	2020	2021	2022	2023
Distribution losses	%	4.05	3.99	3.79	3.73	3.72

* In 2020, the transmission system operator recalculated the amount of electricity supplied in 2019; electricity losses were recalculated accordingly.

GRI EU26

Percentage of the population unserved in licensed distribution or service areas

The service area specified in the electricity distribution licence covers 99% of the territory of the Republic of Latvia. The distribution service is provided to approximately 782 thousand customers – 755 thousand private individuals and 27 thousand legal entities that have concluded agreements on electricity supply.

GRI EU27

Number of disconnections of private individuals for non-payment

The structure of distribution tariffs changed in the reporting year, and tariffs for households are no longer classified separately. Tariffs are categorised by voltage level and, as of 2023, the data selection criterion for the GRI EU27 indicator is "contract with a private individual". Since historical data are not available under the new data selection method, the table only provides information for 2023.

In 2023, due to payment delays, electricity supply for private individuals was disconnected 12,243 times. 61% of disconnections lasted for up to 48 hours. Cases where disconnections were longer than one month (11%) were mainly related to connections used by customers irregularly or rarely. In 96% of the cases electricity connection was restored within 24 hours of payment.

Number of disconnections of private individuals for non-payment

	Units	2023
Up to 48 hours	number	7,521
From 48 hours to 1 week	number	1,484
From 1 week to 1 month	number	1,360
From 1 month to 1 year	number	1,373
More than 1 year	number	505
TOTAL	**number**	**12,243**

Length of time between arrangement of payment and reconnection

	Units	2023
Up to 24 hours	number	11,743
From 24 hours to 1 week	number	482
More than 1 week	number	18
TOTAL	**number**	**12,243**

GRI EU28, EU29

Power outage frequency (SAIFI) and average power outage duration (SAIDI)

Well-targeted investment in the reconstruction of distribution networks and intensive clearance work on power line routes has contributed to substantially reduced SAIFI and SAIDI. New work execution technologies allow for more and more maintenance and repairs without disconnecting the power supply to customers. Improvement of the quality and reliability of the electricity supply is one of the objectives of the Sadales tīkls AS Strategy for 2022–2027. The quality of the electricity supply remained at the level of the previous year, excluding the impact of natural disasters, and the positive dynamic change of previous years generally continued – people are experiencing fewer power outages. Excluding mass failures, SAIFI was expected to be reduced to 2.05 times in 2023, while SAIDI was expected to be reduced to 177 minutes. Both indicators were reached in the reporting year: SAIFI was reduced to 1.99 times and SAIDI was reduced to 168 minutes.

The deterioration in the overall reliability of the electricity supply in 2023 was mainly due to adverse weather conditions: gusty winds, large hailstones and heavy snow caused trees to bend and break. As many as 15 disasters occurred in the reporting year, resulting in the highest impact over the last five years. The 6–20-kV distribution network is mostly implemented as overhead lines and is largely exposed to the elements. As of the beginning of 2023, bare conductors are no longer used to construct 20-kV medium-voltage electricity networks, and all lines are constructed and reconstructed using cables or insulated conductors. Investment projects for underground cables implemented in 2023 increase safety and security in dense and populated areas, while investment projects for insulated overhead lines increase safety and security in the rest of the electricity network.

SAIFI and SAIDI indicators are also reduced by the smart grid management improvements implemented: the use of automated and digital solutions for power flow monitoring and remote control, as well as the installation of smart meters, which provide additional information on the location of potential damage in the low-voltage network and allow for faster remediation of any damage detected.

System Average Interruption Frequency Index (SAIFI)

	Units	2019	2020	2021	2022	2023
Unscheduled: weather conditions (massive damage)	number	0.3	0.2	0.2	0.6	0.7
Unscheduled: damage (incl. by third parties)	number	1.8	1.5	1.7	1.4	1.5
Scheduled: network maintenance and overhaul	number	0.6	0.6	0.5	0.5	0.5
TOTAL	**number**	**2.7**	**2.3**	**2.3**	**2.5**	**2.7**

System Average Interruption Duration Index (SAIDI)

	Units	2019	2020	2021	2022	2023
Unscheduled: weather conditions (massive damage)	min	33	25	15	53	98
Unscheduled: damage (incl. by third parties)	min	90	83	91	78	85
Scheduled: network maintenance and overhaul	min	123	111	102	110	83
TOTAL	**min**	**246**	**219**	**208**	**240**	**266**

General compliance and fair competition

To prevent corrupt or fraudulent activities, Latvenergo Group employees are regularly informed about ethics and compliance standards, and the Group's internal regulations are continuously being improved. The Group has introduced the Fraud and Corruption Risk Management Policy, which sets out the main principles for managing such risk. It aims to reduce the risk of fraud and corruption, potential losses, reputational damage, and the possibility of legal obligations or sanctions being imposed.

The Fraud and Corruption Risk Management Policy is related to the Group's Code of Ethics, which prohibits corrupt activities, fraud and conflict-of-interest situations. The Code defines the corporate values and the high professional conduct and ethical standards for ensuring that all employees of the Group perform their responsibilities and make decisions in an unbiased manner and prevent fraud, corruption and illegitimate or dishonest conduct in their activities. The Code of Ethics has been approved by the Supervisory Board of Latvenergo AS.

The Code of Ethics also defines the types of conflicts of interest and sets out measures to prevent conflicts of interest. The Group organises training and information events and has introduced declarations of conflicts of interest. They are submitted annually by staff members who participate in decision-making and have been or may be subject to conflicts of interest during the performance of their duties. During the reporting year, 2,972 employees of the Group submitted declarations of conflicts of interest. Upon entering employment, new employees must confirm their commitment to prevent conflicts of interest within their activities. Employees are also not allowed to combine positions or perform additional work outside Latvenergo Group without their employer's approval.

Members of supervisory boards and management boards of state capital companies have the status of public officials, which restricts their activities that fall outside the framework of their official powers to prevent personal or financial interests in such activities. Members of supervisory boards and management boards are obliged to submit annual asset declarations as public officials. Members of supervisory boards and management boards must also obtain permission to combine positions. Declarations of public officials are publicly available on the State Revenue Service's public disclosure database. The declarations must include, among other information:

(1) information on other positions held by the person in addition to the public official position, as well as information on contracts or authorisations held or obligations performed by the company

(2) information on immovable property owned, held or used by the person (including property leased from other persons)

(3) whether the person is an individual merchant; the companies of which they are a participant, shareholder or member; and shares and stocks owned

(4) income of all types earned during the reporting period, including the sources of such income

(5) the transactions they have entered into, their debt commitments and the loans they have taken out

The Group has introduced a whistleblowing system to detect and prevent fraud and corruption and other forms of misconduct or dishonest behaviour. Any employee of the Group may report a potential violation. The whistleblower gets protection under regulatory enactments, the identity of the whistleblower is not disclosed, and the whistleblower cannot be punished, fired or demoted or face unfavourable consequences in any other way. The e-learning programme on the requirements of the Code of Ethics also includes a separate section on whistleblowing, which raises awareness of the principles of whistleblowing and the benefits of internal reporting. The whistleblower's report form is available in both Latvian and English on the Group's website.

The Group also urges its contractual partners to comply with the same ethical principles and to base mutual cooperation on the principles of fair business cooperation. The Code of Ethics and basic principles for cooperation with contractual partners are published on the Group's website. The Group's whistleblowing system also allows contractual partners to report possible irregularities in the operations of Latvenergo Group. Employees and contractual partners can also submit a report of a possible violation anonymously.

Customers and other interested parties can also use the Group's whistleblowing channels to submit any kind of complaint about the Group's activities or personal interests that have been harmed. Reports received are channelled through the Group as appropriate.

The Group has established and maintains a register of cases of fraud, corruption and employee misconduct. The register also records all reports received of alleged violations and other types of complaints made through whistleblowing channels. On a quarterly basis, the Management Board of Latvenergo AS is informed about the fraud risk events and reports received during the quarter, as well as about the decisions taken and risk and/or impact mitigation measures. The Supervisory Board is also informed immediately of fraud risk events that could cause significant reputational damage or loss to the Group. In 2023, 21 entries were listed in the register; however, no material risk events or complaints were identified that should have been immediately reported to the Supervisory Board. The Supervisory Board of Latvenergo AS was provided with information on the number of risk events and complaints during the reporting year.

The internal control system of Latvenergo AS includes an independent unit, Compliance Control, whose tasks include operational compliance control issues such as monitoring whistleblowing channels, administering reports received, investigating and preventing possible violations and developing risk mitigation measures. The unit is also responsible for communicating with whistleblowers and advising Group management and employees on fraud and corruption risk management, conflict of interest prevention, whistleblowing and other compliance issues.

In the area of compliance, Latvenergo Group has the following indicators:

- no significant fines imposed by regulators or other supervisory authorities for compliance violations or no significant non-compliance identified
- no corruption events identified
- no events with significant reputational or financial impact identified

All indicators were met in the reporting year.

GRI 205-2

Communication and training on anti-corruption policies and procedures

In the reporting year, a new e-learning programme on the requirements of the Code of Ethics was developed for employees of Latvenergo AS, Sadales tīkls AS, Enerģijas publiskais tirgotājs SIA and Latvijas vēja parki SIA, covering issues such as prevention of conflict-of-interest situations, prevention of fraud and corruption, and whistleblowing possibilities within Latvenergo Group. 99.5% of the employees of these capital companies have completed the new e-learning programme.

In addition to e-studies, all employees of the Group have access to the Fraud and Corruption Risk Management Policy and the Code of Ethics. Both documents can be found in the Group's internal document system. The Code of Ethics is also available on the Group's website, where it can be viewed by any third party, including all cooperation partners of the Group.

GRI 205-3

Confirmed incidents of corruption and actions taken

No cases of corruption were identified within Latvenergo Group in the reporting year. The Group implements fraud and corruption risk management and continuously improves risk mitigation measures.

GRI 206-1

Legal actions for anti-competitive behaviour and monopoly practices

Latvenergo Group has approved the Competition Law Compliance Policy prohibiting activities that violate the restrictions specified in the competition law. In 2023, no cases of anti-competitive behaviour or misuse of the dominant position by Latvenergo Group were identified, and no court proceedings against Latvenergo Group were initiated or were ongoing.

Social Topics

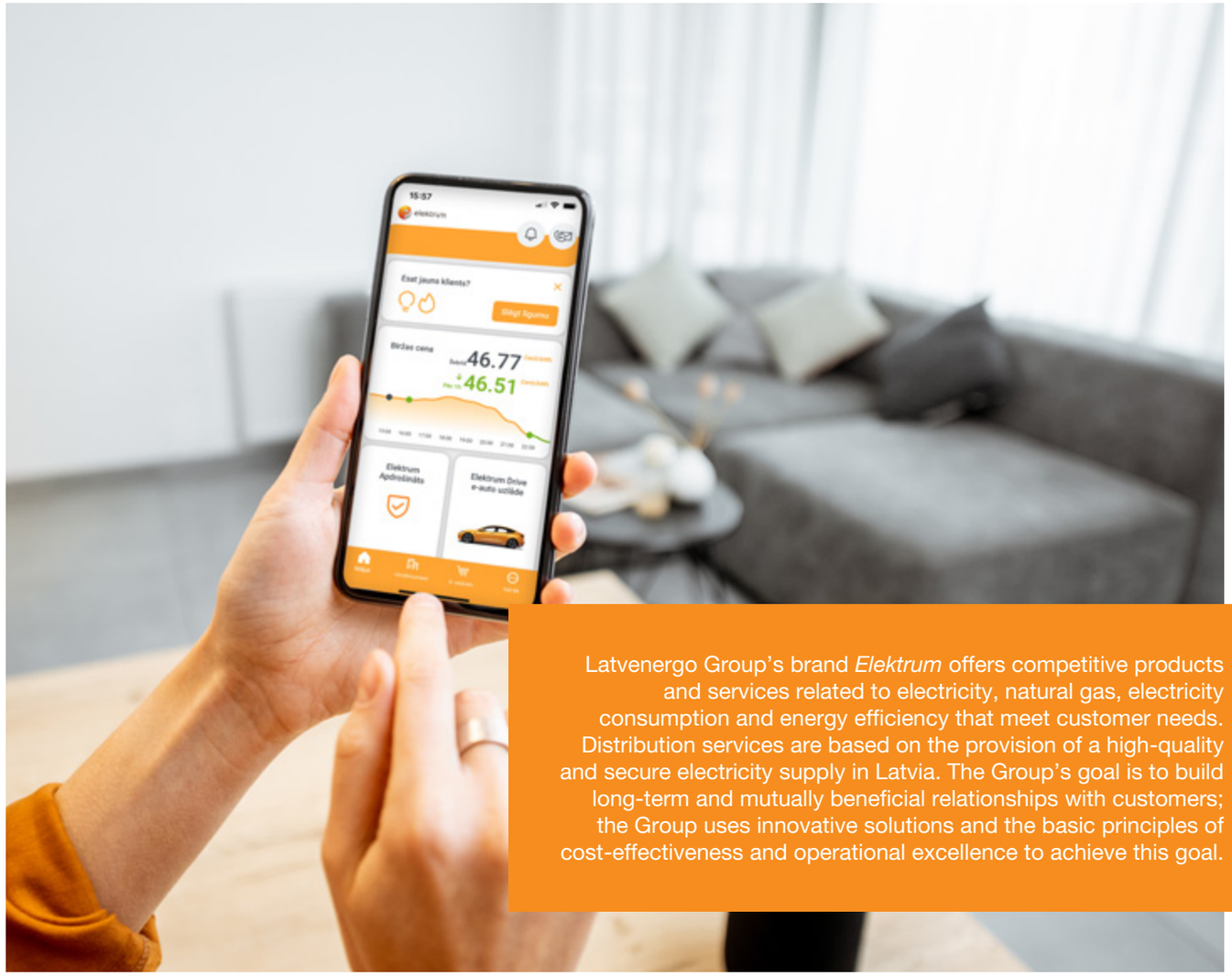
Product responsibility

Customer satisfaction

Safety of distribution services

Security of personal data

Information availability



Latvenergo Group's brand *Elektrum* offers competitive products and services related to electricity, natural gas, electricity consumption and energy efficiency that meet customer needs. Distribution services are based on the provision of a high-quality and secure electricity supply in Latvia. The Group's goal is to build long-term and mutually beneficial relationships with customers; the Group uses innovative solutions and the basic principles of cost-effectiveness and operational excellence to achieve this goal.

Customer satisfaction

Trade

Elektrum continuously develops and offers products and services that meet customer needs, improves their accessibility and ease of use, and enhances customer service formats and customer experience to ensure a high level of customer satisfaction and loyalty. Key achievements in 2023:

- *Elektrum Insured* added *Payment Security* to its range of services, which provides financial assistance to customers and their families to pay electricity and natural gas bills in the event of severe health problems, a serious accident or loss of a job.
- Customer self-service options via digital channels were supplemented in the elektrum.lv customer portal and on the mobile app, and the speed of the portal was also improved.
- Balanced payment was introduced for protected users.
- The option of tracking actual monthly bills on the portal was introduced for balanced payment customers.
- To improve customer data security, the authorisation and additional user rights framework in the customer portal was upgraded, while customer service processes were streamlined to mitigate risks to personal data security.
- A project for upgrading accessibility to the customer portal was initiated: the functional audit of the portal's accessibility was completed and the accessibility assessment report was published in accordance with the guidelines of the Ministry of Environmental Protection and Regional Development.

To assess the quality of customer service and identify opportunities for its improvement in a timely manner, the Group has set several key performance indicators. During the reporting year, the response rate of customer service level was slightly below the established target values, which was due to particularly high customer activity on a variety of tariff and contract pricing issues.

Elektrum customer satisfaction and loyalty surveys in the household and business customer segments in Latvia are also conducted on a regular basis. These surveys measure customer satisfaction with the Group, its services, customer service, payment options, and the availability and content of information. Customer satisfaction is also assessed in comparison with the reference group – a sample of companies operating in the energy and services sector. In 2023, customer satisfaction with *Elektrum* was 4% higher than the average of the reference group.

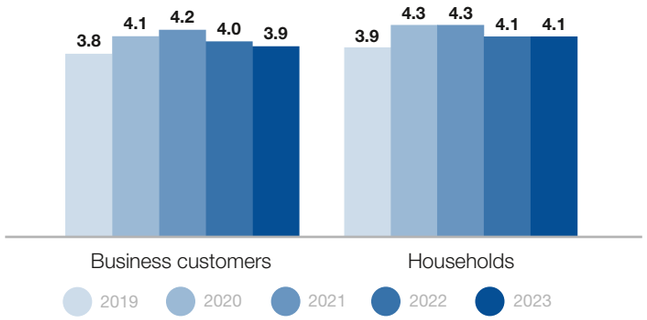
To evaluate customer satisfaction with service in more depth, the net promoter score (NPS) is monitored in all customer service channels.

***Elektrum* customer service key performance indicators in Latvia**

	Units	KPI	2019	2020	2021	2022	2023
Calls answered	%	85	91	91	88	89	86
Calls answered within 30 seconds	%	75	79	82	77	75	72
E-mails answered within 24 hours	%	70	87	73	76	63	63
Claims answered within 3 days	%	80	90	85	84	81	79
First call resolution for the household segment	%	90	90	91	90	90	90

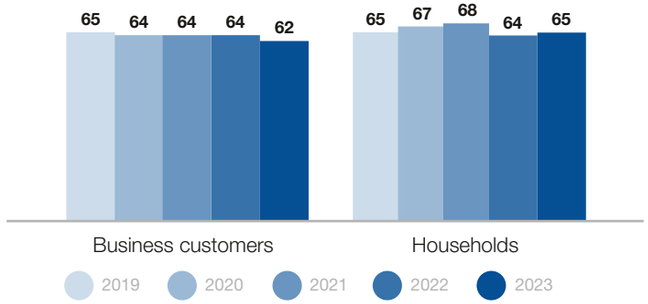
Elektrum customer satisfaction index

- demonstrates customer satisfaction with the service provider
- measured on a scale from 1 to 6
- In 2023, customer satisfaction remained at the level of the previous year in the household customer segment, while decreasing slightly in the corporate customer segment.



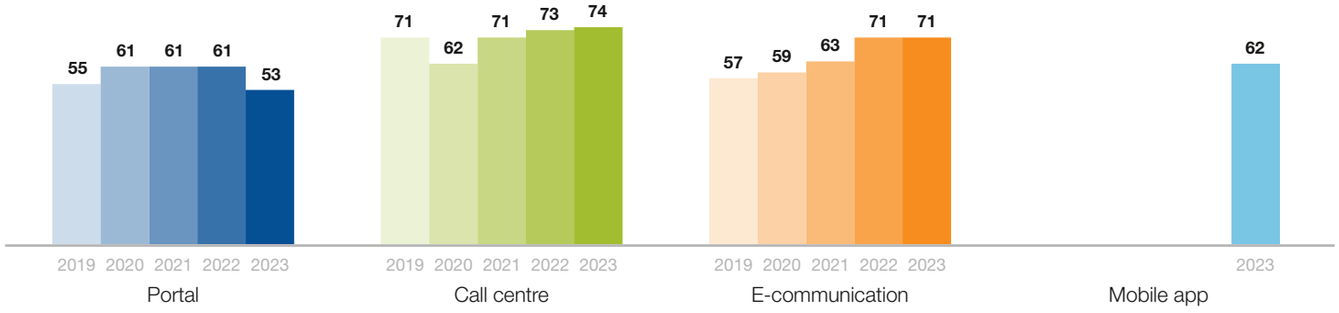
Elektrum customer loyalty index

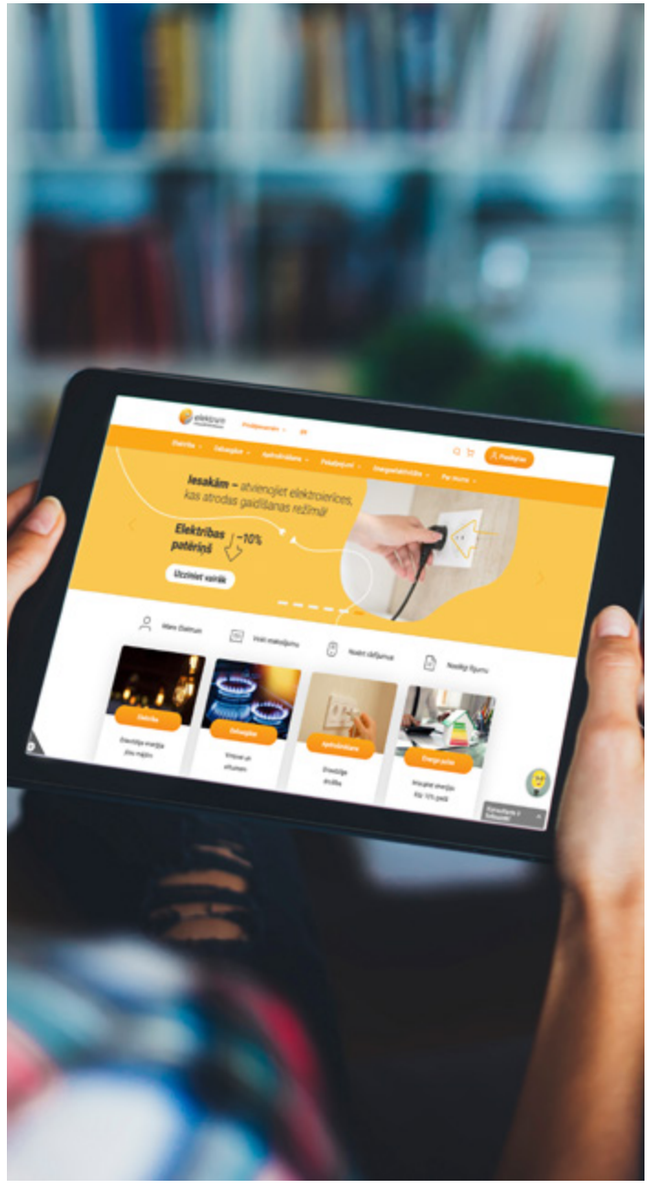
- demonstrates the level of customer loyalty – commitment to the service provider and readiness to continue cooperation in the long term
- measured on a scale from 1 to 100
- In 2023, customer loyalty increased slightly in the household segment, while a slight reduction was observed in the business customer segment.



Elektrum net promoter score

- demonstrates the readiness of customers to recommend the service provider based on their service experience
- measured on a scale from -100 to +100 (according to the international NPS methodology)
- The NPS remained stable and at a high level for all customer service channels. In 2023, the customer service portal saw a slight drop – this was due to speed gaps and availability in Latvian and English only.





Distribution

Since 2014, when the replacement of previous generations of electricity meters started, more than 1.1 million smart meters have been installed, amounting to 99% of the total meter fleet. This is one of the most ambitious digitalisation projects in Latvia in recent years – digital and technological solutions provide remote electricity metering and a wide range of energy data to users. The availability of energy data improves customer satisfaction: it increases energy efficiency, expands energy efficiency options and provides a competitive advantage. Users can monitor their electricity consumption and choose the most appropriate time, for instance, to intensify their production. The availability of energy data is also an indispensable prerequisite for the development of the electricity market and the growth of the economy.

Sadales tīkls AS works in the long-term interests of society and continuously monitors changing customer habits and needs, which is the basis for service upgrades as well as the development of new services. In the reporting year:

- New fee-based services, for instance, electricity quality measurements and electricity connection with additional mounting work, were introduced.
- The power plant connection service was digitalised, thus improving the accessibility of this service and reducing the number of manual activities in customer service processes.

Since 2021, Sadales tīkls AS has offered automated delivery of information to customer data systems. In the reporting year, the number of sites connected to this service increased significantly, reaching more than 4 thousand sites, and research and modelling of several new directions in the development of data services was launched.

The change in the distribution tariff structure has encouraged customers to assume a more proactive approach to their electricity connection and to take the opportunity to change their connection load and/or tariff plan. During the tariff transition period, Sadales tīkls AS carried out extensive and proactive communication with customers: more than 200 thousand private customers have been addressed individually by e-mail and text messages, informative e-mails have been sent to approximately 27 thousand entrepreneurs, and 43 meetings with entrepreneurs in municipalities and 245 individual visits to the largest customers have been organised.

Multichannel communication capabilities enable continuous, fully-fledged availability of services and high-quality customer service remotely and at any time:

- The company's website sadalestikls.lv provides extensive information on services, several e-calculators, digital maps, and e-consultations. The virtual assistant Valts provides essential support and immediate answers to questions at any time of day. The number of sessions with Valts increased by 66% to 39 thousand sessions in the reporting year, which is an indication of an increase in customer activity in the self-service e-environment.
- The self-service portals e-st.lv and saskano.sadalestikls.lv enable customers to complete a variety of tasks, such as applying for a service and concluding a contract; coordinating projects and plans; and obtaining permits for construction, forestry and excavation work. The virtual assistant Valts is available in these portals as well.
- At the end of 2022, a solution for reporting power cuts, voltage problems and infrastructure faults was introduced on the company's website, and, in 2023, as many as 23% of reports were registered in the e-environment. It is also still possible to report damage to the electricity network by calling the toll-free number 8404.
- Work on improving customer notification of power cuts and grid work is in progress. Work on improving the content of notifications and on extending the digital reach of customers was carried out in the reporting year.

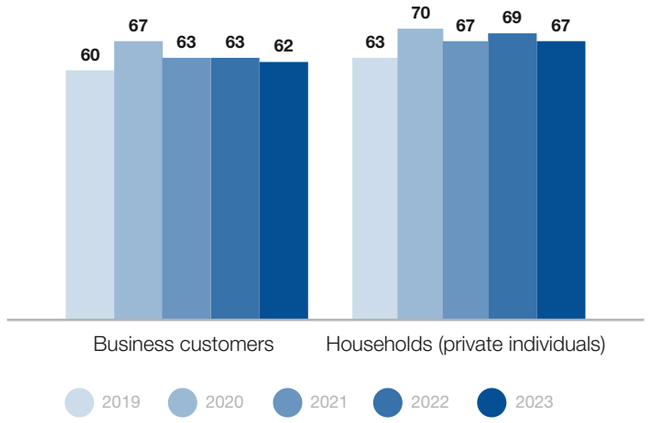
Despite the increase in distribution tariffs in 2023, customer satisfaction and loyalty have generally remained at a moderately high level. Past achievements were sustained thanks to long-term efforts invested in strengthening customer loyalty, as well as the chosen customer management strategy: individual, active communication with customers by inviting them to evaluate the efficiency of their connection and the tariff plan that best suits their consumption, as well as the support in the e-environment.

The household (private individual) and business segments demonstrated a slight decline in customer satisfaction and loyalty, while the evaluation in the large business and local government segments improved in 2023. Customers most value the quality of the electricity supply, co-operation in the e-environment, the availability of data and information, and the possibility to adapt the connection to their needs; in the large business and local government segments, individual service is also appraised highly.

The improvements made in recent years in the availability of basic services and the convenience of the customer experience are reflected in customer satisfaction indicators in 2023 as well: the connection of micro-generators received the highest customer rating, meeting the needs of the "active" electricity user who not only consumes but also generates and actively manages his/her energy consumption. Similarly, customers who have connected a new power plant or increased its capacity have become significantly more satisfied with the introduction of automated solutions.

Customer satisfaction index of Sadales tīkls AS

- demonstrates customer satisfaction with the service provider
- measured on a scale from 1 to 100
- In 2023, customer satisfaction in both the household (private individual) and business segments remained at a moderately high level.



Safety of distribution services

Safe electricity supply is a priority for Sadales tīkls AS. The company reminds the public about electrical safety regulations and the dangers of electricity on a regular basis and educates children, young people and adults about electrical safety and the proper use of electrical appliances in everyday life.

Sadales tīkls AS organises and supports informative and educational programmes and campaigns aimed at preventing electrical injuries caused by the negligent use of electrical appliances and performing business activities in the vicinity of the electrical network. In the reporting year:

- Employees of the company – electrical safety ambassadors – conducted 234 classes, educating almost 7.5 thousand children and young people; the virtual reality electrical safety game and exhibition Apartment was created in cooperation with Cinema City Cinevilla; at the Children's World 2023 exhibition held in Ķīpsala, the Electricity School was held, and an electrical safety quiz for participants of the Alfreds Krauklis Memorial Basketball Tournament was organised.
- An electrical safety campaign for workers in the commercial sector was implemented by broadcasting informative social advertisements about safe work near power lines on several radio channels.
- An electrical safety campaign on the safety of the home wiring was implemented, reminding people of the basic principles of electrical safety and informing the public about the need to inspect the home wiring at least once every 10 years; the expert discussion *Electrically safe: the current situation and options for improving it*, as well as an awareness campaign on delfi.lv, were organised.
- A survey was conducted and an electrical safety index was determined to assess the awareness and understanding of the Latvian public on electrical safety issues. The results show that 85% of respondents believe that they are generally familiar with the principles of electrical safety. Compared to studies in previous years, the results have not changed significantly.

To learn about the dangers of electricity and how to act in dangerous situations, see arelektribuneriske.lv. For more information on raising public awareness of electrical safety, see the section Corporate Social Responsibility.

GRI EU25

Number of injuries and fatalities in the public (involving company assets)

In 2023, two accidents with third parties occurred in the electrical installations of Sadales tīkls AS. The accidents were caused by a failure to assess the electrical hazards in the immediate vicinity of power lines or in their protection zones. To prevent such incidents, Sadales tīkls AS regularly carries out inspections of transmission lines and emphasises the importance of compliance with electrical safety requirements.

Number of accidents to third parties involving company assets

	Units	2019	2020	2021	2022	2023
Fatal	number	1	0	1	1	0
Serious	number	1	0	1	0	2
Not serious	number	1	0	1	1	0
TOTAL	**number**	**3**	**0**	**3**	**2**	**2**
Legal cases	number	0	0	0	0	0

Security of personal data

To ensure compliance with the requirements of General Data Protection Regulation (EU) 2016/679, Latvenergo Group is constantly improving its personal data processing and introducing measures to reduce the risks of personal data processing. For staff whose duties include handling personal data, in-person training and/or e-learning, seminars and knowledge tests are organised at different intervals and according to the specific nature of the job.

Processing of personal data by Latvenergo Group's information systems is carried out in compliance with the requirements of regulatory enactments on the security of restricted information. Data processing in customer service portals of Latvenergo Group, mobile applications, websites and direct communication activities is customised to ensure personal data processing and protection requirements.

Management and supervision of personal data processing at the subsidiary Liepājas enerģija SIA is separate from the Group.

GRI 418-1

Complaints regarding breaches of customer privacy and losses of customer data

Since 2023, the following target parameter has been set for the protection of personal data at Latvenergo Group: no substantiated requests from the supervisory authority and/or reports from auditors on the unsecured processing of personal data in compliance with the requirements of the General Data Protection Regulation.

In 2023, Latvenergo Group did not record any breaches related to personal data theft and loss and did not identify any cases that would have posed a high risk to the rights and freedoms of individuals. Latvenergo AS, Sadales tīkls AS, Liepājas enerģija SIA, Latvijas vēja parki SIA and Enerģijas publiskais tirgotājs SIA did not receive any complaints from supervisory authorities or other institutions regarding personal data breaches, and no substantiated requests from a supervisory authority and/or reports from auditors were received about cases of personal data processing not complying with the requirements of the General Data Protection Regulation.

Elektrum Eesti OÜ received one complaint from a supervisory authority during the reporting year; however, during the examination of the report, no infringement in the activities of the company was detected.

Elektrum Lietuva UAB received seven complaints from a supervisory authority. One complaint was closed because the data subject ceased to maintain a further claim. Six complaints are currently under review and no decisions have been taken yet regarding them. In 2023, Elektrum Lietuva UAB received a report from external auditors on the compliance of personal data processing with the requirements of the General Data Protection Regulation and initiated a procedure to remedy the deficiencies identified.

Information availability

In communication with customers as well as in marketing and advertising activities, Latvenergo Group ensures compliance of information with the law, fair competition standards, the Code of Ethics and internal policies of the Group.

Trade

Several customer service channels are offered to maintain a high level of customer satisfaction and service quality and availability. The following service channels are available for customers in Latvia:

- the elektrum.lv customer portal, incl. online customer service and consultations by the virtual assistant Lelde
- the *Elektrum* mobile app
- customer service by phone
- an option to submit questions via e-mail
- social networks

The most popular customer service channel is the portal elektrum.lv, which was used by 73% of *Elektrum* customers in the reporting year. Meanwhile, 18% of customers used the *Elektrum* app. The usage volumes of both digital channels are similar: the portal as well as the app are used approximately 1.5 million times per month. In Lithuania and Estonia, customer service is ensured via the elektrum.ee and elektrum.lt customer service portals, as well as by phone. To strengthen the position of the national language in Latvia, as of 2022 the customer portal and mobile app are only available in Latvian and English, while in individual communication with the customer, *Elektrum* tries to adapt as much as possible to the customer's preferred language for conversation.

Latvenergo Group also informs customers and the public about energy efficiency and electrical safety – in the customer edition *Elektrum for Your Home*, in the *Elektrum* social network accounts, and in the customer service portal and activities organised by the *Elektrum* Energy Efficiency Centre. To promote energy efficiency in 2023, marketing communication campaigns in the media and webinars were organised. A year-end analysis of the campaigns' effectiveness shows that 68% of the Latvian population has noticed one of *Elektrum's* information campaigns on energy efficiency.

Distribution

All services of Sadales tīkls AS are available in the e-environment, and a targeted, informative effort is being made to increase customers' use of the e-environment. The target set for 2023 was 97.5%, which was achieved with flying colours – customer activity in the e-environment reached 98.6%.

Digital maps provide customers with information on scheduled and unscheduled disconnections, cleaning of tracks and protection zones of power lines, ongoing and scheduled reconstruction work, the cost of installing a new electricity connection, and spare capacity for customers planning to build a high-consumption or generation connection.

As of late 2022, customers can also quickly report damage on the website, which ensures convenient communication, reduces manual tasks and optimises the use of resources. Damage reports submitted in the damage reporting tool are promptly reflected in a digital disconnection map where customers can follow the progress of the reported damage.

Digital damage reporting also enables greater public participation in the identification of infrastructure damage, which provides an important contribution to the maintenance of the electricity networks and the continuity of the power supply. The addition of geolocation and photographs to the damage reporting tool allows specialists of the company to remotely determine the location of the event, assess the extent and complexity of the power grid damage and organise its repair in a timely manner.

The data platform *Step* was made available to Latvian electricity market participants in 2023. It is an information technology system aimed at ensuring standardised and centralised production, storage and exchange of electricity market data between market participants and system operators. The entire operation of the electricity market has been migrated to this new system, which sets uniform data quality standards and is an efficient tool in the use of new technologies – an essential precondition for the successful development of the Latvian electricity market.

GRI 417-3

Incidents of non-compliance concerning marketing communications

No cases of non-compliance of Latvenergo Group's marketing activities with legal or voluntary provisions were identified in 2023.

Society

Emergency planning

Public policy engagement

Latvenergo Group follows the development trends of the energy sector, informs stakeholders about its activities, and states its position on policy documents and legislative acts relevant to the Group and its stakeholders in the energy and related sectors. Emergency management plans and crisis management and prevention plans have been developed for the Group's critical infrastructure. The Group carries out corporate social responsibility activities to support different groups of society.

Sustainability topics that are essential for the Group include contingency management plans and the involvement of Latvenergo Group in sectoral policy-making. The Sustainability Strategy of the Group, approved in late 2023, sets the following targets for these areas:

- disclosure of involvement in sectoral policy-making at least once per year – see the topic "Involvement in sectoral policy-making"
- zero financial and/or non-financial contributions to political organisations – see the indicator GRI 415-1
- zero high-impact information security incidents per year – see the topic "Contingency management plans"

Emergency planning

A crisis management system has been developed at Latvenergo Group. It aims to provide a common approach to addressing crisis situations to ensure the continuous and safe operation of the Group or its rapid and effective restoration. Response in these situations involves cooperation with the Ministry of Climate and Energy, the Ministry of Economics, the Crisis Management Council, the Energy Crisis Centre, local governments, the Department of Management and Operations of the State Fire and Rescue Service (SFRS), the National Armed Forces and Augstsprieguma tīkls AS. Civil protection plans have been developed for the plants, which have been coordinated with the SFRS. Annual tests of the efficiency of plans are conducted and the plans are updated and supplemented where necessary.

Every year, practical fire safety classes are organised in the largest plants and administrative buildings of the Group. They are attended by employees of the Group, contractors, and specialists and operational staff of the SFRS. At the end of the classes, an analysis of the classes is performed, and the measures to be taken to quickly prevent consequences, reduce material damage, and improve fire safety are determined.

The business continuity management system of Latvenergo Group was developed and implemented in 2023. It consists of a single business continuity framework – the policy – as well as a business continuity plan for Latvenergo AS and Sadales tīkls AS. The business continuity framework of these companies includes:

- management of critical processes, including their identification; regular testing of business continuity procedures; and staff training
- incident, critical incident and crisis management
- setting up an information exchange system

A list of critical staff posts is approved to ensure the continuity of critical infrastructure operations in the event of a threat to national security, exceptional circumstances, or an emergency situation. Testing of the business continuity plan is performed at least twice per year, with a particular focus on training for critical personnel and managers.

The Group regularly conducts recovery tests of information systems to ensure that disaster recovery plans are up to date and to improve the ability of employees to deal with different cybersecurity-based threats.

In 2023, 16 large-scale distributed denial of service (DDoS) attacks were carried out on the information system resources of the Group. The controls in place are considered to be effective, as the impact of the attacks on information systems was very low in two cases and non-existent in 14 cases.

Specialists of the company participate in both local and international training to develop their professional knowledge and share their experience. Group employees receive regular training on IT security, and the internal portal publishes articles on cybersecurity events and recommendations on how to deal with them. In addition, different types of cybersecurity tests are developed each year to improve employees' knowledge of the different types of attacks, how to recognise them and what further actions should be taken.

Public policy engagement

Latvenergo Group engages in the development of energy policy to promote the sustainable development of the Group, the industry, and the economy. Representatives of the Group participate in various forums and, in line with the strategy of the Group, engage in drafting statements and opinions on Latvian and EU-level studies, guidelines, standards, policy documents, and legal acts pertaining to the energy sector and related sectors.

Experts of the Group make recommendations for the development of various Latvian regulatory and policy planning documents for the energy sector. The most important documents in 2023:

- amendments to the Electricity Market Law – procedures for the application of net systems, regulation on excess profit payments of electricity producers
- amendments to the Regulations on the Trade and Use of Natural Gas with regard to the procedure for completing the opening of the natural gas market and the involvement of households as free market participants in the natural gas market
- amendments to the Regulation on the Lease and Development Rights of Public Land regarding the procedure for leasing public land to facilitate and promote the construction of WPPs
- amendments to the Natural Resources Tax Law regarding the management procedures of photovoltaic panels

The Group's involvement in shaping energy sector policy is ensured through its participation in the federation for the European electricity industry Eurelectric, European wind energy association WindEurope, and the technical association of power plant operators vgbe energy e.V. During the reporting year, experts of the Group were involved in developing the Eurelectric's position on:

- the role of small modular nuclear reactors in the EU's progress towards climate neutrality
- a proposal for a regulation on fluorinated greenhouse gases
- a proposal for a regulation on the framework of measures for strengthening Europe's net-zero technology products manufacturing ecosystem
- a proposal for a regulation on the sustainable supply of critical raw materials

Participation in WindEurope provides the Group with access to the latest developments in the European wind energy sector, including a platform on conditions for the issue of permits in EU member states. In December 2023, the Group joined the European Wind Charter, signed by EU Energy Ministers, as well as companies and associations of the industry. It provides for a set of measures for implementing the European Wind Power Package related to the granting of permits, financing, auctioning, strengthening of the supply chain, etc.

In April 2023, during a vgbe energy e.V. meeting in Austria, Group experts visited the green hydrogen plant at the Voestalpine site in Linz, as well as the lithium-ion electric battery system at HES Wallsee-Mitterkirchen of Verbund AG.

Latvenergo Group participates in energy and Green Deal-related forums and conferences to promote the exchange of opinions on the future of the industry. Key issues discussed in 2023 include:

- new green generation capacities
- the potential of WPPs – how to balance the interests of society, business, local governments and central government
- the role of small modular nuclear reactors in the Baltic electricity market
- energy security and energy resilience in the Baltic Sea region
- progress towards implementing EU climate policy goals
- designing the electricity market for implementing the Green Deal

GRI 415-1

Political contributions

In compliance with the requirements of the laws and regulations of the Republic of Latvia, the Donation Strategy of Latvenergo AS, and the Sustainability Policy of the Group, Latvenergo Group does not make any monetary or non-monetary contributions to political organisations.

Employees and the work environment

Occupational health and safety

Public policy engagement

The priorities of Latvenergo Group include strengthening employee engagement, motivation, and development and developing a safe work environment that promotes innovation. An innovative, dynamic and development-orientated culture and employees, who act in accordance with the values of the Group, is an essential prerequisite for achieving the Group's objectives. The Sustainability Strategy developed in the reporting year also aims to strengthen the well-being of personnel, ensure a safe working environment and maintain a fair remuneration system that prevents discriminatory remuneration.

Policy on Human Resource Management (HRM) and its basic principles

Motivated, loyal and satisfied employees are an essential precondition for the sustainable development of the Group. The objective of Latvenergo Group's HRM policy is to promote a positive employee experience, thereby attracting, developing and retaining a competent and engaged workforce. The HRM policy sets out the following areas:

- development of skills and competencies of personnel
- knowledge management and use of technology
- promotion and embedding of an understanding of the Group's values in the culture of the organisation

Key principles of sustainable HRM included in the policy:

- high ethical standards, which means the prevention of discriminatory behaviour and human rights violations
- a safe working environment, equal treatment and employment rules
- social dialogue with employees and their representatives
- continuous competence development, knowledge sharing
- engagement and accountability for work performance
- support for diversity, new knowledge and innovation
- fairness and mutually respectful employer/employee relations

In all areas of its activities, the Group respects fundamental human rights as enshrined in the national legislation of the countries of operation and in international treaties binding on them. The work environment and processes are developed to prevent the possibility of the human rights of the Group's employees and subcontractors being infringed or violated, insofar as the Group can influence this.

GRI 2-7, 2-30

Number of employees and collective bargaining agreement

At the end of the reporting year, Latvenergo Group had almost 3,500 employees across the Baltic states. Compared to 2022, the number of employees increased by 5.5%, mainly due to the development of new products and services.

The energy industry is characterised by its high number of technical positions; therefore, the workforce structure of the Group has a relatively high proportion of male individuals: 69% of all employees in 2023 were male and 31% were female. Most employment contracts are concluded as full-time open-ended contracts. In 2023, only 13 employees or 0.4% of the workforce had part-time contracts (0.2% of male and 0.7% of female employees). On the other hand, 43 employees or 1.2% of the workforce had a fixed-term contract (0.7% of male and 2.4% of female employees). These figures did not change significantly compared to previous years.

The companies of the Group – Latvenergo AS, Sadales tīkls AS and Enerģijas publiskais tirgotājs SIA – have signed a collective bargaining agreement with the trade union Enerģija. The Collective Bargaining Agreement provides for the protection of employees' economic and social interests in addition to the protection provided by the requirements of laws and regulations. In 2023, this applied to 88% of the Group's workforce. The Collective Bargaining Agreement not only applies to trade union members but to all the employees of those companies.

Number of employees by operating segments

	Units	2019	2020	2021	2022	2023	Δ2023
Generation and trade	number	880	875	912	1,052	1,202	150
Distribution	number	1,957	1,876	1,681	1,665	1,665	0
Lease of transmission system assets*	number	6	0	0	0	0	0
Corporate functions	number	580	544	560	599	630	31
TOTAL	**number**	**3,423**	**3,295**	**3,153**	**3,316**	**3,497**	**181**
female	number	997	952	947	1,010	1,094	84
male	number	2,426	2,343	2,206	2,306	2,403	97

* On 10 June 2020, transmission system assets were unbundled from Latvenergo Group

Occupational health and safety

GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 2-8

Occupational health and safety management

The Occupational Health and Safety Policy of Latvenergo Group aims to ensure a safe and healthy working environment. The occupational health and safety (OHS) system of the Group is focused on a sustainable working environment, where employees can work effectively and safely, by using innovative and modern personal protective equipment and taking care of their health and well-being. The objective of the OHS system is to prevent both physical and emotional factors that can negatively affect the health and safety of employees at work, as well as to educate and involve workers to promote a positive working environment and prevent the risk of accidents. Modern IT solutions are used for regular monitoring and surveillance in the area of occupational safety and health, enabling every employee to be involved in improving work processes and the environment.

OHS systems have been introduced voluntarily at the companies of the Group and are compliant with the national legal requirements of each country and the specific nature of each company's sector. Work to be performed, objectives set, the risk assessment of the working environment and the scheduled tasks have been taken into consideration while designing the OHS systems.

The OHS system of each company represents a comprehensive approach to the provision of a healthy working environment. When planning occupational health and safety measures, the capital companies respect the overall commitment of the Group to employee health and safety. The safety requirements and procedures developed that govern work processes help to reduce the likelihood of risks. Annual risk assessments with the participation of occupational health and safety experts, trustees trained in labour safety and workers themselves enable the identification of potential hazards and health risks at work, with the objective of developing effective measures for mitigating these risks. In 2023, 27 trustees from the Latvian trade union Enerģija elected by employees were operating at Latvenergo AS and Sadales tīkls AS. The trustees co-operate on a daily basis, listening to and supporting employees in order to resolve issues related to the working environment or work organisation. Employees can also turn to trustees in situations when direct communication with the employer is difficult.

Work risk assessments for remote work are also carried out, as employees whose position allows it work remotely or in hybrid mode. Several methods are used to identify and assess risks, including employee questionnaires. Workers are given guidance on the ergonomic set-up of the remote workplace, and they have access to advice from occupational safety experts on evaluating their workstations. Individual discussions with remote workers are also held where necessary.

Employees of the Group are provided with collective and personal protective equipment. The specific nature of the work, the required degree of protection and the most recent available solutions are taken into consideration while selecting workwear, footwear and personal protective equipment. In establishing procedures for investigating accidents and incidents, the companies of the Group assess the causes and develop measures to prevent the recurrence thereof.

In 2023, Elektrum Lietuva UAB created the separate position of environmental and occupational safety officer, revised occupational safety documentation, developed personal protective equipment cards, started an accident log, corrected deficiencies detected during internal audits, and conducted a survey of psychosocial risk factors.

Employees may report dangerous situations or non-compliance to occupational safety specialists, heads of organisational units or trustees. Job instructions include clauses about situations when it is forbidden to start work. In accordance with the Labour Protection Law, an employee may refuse to perform work in dangerous conditions by informing the head of the organisational unit or the trustee orally or in writing.

Latvenergo Group provides employees with both professional development training and occupational safety training. According to employees' needs, the Group organises training in first aid, electrical safety, work at height, work with hazardous equipment, and other specific training. The Group fully covers the costs of such training and employees can attend training during working hours.

Accidents at the Group are registered and investigated in compliance with the respective laws and regulations. In addition, near-accidents are also listed and analysed. Any conclusions and insights are used for the improvement of the OHS management system.

Employee health

In accordance with their position, the risk assessment of the working environment and the requirements of laws and regulations, all employees are regularly sent for mandatory health examinations. These are included in employees' health insurance policy; they are free of charge for employees and can be carried out during working hours. Information about the health condition of employees and the examinations performed is processed in accordance with the Personal Data Processing Law, respecting confidentiality and employee privacy.

The health insurance of Latvenergo Group employees also includes the services of medical specialists, inpatient services, rehabilitation, and vaccination. In 2023, employees also had the opportunity to be vaccinated against tick-borne encephalitis and influenza onsite at the Group's facilities. Additional health promotion measures include accident insurance for the employees of Latvenergo AS, Sadales tīkls AS and Enerģijas publiskais tirgotājs SIA, as well as additional sickness guarantees under the Collective Bargaining Agreement. The purchase of vision correction equipment is also reimbursed to employees.

In the reporting year, special attention was paid to preventive measures and health education for personnel:

- Sadales tīkls AS organised a health week, *Strength in you, be healthy*, during which employees improved their knowledge of healthy food, physical activity and sleep habits. Each employee received a mail package with immunity-boosting products.
- Latvenergo AS published a series of videos on safety and well-being, in particular emotional health, on the company's intranet.
- Liepājas enerģija SIA improved its working environment by arranging recreation areas and implementing vitamin campaigns and activities related to improving eye health.

Measures to improve the microclimate were implemented throughout the Group in 2023, which were preceded by measurements of the parameters to be improved: lighting, temperature and ventilation. Existing workplaces and premises were improved with ergonomic equipment, and new workplaces were created. The Group's production sites also measure dust, noise and vibration levels to ensure that employees are adequately protected by means of collective or personal protective equipment.

Contractors

The most frequent activities that Latvenergo Group engages contractors in are construction, repair and maintenance of equipment, management and supply of goods or services, and renting premises. The provisions of the cooperation agreement and the Group's internal procedural guidelines provide for a mandatory briefing of contractors prior to the commencement of work. When arranging contractors' access to the Group's sites, the responsible employees make sure that briefings are carried out periodically.

Before arriving at Latvenergo AS and Sadales tīkls AS sites, contractors' employees are briefed in accordance with legislation. Latvenergo AS has developed procedures and instructions for contractors to ensure that everyone complies with the same safety requirements at the company's sites. Contractors are accounted for before the commencement of work and briefed, or control of the previous briefing is performed.

In the reporting year, for the convenience of contractors, Latvenergo AS also introduced remote briefings, which comply with the specific nature of individual facilities and occupational safety requirements. Before starting work, the responsible specialist of Latvenergo AS must make sure that the contractor has understood the requirements included in the briefing. The responsible officer may adjust or stop the work of the contractor at any stage of the work if they find that the tasks to be carried out do not comply with safety requirements or pose a risk to the contractor themselves or to other workers, visitors or clients.

In 2023, Sadales tīkls AS organised a forum for contractors on changing mindsets and attitudes regarding occupational health and safety. It brought together occupational health and safety experts from 41 partner companies. In 2023, Sadales tīkls AS participated in an experience exchange event organised by the Employers' Confederation of Latvia to raise the awareness of other industries on the performance of live work. During the reporting year, a personnel rights administration management system (PRAMS) was also set up, allowing representatives of employees and contractors to keep track of the requirements of regulatory enactments on the right to carry out work on energy installations. Representatives of contractors maintain and update information on their own employees in the system.

Elektrum Lietuva UAB plans to introduce an occupational health and safety manual for contractor training in 2024 in addition to briefings on safe working practices.

Information on the number of contractors at the Group is not available due to insufficient data.

GRI EU18

Percentage of contractor and subcontractor employees that have undergone relevant health and safety training

All partners, subcontractors and their employees are briefed on the Group's occupational health and safety requirements and instructed in accordance with the work to be carried out. When concluding an agreement on the work to be performed, the contractor undertakes to instruct workers on the specific requirements of the job in accordance with the legal requirements, as well as to assess the risks of the working environment and send employees for compulsory health checks before the work is carried out.

To improve the safety of contractors, Sadales tīkls AS introduced a new performance indicator in 2023 which measures the amount of workplace misconduct:

workplace inspection rate K = infringements/inspections carried out

The performance of 419 inspections of contractors revealed 130 non-conformities, resulting in the general value of K at 0.31. For contractors with a score that exceeded 0.21, a workshop was organised and key issues for improving labour safety at work were discussed.

Latvenergo Group companies regularly provide internship opportunities for students and young professionals. Before starting their traineeship, all trainees are introduced to the operating principles of the company, the risks in the working environment, and the preventive measures to mitigate them and instructed on occupational safety. During the traineeship, work is carried out under the supervision of an experienced ment.

GRI 403-8

Employees covered by the OHS management system

The internally audited OHS management system covers all operating segments of the Group and 99% of its employees (the remaining 1% constitutes employees of Elektrum Eesti OÜ). The OHS system implemented by Latvenergo AS and Elektrum Lietuva UAB also meets the requirements of the international ISO 45001:2018 standard. Their OHS systems are externally audited and certified. The OHS systems of other Group companies are maintained in accordance with the requirements of regulatory enactments and upgraded in accordance with changes in company operations.

	Units	2019	2020	2021	2022	2023
Workers covered by OHS management system	number	3,423	3,295	3,153	3,315	3,457
	%	100	100	100	100	99
Workers covered by an internally-audited OHS management system	number	3,423	3,295	3,153	3,315	3,457
	%	100	100	100	100	99
Workers covered by an externally-audited or externally-certified OHS management system	number	3,423	1,419	1,269	1,329	1,710
	%	100	43	40	41	49

GRI 403-9

Work-related injuries

In 2023, Latvenergo Group's target in the area of occupational safety was zero workplace accidents caused by employers. Accidents occurring in the Group are investigated in accordance with the law, the causes of the accidents are identified, and action is taken to prevent the occurrence of such accidents.

In 2022, Latvenergo AS and Sadales tīkls AS joined the voluntary initiative Mission Zero. During the reporting year, the Group participated in seminars and exchanges, visited other companies of this initiative and gained new ideas on how to make health and safety a priority at every stage of basic business activity, as well as in our interactions with society.

In 2023, an information campaign on occupational safety at the Group's production sites was also implemented. Videos on occupational health and safety, environmental and occupational incidents, observations and the recording thereof at production sites, and safe working environments at the Group's sites, were produced and posted on the intranet. An incident register has been introduced to enable employees to quickly and easily report dangerous situations that could endanger the safety or health of employees and business partners. Employees are encouraged to actively participate in improving safety and the working environment by making suggestions and reporting dangerous situations.

In 2023, Sadales tīkls AS continued to provide e-lectures on occupational safety and health, in order to explain requirements set out in instructions to employees. The company has created a labour safety film, Robert's Dark Friday 2, which invites employees to report near-accidents and dangerous situations in the work environment.

Accidents at the Group are registered and investigated in compliance with the respective laws and regulations. The figures do not include data for Elektrum Eesti OÜ.

	Units	2019	2020	2021	2022	2023**
Recordable work-related injuries	number	8	8	7	5	10
	index*	0.28	0.28	0.27	0.19	0.34
Low-consequence work-related injuries	*number*	*5*	*7*	*5*	*5*	*9*
	*index**	*0.17*	*0.25*	*0.19*	*0.19*	*0.31*
High-consequence work-related injuries	*number*	*3*	*1*	*2*	*0*	*1*
	*index**	*0.10*	*0.04*	*0.08*	*0*	*0.03*
Fatalities	*number*	*0*	*0*	*0*	*0*	*0*
	*index**	*0*	*0*	*0*	*0*	*0*
Number of hours worked		5,772,056	5,636,983	5,262,582	5,141,008	5,836,459

* Injury rate = $\frac{\text{number of injuries}}{\text{number of hours worked}} * 200{,}000$

The index is calculated using 200,000 hours, as this is the total number of hours worked by 100 employees in one year (100 employees * 40 hours * 50 weeks).

** As of 2023, data on Elektrum Lietuva UAB are also included.

In 2023, the Group did not receive any information on accidents involving contractors' employees.

Employee involvement and development

Employee involvement

Employee involvement is a prerequisite for the Group's growth and development and the achievement of its goals. Performance and productivity also depend on whether employees feel motivated and have a sense of belonging to the company. The Group conducts an anonymous employee survey annually to find out employees' views on various factors of the work environment. Also, in 2023, a comprehensive study was carried out to assess the level of employee engagement according to the TRI*M methodology, as well as the level of employee experience in accordance with the EX Index methodology. Almost 2,500 respondents or 77% of the Group's employees participated in the survey. This level of participation must be evaluated as very positive and demonstrates the representativeness of the results – applicability to all Group employees – and a high level of employee engagement.

Employee engagement encompasses not only employee satisfaction but also levels of loyalty, retention, involvement and motivation. The engagement indicator – the TRI*M index – is a single numerical measure consisting of employees' responses to questions on overall satisfaction, workplace recommendation, willingness to reapply for the job, motivation of colleagues, and assessment of the company's performance and competitiveness. The indicator increased by one index point in the reporting year to 69 index points, which meets the target of 2023. This indicator is considered to be moderately high and indicates a good and stable working environment. The TRI*M index to be reached in 2024 is set at the level of 64–67 index points.

For the second year in a row, the study also assessed the EX Index indicator on employee experience. This is a multifaceted assessment tool that measures employee experience across a range of dimensions and factors and helps identify priorities for improving employee experience. The dimensions covered by the indicator are as follows:

- internal culture
- line managers
- internal communication
- opportunities for growth
- well-being
- pay and benefits
- meaningful work
- cooperation and team
- objectives
- agenda and processes
- technologies and equipment

Based on the dimension scores, an average score is calculated, which measures the maturity of the employee experience. In 2023, the EX Index of Latvenergo Group was 80%, which corresponds to the Experienced level (70–85%). Meaningful work, goals, line managers, technologies and equipment, and mutual support in teams were recognised as strengths. Internal communication, pay and benefits, and growth and investment in the emotional well-being of employees were recognised as areas for improvement.

In the survey, employees were also able to make comments and objections about the work environment and proposals for its improvement. Employees can easily submit their proposals for improvements in working processes, new products, and services to the Idea Bank in the internal network of the Group at any moment, where they can also track the progress of these proposals.

To inform employees about current developments in the Group, achievements and future plans, the Management Board and the Management of Latvenergo AS and Sadales tīkls AS hold quarterly online meetings with their employees. In 2023, webinars on the sustainability strategy of the Group were also organised for employees.

During the reporting year, employees of the Group engaged in a series of activities to strengthen well-being and mutual communication, to implement the values and work approaches of the Group in daily work, and to promote their sense of belonging to the company. Such activities are particularly important at a time when some employees work remotely or in hybrid mode:

- sports activities, for instance, summer sports games, the annual volleyball competition and participation in the Latvian Cyclists' Unity Ride
- team-building events, for instance, the Sadales tīkls AS event project *Team is Strength*, the Christmas Ball of Latvenergo AS, a tree-planting campaign and board game nights for Elektrum Lietuva UAB employees
- charity and environmental protection activities, for instance, collecting donations to support Ukraine, cleaning small rivers and creating fish spawning nests

In 2023, a strong focus was placed on promoting the well-being of personnel:

- The pilot project Supervision for Latvenergo AS Client Consultants was implemented to help customer service employees reduce emotional tension and to introduce supervision as one of the effective methods of emotional self-regulation and stress management. In 2024, after an evaluation of the pilot project's results, supervision practice will be included in the offer to all personnel.
- A health week, *Strength in you, be healthy*, during which employees improved their knowledge of healthy food, physical activity and sleep habits, was organised by Sadales tīkls AS. Individual interviews were also conducted with all employees of the company to gather their opinions and suggestions for improving well-being and engagement.
- Seminars were organised on emotional aspects of everyday life, stress mitigation, the communication skills required while talking to a dissatisfied customer, and skills required to identify reliable information.
- Educational videos for personnel on safety and various topics of well-being were developed and posted on the intranet.

Employee commitment indicator TRI*M

	Units	2019	2020	2021	2022	2023
Indicator to be achieved	index points	N/A	56	63–66	63–66	64-67
Indicator achieved	index points	53	66	66	68	69

- New modern premises with ergonomically adjustable furniture were opened for employees of the Latvenergo AS Customer Service Centre in Jelgava.
- Sadales tīkls AS and Latvenergo AS granted additional paid days off to employees who were members of the National Guard and participating in training.

Elektrum Lietuva UAB supports the involvement of employees in charity and volunteering by providing two paid days a year to volunteer at old people's homes and at the food bank.

Employee development

In 2023, Latvenergo AS revised the list of competencies and their criteria for both managers and employees to comply with the values of the Group and priority leadership competencies. Sadales tīkls AS continued to develop the talent development programme launched during previous years.

Managers play a key role in cultural transformation and implementation of strategic objectives; therefore, a strong focus is placed on manager development:

- 41% of Latvenergo AS managers met every two months for Manager Power Group meetings to improve their management skills and discuss topical issues.
- Latvenergo AS managers have also established peer support groups, which operate on the principles of group supervision. 23% of managers participated in them.
- Latvenergo AS implemented a pilot project, Hybrid Coaching, in collaboration with the Dutch company SparkUs. The project involved 10 managers and resulted in the conclusion that coaching should be offered to managers as an effective method of individual development.
- Sadales tīkls AS pays special attention to the integration of new managers into their managerial role and has created a digital manual, Guide for New Managers.

Employees are also offered ample opportunities to develop their skills and knowledge:

- Employees of Latvenergo AS had access to several online conferences on the topics of leadership, development and well-being. Anyone could watch them, and the personnel greatly appreciated the opportunity.
- The talent development programme *Esi tīklā!* by Sadales tīkls AS was attended by 86 employees, who strengthened their competencies in process management, team management, project management, change management, data analytics and collaboration.

A rotation opportunity, *Apply for a vacancy*, is also offered to Latvenergo AS employees. Those interested can temporarily rotate to a vacant position and decide whether to stay in this position or return to their previous position after the end of the rotation period. Fifteen rotational vacancies were advertised, nine of which were filled.

Knowledge exchange and continuity

Traditionally, Latvenergo Group pays great attention to providing high-quality practical training to students of higher education and secondary vocational education institutions. The Group annually provides paid traineeships, which in 2023 were used by 94 trainees. The Group cooperates with Latvian educational institutions to promote young people's interest in studying in STEM programmes, as well as to promote the development of the future workforce in Latvia in general.

The Sustainability Strategy for 2024–2026, which was approved at the end of the reporting year, includes a number of activities and measurements that are related to a sustainable working environment:

- assessment of emotional and physical safety at the workplace (target: at least 5 out of 6 points)
- salary assessment (target: at least 4 out of 6 points)
- external assessment on the observation of fair remuneration principles
- from 2025, an assessment of the accessibility of remote work (target: at least 4 out of 6 points)
- from 2026, a measurement of digital well-being and to set target values

GRI 402-1

Minimum notice period regarding operational changes

The Group regularly notifies employees and the trade union regarding current business activities, developments and planned structural changes. The Collective Bargaining Agreement stipulates that the employer must give no less than one month's notice to the trade union before a request for consent to terminate an employment contract. If collective redundancies are planned, consultations with the trade union must be started no later than one month before notifying the State Employment Agency. Employees must be informed about organisational changes leading to redundancies no later than five days following the decision.

GRI 404-1

Average hours of training per year

In 2023, about 76,800 hours were dedicated to training, which was attended by 2,685 employees of the Group. On average, one employee spent 22 hours in training. Male employees spent an average of 24 hours in training, while female employees spent an average of 20 hours in training.

Average hours of training (TH) per employee*

Profession group (PG)	Units	2019	2020	2021	2022	2023
Managers						
Average number of TH	number	25	26	28	38	30
% of employees who have undertaken training	%	64	68	71	84	84
Specialists						
Average number of TH	number	17	16	19	22	20
% of employees who have undertaken training	%	56	57	71	67	74
Craft and related trades workers						
Average number of TH	number	33	30	28	38	32
% of employees who have undertaken training	%	88	87	87	90	95
Other professions						
Average number of TH	number	13	24	31	14	11
% of employees who have undertaken training	%	66	68	82	79	66
Average number of hours, TOTAL	**number**	**20**	**20**	**23**	**26**	**22**
Percentage of all employees who have undertaken training	**%**	**64**	**66**	**75**	**74**	**79**

* the figures do not include data for Liepājas enerģija SIA

GRI EU15

Percentage of employees eligible to retire in the next 5 and 10 years

The Group maintains a balanced succession and generational change in accordance with the specific nature of the work. Compared to the previous year, the share of employees of pre-retirement age in 2023 did not change significantly.

Expected retirement rate

Profession group		5 years		10 years	
	Units	women	men	women	men
Managers	%	0.3	0.5	0.5	1.2
Specialists	%	1.7	4.4	3.5	8.1
Craft and related trades workers	%	0.0	2.9	0.1	5.5
Other professions	%	0.6	0.0	1.2	0.2
TOTAL	**%**	**2.6**	**7.8**	**5.3**	**15.0**

Environmental Topics

Environmental protection

Environmental compliance

Air pollution and climate change

Resource and energy consumption

Renewable energy and strengthening energy independence

Biodiversity

Broader use of renewable energy sources in the future and emission-free electricity production at its hydropower plants ensure Latvenergo Group's progress towards EU climate neutrality objectives. The strategy of the Group is to double the generation capacity of RES by 2030.

In the area of environmental protection and energy efficiency, the Group's activities are planned in accordance with the guiding principles of the Sustainability Policy, the Environmental and Energy Management Policy, environmental laws and regulations, and the ISO 14001 and ISO 50001 standards. The Sustainability Strategy of the Group, which sets out commitments and targets on climate, pollution, the circular economy, water and biodiversity, was also approved during the reporting year.

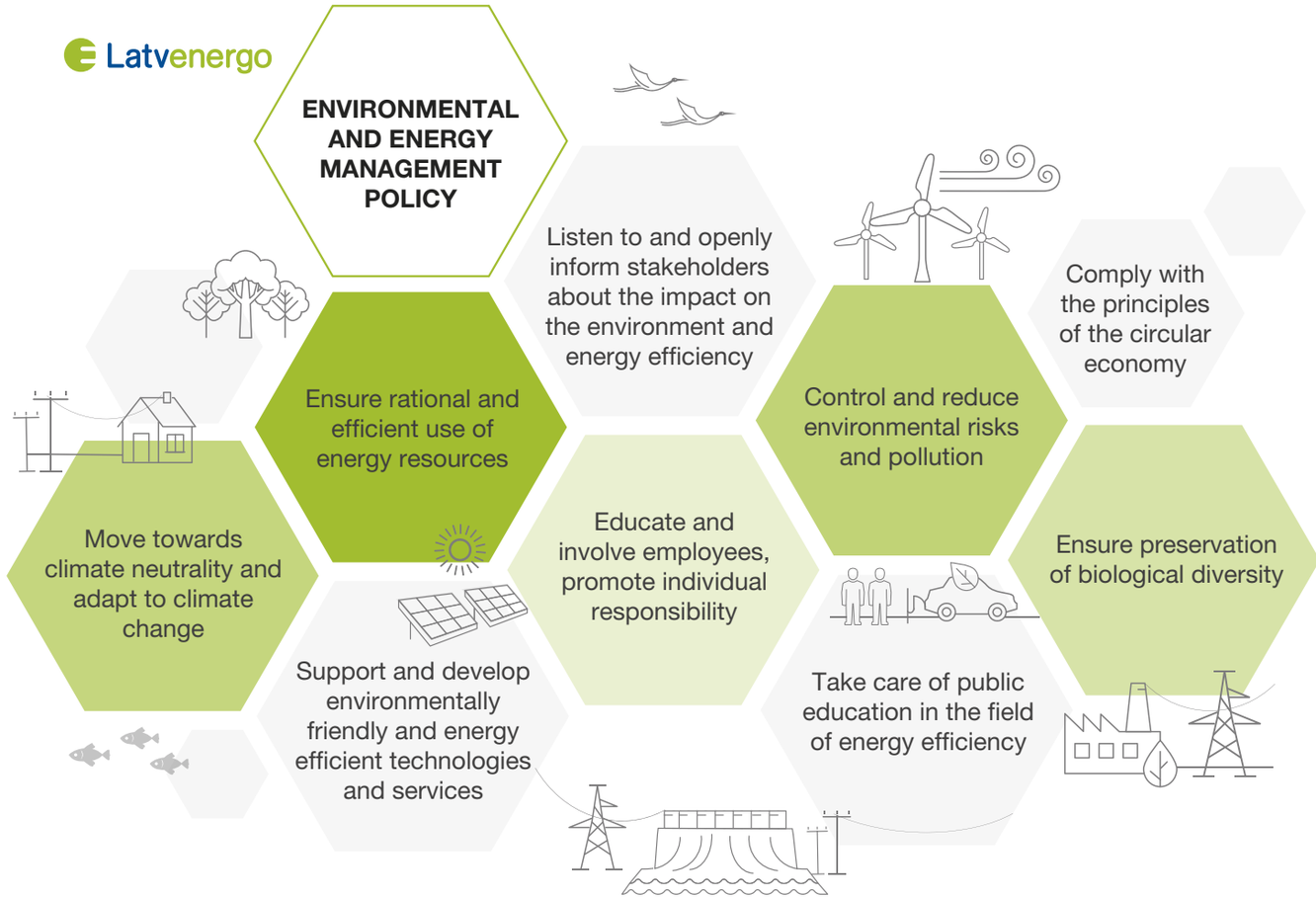
Environmental policy and management

At the end of 2019, the European Commission presented the Green Deal, the main objective of which is to achieve climate neutrality in Europe by 2050. In 2020, the countries of the EU agreed to reduce CO_2 emissions by 55% by 2030 compared to 1990 levels. In 2023, intensive work continued on policy initiatives and the laws and regulations that will contribute to achieving the Green Deal objectives. The Green Deal covers all sectors of the economy and pays particular attention to energy, transport, and agriculture, and the involvement of countries, businesses, and citizens is important in achieving its goals.

Latvenergo Group's environmental protection activities are defined in the Sustainability Policy and Environmental and Energy Management Policy and are closely linked to the Green Deal objectives. The Group's environmental activities aim to:

- continuously improve the environmental performance of all operating segments and activities
- prevent or reduce the impact of the Group's activities on the environment and climate change and proceed towards climate neutrality
- conserve and preserve biodiversity, nature and energy resources, as well as the health and well-being of the population
- create environmental awareness among employees for a considerate and responsible attitude towards the environment and energy resources

In its activities and development, the Group takes into account the UN Sustainable Development Goals and the European Green Deal, complies with external and internal laws and regulations in the areas of energy governance and environmental and nature protection, and identifies and respects the needs of customers and other stakeholders.



Basic principles of the Group's environmental and energy management

Latvenergo Group's ability to continuously improve its environmental performance is confirmed by a certified ISO 14001-compliant environmental management system and an ISO 50001-compliant energy management system. Both frameworks continuously analyse and improve the Group's performance in key environmental areas, setting targets and implementing measures to mitigate negative impacts. Systematic work in the environmental field is also confirmed by the annual assessment of the Sustainability Index by the Institute of Corporate Sustainability and Responsibility. In 2023, both Latvenergo AS and Sadales tīkls AS were awarded the Diamond category of the Latvian Sustainability Index. Liepājas enerģija SIA was awarded the Gold Category.

Environmental compliance

In its operations, Latvenergo Group complies with the environmental protection requirements set forth in EU legislation as well as Latvian, Lithuanian and Estonian legislation, and in operating permits for equipment. Compliance of operations is ensured by modernising equipment and introducing the best available technologies, as well as the professional conduct of employees. The Group actively cooperates with state environmental protection institutions by providing information related to environmental protection, fulfilling the conditions of permits for polluting activities and the use of water resources, and consulting on the application of environmental protection requirements.

Reduction of industrial pollution and sustainable management of chemicals and mixtures are also important elements of the European Green Deal. Latvenergo Group ensures that the risk of pollution caused by the storage and use of chemicals and mixtures is properly managed at its facilities. In order to minimise adverse environmental impacts in all areas of the Group's operations, environmental monitoring, supervision and control are carried out, environmental risks are identified, and appropriate risk management measures are proposed. The Sustainability Strategy of the Group is committed to reducing the quantity and hazards of chemicals used to ensure operational processes. The commitment can be achieved by evaluating alternatives to hazardous chemicals and mixtures that are currently in use, replacing them with less hazardous substances, and reducing the overall amount of chemicals and mixtures used.

In the reporting year, potential solutions for depolluting the historically polluted territory of the former reinforced concrete plant in Aizkraukle were evaluated in detail, which is essential for reducing the risk of environmental pollution and the threat to the safety of the structures of Pļaviņas HPP. Depollution of this territory has been defined as one of the priority depollution projects to be supported at the national level, for which significant support, including financial support, has been provided by Latvenergo AS.

The Sustainability Strategy of the Group is committed to the prevention of significant environmental damage by managing environmental and industrial risks. In 2023, the Group was subject to four inspections by the State Environmental Service. No significant reprimands or sanctions were received from the controlling institutions.

Photo: A. Vecenāns

Air pollution and climate change

In addition to water, wind and solar energy resources, Latvenergo Group also uses natural gas and biomass for energy production. In response to the energy crisis, CHPP generation facilities also used diesel fuel as an alternative fuel to natural gas in the 2022/2023 heating season. Its combustion emits sulphur dioxide (SO_2) and suspended particulate matter in addition to nitrogen oxides (NO_x) and carbon monoxide (CO). In the reporting year, 11% of the CHPPs' heat was produced with diesel. For more information on energy consumption, see the topic Resource and energy consumption.

The Group monitors and accounts for emissions of air pollutants to ensure that they do not exceed the levels set by legislation and permits. Direct emissions from CHPP combustion units are monitored continuously, allowing real-time tracking of emission levels and assessment of compliance with regulatory and permit limits. Measurements, data processing and evaluation are provided in continuous automatic mode.

Involvement of the Group in climate change mitigation

One of the global environmental challenges facing the energy sector is climate change caused by GHGs. Latvenergo Group's work goes hand in hand with the activities of Latvia and the EU in achieving their climate goals. The EU has set climate neutrality as one of its goals for 2050, and the Fit for 55 package sets an even more ambitious target of reducing GHG emissions by at least 55% by 2030 compared to 1990 levels. Achieving these targets will require new, efficient technologies and solutions. The objectives and target indicators of the Energy and Climate Policy of Latvia are defined in the National Energy and Climate Plan for 2021–2030. Recent EU legislative initiatives have led to a review of the plan.

Latvenergo Group aims to reach climate-neutral production of electricity in 2040 and is making targeted investments to develop a portfolio of zero-emission and low-emission plants and to contribute to climate change mitigation. The Group implements technologies and measures that reduce, prevent or adapt to climate change. The main investment directions are:

- generation – developing new RES-based generation capacities (wind and solar), increasing the efficiency of energy generation and maximising the use of RES, and research into energy storage and CHPP decarbonisation solutions
- trade – developing products and services that promote microgeneration, energy efficiency and the use of electricity instead of other energy sources
- electromobility – developing a public electric vehicle charging network
- distribution – developing a sustainable and economically viable service in line with trends in micro-generation and electrification

In addition, modernisation and electrification of the Group's vehicle fleet is being targeted. For information on the Group's strategic performance targets and their implementation, see the section Group Strategy.

One aspect of risk management at Latvenergo Group comprises the impact of climate change. The environmental risk assessment methodology provides for the introduction of measures to improve the Group's capacity to adapt and promote resilience to climate change and its impacts. Risk assessment and action planning are based on projections of climate change manifestations in Latvia and the Climate Change Adaptation Plan of Latvia for the period up to 2030, while considering the basic TCFD principles of climate risk assessment.

Latvenergo Group is committed to improving its climate governance by 2026. This commitment is aimed at improving the accounting and reporting of GHG emissions, setting science-based emission reduction targets consistent with the Paris Agreement, and adapting the Group's operations to the impacts of climate change.

Another important instrument of EU climate policy is the Emissions Trading Scheme (ETS), which aims to promote GHG reductions and investment in low-carbon solutions. The ETS is one of the key mechanisms for achieving the objectives of the Green Deal in the industries covered by the scheme. For fuel combustion plants with a total rated thermal input above 20 MW, participation in the ETS is mandatory, and the CHPPs of Latvenergo AS, as well as the CHPP and gas boiler house of Liepājas enerģija SIA, also meet this criterion. The ETS reform was launched in 2023 to achieve a 62% reduction in GHG emissions from ETS sectors by 2030 compared to 2005. The following is planned for this period: significantly and more rapidly reducing the total amount of emission allowances, phasing out free allowances (after 2026); allocating allowances according to the volume of production; and establishing several financing instruments, including a modernisation fund, to support industry and the electricity sector in terms of innovation and investment.

The CHPPs of Latvenergo AS currently use technologies that comply with the guidelines of the best available technical methodologies. Until economically viable technologies that enable a complete transition away from fossil fuels are available, natural gas with relatively low GHG emissions will play an important role in ensuring the stability of the energy system.

Sustainability Strategy targets related to GHG emission reduction

Indicator	2030 target	2023 result
Scope 1 GHG emissions	–47%*	–23%
GHG emissions from retail electricity sales	1,816 thousand tCO_2	2,505 thousand tCO_2
	–20%**	+13%
Green energy sold at retail	30%	10%
Electricity generated from RES	80%	73%

*compared to 2021
**compared to 2022

GRI 305-1, 305-2, 305-3, 305-4

The GHG emissions assessment of Latvenergo Group is carried out in accordance with ISO 14064-1 and the GHG Protocol Corporate Accounting and Reporting Standard developed by the World Resources Institute. Direct GHG emission figures are calculated in accordance with the requirements set out in emission permits and Latvian and EU legislation.

Direct (scope 1) GHG emissions and their intensity

Direct or scope 1 GHG emissions are emissions from sources that are owned or controlled by the company. The volume and intensity of these emissions from Latvenergo Group are influenced by several factors: the share of RES in the consumption of primary energy resources, the amount of energy produced, and the operating modes of production facilities. GHG emissions intensity is expressed in tonnes of carbon dioxide equivalent (hereinafter – CO_2 emissions) and is measured per unit of electricity (MWh) produced by the Group. The lower this ratio, the more electricity is produced from RES and the more efficient the CHPP units are.

Most of the Group's total direct emissions are from combustion plants participating in the EU Emissions Trading Scheme. The total amount also includes emissions related to ensuring the energy production process. In addition to the amount indicated, CO_2 emissions are attributable to fuel used for transport and machinery.

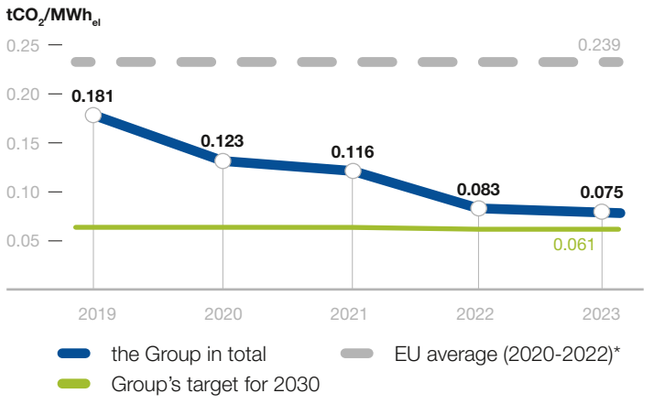
The amount of direct CO_2 emissions increased in the reporting year due to the increase in the total amount of energy produced by the CHPPs compared to 2022. Specific CO_2 emissions remained at approximately the same level as the year before. The Group's total direct emissions are comprised of:

- emissions from installations participating in the EU ETS (combustion installations with a rated thermal input exceeding 20 MW)
- emissions from installations not participating in the scheme that emitted approximately 6.5 thousand tonnes of CO_2 during the reporting year, corresponding to 0.9% of total emissions

The total amount also includes emissions related to ensuring the energy production process. In addition to the amount indicated, CO_2 emissions are attributable to fuel used for transport and machinery, which generated 8.3 thousand tonnes of CO_2 emissions in 2023.

The Group also operates equipment containing fluorinated GHG gases. In the reporting year, leakages produced emissions that are equivalent to 0.4 thousand tonnes of CO_2.

CO_2 emission intensity per unit of electricity output



**Source: European Environment Agency (2023)*

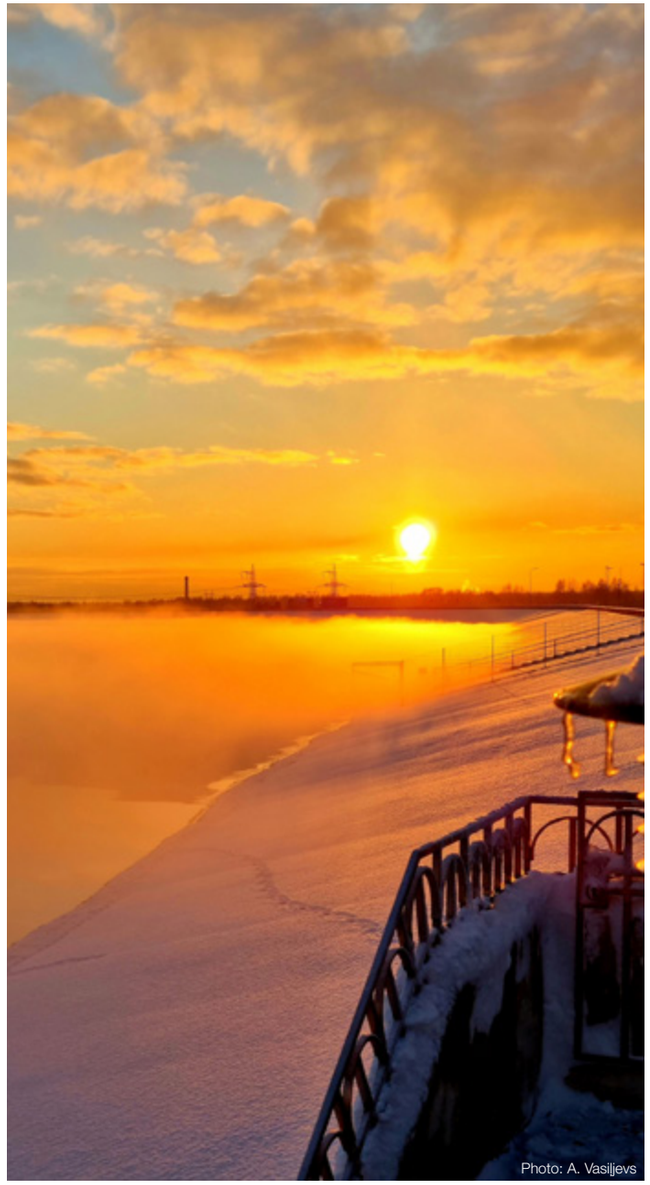


Photo: A. Vasiljevs

Indirect (scope 2) GHG emissions

Indirect scope 2 GHG emissions are emissions from the generation of electricity and heat that is purchased by the company from other producers. Latvenergo Group not only ensures energy production but also consumes heat and electricity for the maintenance of technological and administrative buildings. Heat and electricity are purchased from various suppliers, and the Group's consumption of heat and electricity, as well as data provided by the suppliers and publicly available reports, are used to compile its emissions.

Scope 2 emissions under the GHG Protocol in 2023 were calculated by using both geographical and market-based approaches. 2022 emissions were recalculated in accordance with data on the composition of the origin of uncertified electricity that become available after the publication of the Sustainability Report of Latvenergo Group.

Latvenergo Group has made a commitment to reduce scope 2 GHG emissions, thus reducing heat and electricity consumption and continuously improving energy efficiency performance.

Indirect (scope 3) GHG emissions

Scope 3 GHG emissions are other indirect emissions resulting from the company's activities – from supply chains and from the use of the company's products and services.

In addition to scope 3 emissions that are directly linked to the core business of the Group, emissions generated in the supply chain of purchased goods, services and fixed assets were also evaluated during the reporting year. Thus, the scope 3 calculation already includes four categories of the GHG Protocol:

- production of purchased goods and services (category 1 of the GHG Protocol)
- production of purchased fixed assets (category 2 of the GHG Protocol)
- activities related to purchased and consumed electricity and energy resources: extraction, generation, transportation and transmission (category 3 of the GHG Protocol)
- use of sold energy resources (category 11 of the GHG Protocol)

In 2023, the distribution of scope 3 emissions by category was reassessed and adjusted. The third category additionally includes emissions associated with activities for ensuring generation, sales and supply of electricity. 2022 emissions were recalculated in accordance with data on the composition of the origin of uncertified electricity that become available after the publication of the Sustainability Report of Latvenergo Group.

Latvenergo Group contributes to the reduction and savings of GHG emissions by implementing activities that contribute to climate change mitigation and adaptation. The most significant projects and activities of the Group that were implemented or completed in the reporting year and ensured CO_2 emission savings of more than 18 thousand tonnes include:

- use of a heat storage system at CHPP-2 – 4 thousand tonnes
- The *Elektrum* public electric vehicle charging network provides customers with electricity generated from RES – 0.5 thousand tonnes.
- reduction of electricity losses in the distribution network – 14 thousand tonnes (in comparison with 2022)

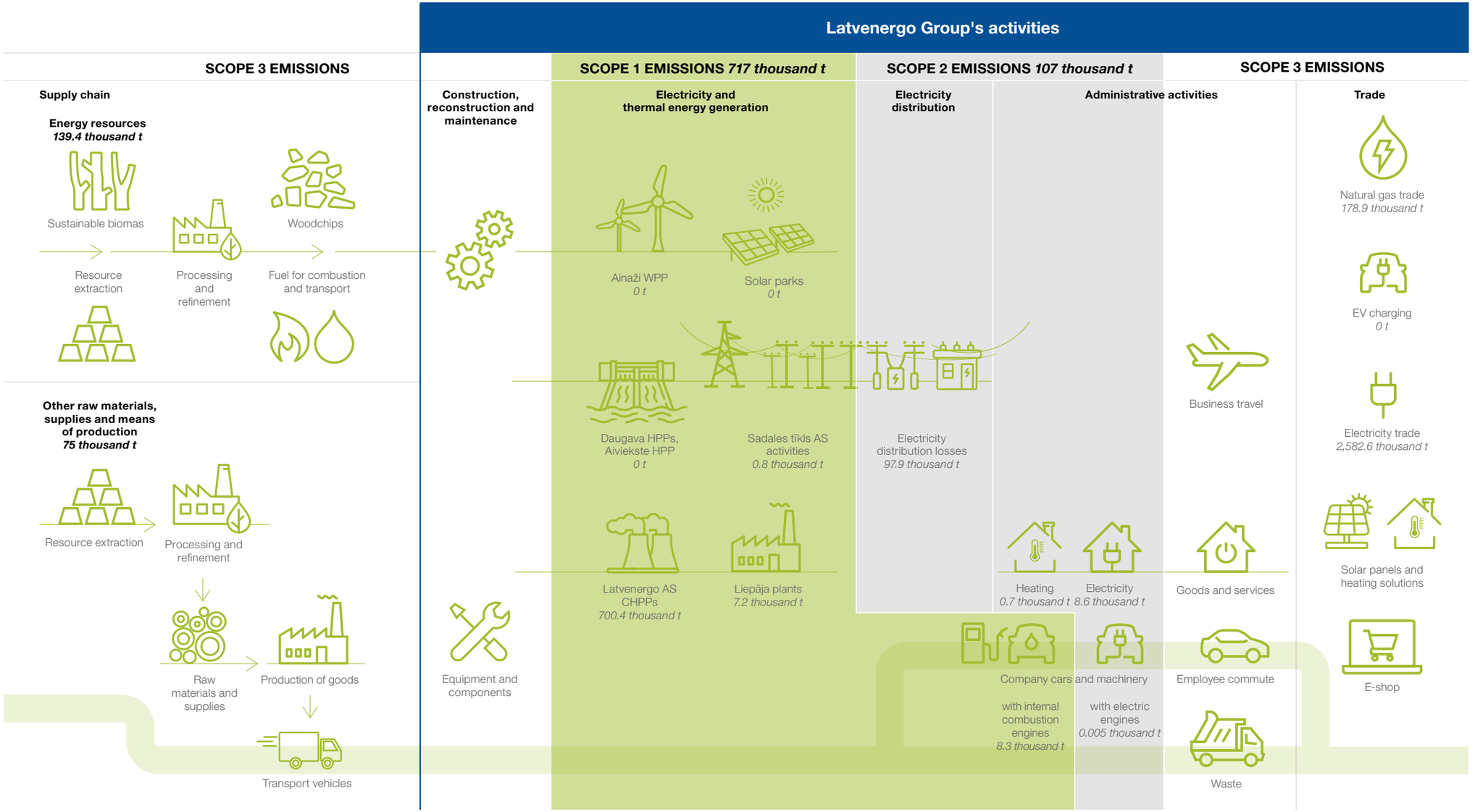
In procurement procedures, the Group promotes the inclusion of green procurement principles where possible and economically feasible. For more information, see the section Group Procurement.

Latvenergo Group GHG emissions

	Units	Target for 2030	2019	2020	2021	2022	2023
Scope 1 emissions	**thousand t**	**–47%***	**1,252**	**860**	**928**	**673**	**717**
From combustion plants	thousand t		1,244	852	920	665	708
From fuel for transportation and machinery	thousand t		8	8	8	8	8
Leaks of fluorinated GHGs	thousand t		0	0	0	0	0.4
Scope 2 emissions (market-based)	**thousand t**				**76**	**117**	**107**
From generation of purchased electricity	thousand t		N/A	N/A	7	6	9
From generation of purchased thermal energy	thousand t		N/A	N/A	1	1	1
From electricity distribution losses	thousand t		N/A	N/A	69	110	98
Scope 2 emissions (location-based)	**thousand t**				**62**	**32**	**29**
From generation of purchased electricity	thousand t		N/A	N/A	5	0	1
From generation of purchased thermal energy	thousand t		N/A	N/A	1	1	1
From electricity distribution losses	thousand t		N/A	N/A	56	31	27
Scope 3 emissions	**thousand t**					**2,731**	**2,976**
GHG Protocol Category 1	thousand t		N/A	N/A	N/A	52	67
GHG Protocol Category 2	thousand t		N/A	N/A	N/A	6	8
GHG Protocol Category 3	thousand t		N/A	N/A	N/A	2,487	2,722
GHG Protocol Category 11	thousand t		N/A	N/A	N/A	185	179

* Compared to the Scope 1 emissions in 2021.

Latvenergo Group's GHG emissions by scope



GRI 305-7

NO_x, SO_2 and other significant emissions into the air

Emissions of air pollutants into the atmosphere directly depend on the amount of energy produced, the fuel used, the efficiency of its use and the type of technology.

- Natural gas is used by the Latvenergo AS CHPPs and in part of the Liepaja production facilities. When natural gas burns, nitrogen oxides (NO_x) and carbon monoxide (CO) are released into the atmosphere.
- The Latvenergo AS CHPPs use diesel fuel as an emergency fuel. In the heating season of 2022/2023, diesel was also used as an alternative fuel to natural gas at the CHPPs in the context of the energy crisis. In addition to NO_x and CO, its combustion also releases sulphur dioxide (SO_2) and particulate matter into the atmosphere. Hydrocarbon emissions occur during the storage of diesel fuel.
- The use of wood as a fuel in the Liepaja plants means the emission of NO_x, CO, and particulate matter.

The increase in pollutant emissions in 2023 was due to the higher amount of energy produced by the CHPPs. Meanwhile, SO_2 emissions decreased significantly, as the CHPPs used significantly less diesel fuel – the main source of these emissions – compared to 2022.

Emission quantities from combustion plants have been determined using emission monitoring data or emission factors obtained in accordance with laws and regulations.

Latvenergo Group is committed to reducing emissions of air pollutants. The amount of emissions per unit of energy produced, or specific emissions, is influenced by the efficiency of the energy production processes, the technical solutions of the CHPPs used to reduce pollutant emissions, and the share of RES in the amount of electricity produced. The Group will continue the development of RES generation capacity (wind and solar power plants) and increase the efficiency of existing power plants.

NO_x, CO, SO_2 and other emissions

	Units	Target for 2030	2019	2020	2021	2022	2023
NO_x	t		912	648	686	374	534
NO_x from combustion plants	kg/MWh		0.20	0.19	0.15	0.13	0.17
NO_x for the Group combined	kg/MWh	0.03	0.14	0.11	0.10	0.07	0.08
CO	t		427	319	363	231	358
CO from combustion plants	kg/MWh		0.09	0.09	0.08	0.08	0.12
CO for the Group combined	kg/MWh	0.02	0.06	0.05	0.05	0.04	0.05
SO_2	t		4	5	5	25	14
Other*	t		14	15	19	23	23

* incl. emissions of solid particulate matter and hydrocarbons

GRI EU5

Allocation of CO_2 emission allowances in ETS

The EU ETS stipulates that emission allowances are only allocated free of charge for thermal energy generation. One tonne of CO_2 emissions is equivalent to one quota. See Note 13b to the Annual Report for an overview of the allowances purchased, used, and sold.

CO_2 emission allowances granted

	Units	2019	2020	2021	2022	2023
Latvenergo AS CHPPs	number	205,721	112,760	67,301	69,773	67,933
Liepājas enerģija SIA	number	12,624	12,334	8,664	7,945	8,936

Resource and energy consumption

Latvenergo Group promotes efficient use of energy resources by recording and analysing the flow of energy consumption, identifying essential energy consumption for ensuring production and economic processes and implementing measures to reduce energy consumption. The Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. The efficiency of energy use in the CHPPs is significantly influenced by the chosen operating mode:

- cogeneration – both heat and electricity are generated at the same time
- condensation – only electricity is obtained

Operating the CHPPs in cogeneration mode allows for the most efficient use of fuel and significantly reduces the emissions per unit of energy produced. Using cogeneration potential, CHPP-1 saved 27% of primary energy resources in the reporting year, and the savings of CHPP-2 amounted to 19%. The thermal storage system at CHPP-2, constructed in 2021, enables the accumulation of thermal energy generated in cogeneration mode and optimises the adjustment of the CHPP operating modes to changing market conditions and to cover peak loads. In 2023, the system delivered primary energy savings of 1.1 GWh.

To minimise the waste of energy, Latvenergo AS and Liepājas enerģija SIA have implemented an energy management system, while the principles of energy management of Sadales tīkls AS have been incorporated into the environmental management system. In accordance with the principles of energy management, energy efficiency indicators have been developed, baseline economic energy consumption has been established and changes in energy consumption compared to baseline consumption are analysed.

The most significant improvements in energy management at the Group in 2023

- reconstruction of hydropower units at the Daugava HPPs
- renovation and insulation of buildings; modernisation of lighting, ventilation, and heating systems
- installation of solar panels and heat pumps at the Group's sites
- measures to reduce electricity consumption at one of the production plants in Liepaja

Photo: E. Feldmane

GRI 301-1, 302-1

Consumption of materials and energy

RES accounted for 53% of total primary energy consumption in the reporting year, while fossil fuels accounted for 47%. The use of RES increased significantly compared to 2022. The proportion of primary energy sources between renewables and fossil fuels for the generation of electricity and thermal energy was different. Analysis of the consumption of primary energy resources shows that the share of RES reached 66% in electricity production and 14% in thermal energy generation. The share of RES in energy consumption is significantly influenced by the amount of energy produced by the HPPs, which is mainly determined by hydrological conditions and market factors (see the section Generation and Trade).

Self-consumption of electricity for generation and business processes in 2023 was 80 GWh or 2.1% of the energy generated, which is an 11% decrease from the previous reporting year.

460 m^3 of petrol and 2,730 m^3 of diesel fuel were used for transport and machinery during the reporting year. Petrol consumption increased by approximately 5% year-on-year, while consumption of diesel fuel increased by approximately 10%, due to an increase in the number of vehicles and mileage covered as the Group developed new business lines.

The average fuel consumption per 100 km of Latvenergo AS internal combustion engine vehicles decreased by 6% in the reporting year. Around 217 MWh of electricity was used to charge the electric vehicles of Latvenergo AS, saving 65 m^3 of fuel, which is an increase of 41% compared to 2022.

Accounting and calculation of energy resources is performed based on measurements or in accordance with the documentation and internal accounting of the fuel supplier, as well as in accordance with the requirements specified in the emission permits and in Latvian and EU legislation.

Latvenergo Group strives towards sustainable production and consumption. Continuous improvement of the environmental and energy performance of each business unit is promoted, following the efficient use of resources and the implementation of circular economy principles. Special attention is paid to issues related to waste reduction and appropriate waste management by evaluating possibilities of reuse, regeneration and recycling.

To reduce the consumption of resources and to promote the circular economy, the Group has made a commitment to:

- reduce the consumption of resources, products and materials and the amount of waste to be landfilled
- promote the durability, reuse and recycling of equipment and materials at the end of their life cycle during RES projects, 1) by ensuring a high proportion of recyclable materials in wind turbine installations, 2) by using durable, recyclable, easily demountable and reusable equipment in the construction of solar parks, 3) by assessing options for sustainable management of solar panels
- use of certified sustainable biomass for energy generation
- create a greener everyday life at Latvenergo Group by developing and implementing sustainable office principles, as well as by following sustainability guidelines in organising events

Consumption of primary energy resources

	Units	2019	2020	2021	2022	2023
Water, wind, solar*	TJ	7,386	9,109	9,506	9,639	13,438
Wood	TJ	752	905	1,060	1,010	953
Renewable energy resources	*TJ*	*8,138*	*10,014*	*10,566*	*10,649*	*14,391*
Natural gas	TJ	21,784	14,958	16,542	11,145	12,454
Diesel fuel (incl. small amounts of coal and LPG)	TJ	1	1	1	620	224
Fossil energy resources	*TJ*	*21,785*	*14,959*	*16,543*	*11,765*	*12,678*
TOTAL	**TJ**	**29,922**	**24,973**	**27,109**	**22,414**	**27,068**

Consumption of primary energy resources for electricity generation

	Units	2019	2020	2021	2022	2023
Water, wind, solar*	TJ	7,386	9,109	9,506	9,639	13,438
Wood	TJ	1	145	62	58	56
Renewable energy resources	*TJ*	*7,387*	*9,254*	*9,568*	*9,697*	*13,494*
Natural gas	TJ	15,864	9,438	9,308	5,771	6,933
Fossil energy resources	*TJ*	*15,864*	*9,438*	*9,308*	*5,771*	*6,933*
TOTAL	**TJ**	**23,251**	**18,692**	**18,876**	**15,468**	**20,427**

Consumption by primary energy resources for thermal energy generation

	Units	2019	2020	2021	2022	2023
Wood	TJ	751	760	998	952	897
Renewable energy resources	*TJ*	*751*	*760*	*998*	*952*	*897*
Natural gas	TJ	5,920	5,520	7,234	5,374	5,521
Diesel fuel (incl. small amounts of coal and LPG)	TJ	1	1	1	620	224
Fossil energy resources	*TJ*	*5,921*	*5,521*	*7,235*	*5,994*	*5,745*
TOTAL	**TJ**	**6,672**	**6,281**	**8,233**	**6,946**	**6,641**

* the amount of resources evaluated as the amount of energy generated using these resources (3.6 GJ=1 MWh)

GRI 303-3

Water consumption

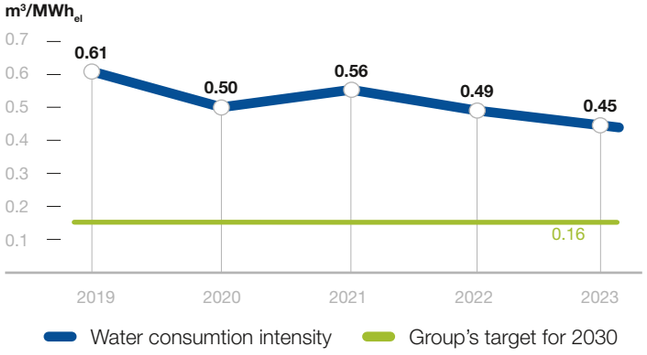
The Group uses water resources mainly to ensure production processes, as well as in small quantities for other economic needs and for the water supply to external consumers. In accordance with the Water Resources Atlas of the World Resources Institute, Latvia is in a low to low-medium water stress zone; therefore, there are no specific water consumption restrictions and no areas with increased water stress have been identified in water consumption data. The amount of surface and/or groundwater consumption is specified in the permits of each facility.

The Group's water consumption includes water from the surface, groundwater and centralised water supply networks. As the water consumption of the CHPPs is mainly influenced by the operating modes of the production facilities and the amount of energy generated, the amount of water consumed has increased as a result of the increase in generation. In 2023, 2.3 million m^3 of water was consumed, of which 98% was surface and groundwater, which was obtained in the low-medium water stress zone. Of the water used for operations in 2023, 95% was surface water, 3% was groundwater and 2% was tap water. The largest consumer of water was CHPP-2, which consumed 2.19 million m^3 of water in the reporting year, 86% of which was cooling water. The largest consumers of groundwater are CHPP-1 and CHPP-2, which used 28 and 23 thousand m^3 of groundwater respectively.

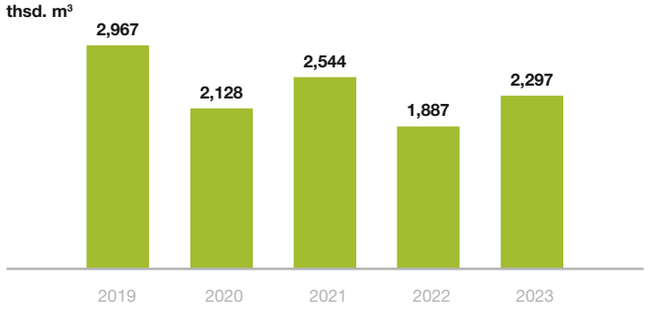
Water consumption data are obtained from meter readings.

Latvenergo Group is committed to reducing water consumption and the amount of wastewater. The 2030 target for specific water consumption per unit of electricity produced is 0.16 m^3/MWh.

Water consumption intensity



Water withdrawal



Renewable energy and strengthening energy independence

Increasing the share of renewable energy sources in energy generation is one of the cornerstones for achieving EU and Latvian climate targets and strengthening energy independence and is also envisaged in the strategy of Latvenergo Group. The Group already produces a significant part of its electricity and heat using renewable energy resources: water, wood, and wind. In 2023:

- renewable sources accounted for 53% of the approximately 27 thousand TJ of primary energy consumption (for more information, see GRI indicators 301-1 and 302-1)
- of the 6.84 TWh of heat and electricity generated, 58% was produced from renewable resources (for more information, see the section Generation)

To maintain a high share of RES, maintenance and renewal of the Daugava HPPs' capacity is especially important. The reconstruction programme of the Pļavinas and Ķegums HPPs continued in 2023.

The Group also promotes renewable energy use through product offerings to its customers. In all three Baltic states, the *Elektrum Solar* service is available to customers, enabling the use of independently produced solar electricity. In addition, solar parks are being developed, the capacity of which can be purchased by *Elektrum* customers. For more information, see the section Trade.

The Group is also actively working on solutions for wind power use and energy storage. During the reporting year, the development of onshore WPPs continued, with ornithologists, bat researchers and habitat experts carrying out surveys and studies of potential construction sites. The potential location of the WPPs and associated infrastructure is being determined in accordance with survey results and expert opinions to prevent significant negative impacts on the environment, including on habitats and species of high conservation value. Environmental Impact Assessment (EIA) procedures have been launched at five potential WPP sites.

For more information on wind farm development and wind energy use, see the section Generation and Latvenergo's website.

Biodiversity

Latvenergo Group takes care of biodiversity conservation by assessing the impact of existing and planned activities on biodiversity and by implementing statutory and voluntary measures to reduce the impact on specially protected nature areas, species and habitats.

GRI 304-4

Protected species with habitats in the areas affected by the activities of the organisation

Species listed on the Red List of the International Union for Conservation of Nature (IUCN) with habitats affected by the activities of Latvenergo Group and regarding which activities are being implemented to prevent or mitigate impacts:

Animal species	*Activity of Latvenergo Group*	Risk level of species extinction	Conservation status of the species in Latvia
White stork (Ciconia ciconia)	maintenance of power lines	Safe species (least concern)	Species of special conservation concern
Salmon (Salmo salar)	HPP operation	Vulnerable species	Specially protected species of restricted use
Sea trout (Salmo trutta)	HPP operation	Safe species (least concern)	Specially protected species of restricted use
River lamprey (Lampetra fluviatilis)	HPP operation	Safe species (least concern)	Specially protected species of restricted use

GRI 304-1, 304-2

Sites in protected areas and areas of high biodiversity value and significant impacts on biodiversity

In 2023, the activities of Latvenergo Group (operation of power lines and production facilities and construction of new facilities) did not result in significant impacts on protected areas.

Overhead and cable power lines are located in protected areas or micro-reserves, stretching for 6,500 km and covering 4.7 thousand ha, or 0.05% of the total area of power lines. Construction and maintenance of power lines is carried out by Sadales tīkls AS in compliance with the laws and regulations governing the protection and use of protected areas, ensuring the preservation of natural heritage and preventing a significant negative impact on these territories. In forest areas, only potentially dangerous trees in the overhead power line protection zone, which is outside the power line route, are felled. Overhead power lines are gradually being converted into underground cable lines, reducing the width of the power line route and the protective zone and its impact on the landscape and wildlife. Overhead power lines are rebuilt using insulated conductors and overhead suspension cables.

Other Latvenergo Group facilities, as well as sites of planned activities (WPPs, SPPs, electricity charging stations) that are owned or leased by the Group, or where development rights have been acquired by the Group, are located outside protected areas.

Latvenergo Group activities in protected areas

Type of area	Type of activity	Area, ha	Location
Natura 2000 and locally important protected nature areas	Cable power lines	594.5	Latvia
	Overhead power lines	4,093.2	Latvia
Micro-reserves of species or habitats	Cable power lines	1.9	Latvia
	Overhead power lines	11.3	Latvia
	TOTAL	**4,700.9**	

Photo: D. Kanders

Latvenergo Group has made four commitments in the area of biodiversity.

1) To reduce the impact of the Daugava HPPs on migratory fish, native fish species and protected habitats. The commitment includes measures to improve the environmental quality of river habitats and the status of EU-level protected fish species and habitats in the Daugava River Basin.

- The Group makes annual payments for the restoration of fish resources in the water bodies of the Daugava River Basin. In the reporting year, approximately 1.5 million juveniles of salmon, sea trout, pikeperch and vimba and 6.9 million lamprey larvae were released into the rivers.
- In addition, the Group implements other projects to improve fish habitats and migration, e.g., places fish spawning nests in the Daugava River and cleans small rivers in the Daugava River Basin. In 2023, as many as 450 artificial fish spawning nests were installed in the Daugava River and monitored with underwater cameras. In accordance with the Action Plan of the Group for migration and natural restocking of migratory fish in the Daugava River Basin, the clean-up of the Bērzene River continued in the reporting year and solutions that could improve the accessibility of the river for migratory fish were developed in cooperation with scientists. To inform and involve the public, underwater cameras were placed in the Bērzene River during the autumn spawning season, giving the public the opportunity to observe fish behaviour and the spawning process. In recent years, the Group has carried out a number of research activities and, in cooperation with experts and stakeholders, continues to plan and develop projects to improve fish migration in the Daugava River Basin.

2) To reduce the impacts of investment projects and the Group's business activities on biodiversity. In the planning, design and decision-making stages, the Group already assesses potential changes in the environment, as well as impacts on biodiversity, water, air and other environmental aspects, and provides for measures to avoid or reduce adverse impacts.

- The most significant potential impact on biodiversity of the Group's investment projects relates to the development of WPPs. In order to ensure that the negative impacts of the planned WPP projects are balanced out, the activities are planned in close cooperation with nature experts and institutions.
- To meet the conditions of security and safety of the electricity supply and reduce white stork fatalities on power lines, in coordination with the environmental authorities, approximately 1,100 potentially dangerous nests were removed from power line supports and about 750 new nesting substrates were installed in 2023. During the stork nesting season, birds are only disturbed in rare cases where the security and/or safety of the energy supply and public safety is threatened. To promote research, protection and public education regarding white stork breeding, monitoring of white stork breeding is carried out in cooperation with the Latvian Ornithological Society. Nesting activity and success are monitored and analysed in specially established stork nesting plots, and the number and proportion of storks nesting on power line poles is also counted and assessed. In cooperation with the Latvian Fund for Nature, a live broadcast from a white stork nest on an active power line pole in Tukums Municipality is provided.

3) By 2025, to develop a biodiversity conservation plan that meets EU targets and international guidelines.

4) To create natural and biologically valuable meadows in the areas of Latvenergo Group sites, with the involvement of habitat experts in the development of a mowing plan.

Annexes to the Sustainability Report

Latvenergo

Green Bond Report

Latvenergo AS has issued green bonds within two bond offering programmes.

- The green bond programme was launched in 2015, and thus, Latvenergo AS became the first state-owned company in Eastern Europe to issue green bonds. Bonds in the total amount of EUR 100 million were issued within this programme that was concluded in 2016. These bonds were repaid in June 2022.
- The next green bond programme was carried out in 2021–2023 when three tranches in the total amount of EUR 200 million were issued.

Green bonds issued by Latvenergo AS are admitted to the Baltic Regulated Market Corporate Bonds list and are listed on Nasdaq Riga AS. At the end of the reporting year, the amount of outstanding bonds was EUR 200 million, constituting 32% of the Group's total borrowings.

The main requirement for green bonds is that the funds raised are used exclusively for environmentally friendly projects. The Green Bond Framework sets out the selection procedure and criteria for eligible projects, the creation of a special account, and regular reporting until the bonds are fully repaid.

The Green Bond Framework was awarded the highest possible rating – Dark Green – by CICERO, an independent environmental expert. This indicates the compliance of the planned eligible projects with long-term environmental protection and climate change mitigation targets as well as good corporate governance and transparency. Internal audits were conducted on the management of proceeds from the issuance of all green bonds and the compliance of the selection of eligible projects. The audits concluded that, in all material respects, the procedures applied and actions taken comply with the Green Bond Framework.

The funds raised within the green bond programme were allocated to generation and distribution projects. The largest eligible projects are the Daugava HPP hydropower unit reconstruction programme and the building and reconstruction of distribution power lines and transformer points.

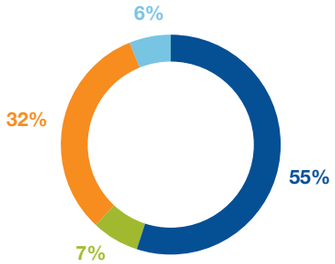
According to the Green Bond Framework, the projects are divided into three groups:

- renewable energy and related infrastructure – reconstruction of existing hydropower units, as well as construction of new bioenergy and wind energy capacities and reconstruction of existing capacities
- energy efficiency – building and reconstruction of distribution networks, including smart grid projects, and development of low emission transport infrastructure
- sustainable management of living natural resources and land use – research and development in the field of nature protection and biodiversity, as well as protection of ecosystems and biodiversity

Photo: V. Timoņins

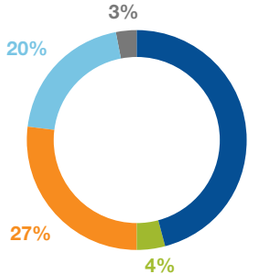
ISIN code	LV0000802460	LV0000870129	LV0000802684
Issuance year	2021	2022	2023
Issuance amount	EUR 50 million	EUR 100 million	EUR 50 million
Issuance organised by	Luminor Bank AS and Swedbank AB (publ.)	Luminor Bank AS and Swedbank AB (publ.)	Luminor Bank AS un Swedbank AB (publ.)
Maturity date	17 May 2028	5 May 2027	22 February 2029
Fixed annual interest rate (coupon)	0.5%	2.42%	4.952%

Investors by region



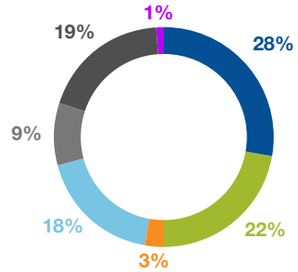
Latvia
Lithuania
Estonia
Great Britain

according to the coupon payment of May 2023



Latvia
Lithuania
Estonia
Great Britain
Austria

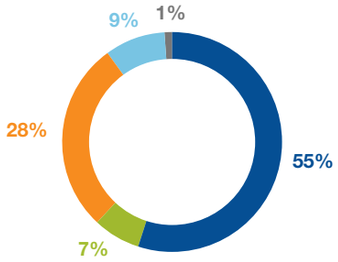
according to the coupon payment of May 2023



Latvia
Lithuania
Estonia
Great Britain
Austria
Finland
Germany

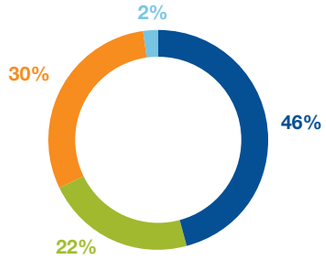
according to the bond issuance of February 2023

Investors by type



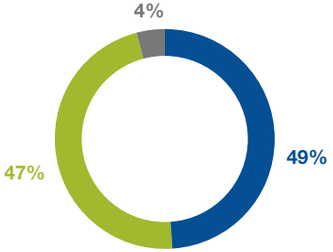
Pension funds
Banks
Asset managers
Insurers
Others

according to the coupon payment of May 2023



Pension funds
Banks
Asset managers
Insurers

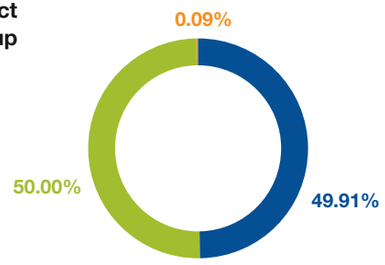
according to the coupon payment of May 2023



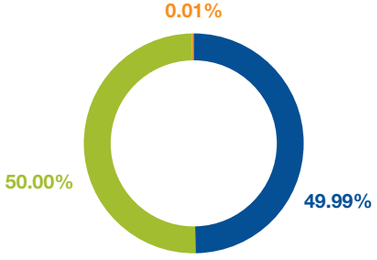
Pension funds
Banks
Others

according to the bond issuance of February 2023

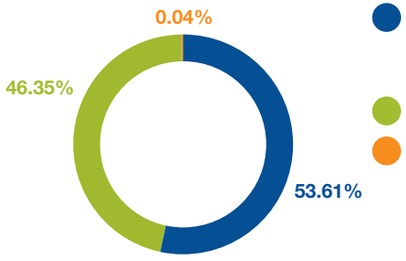
Investment by project group



Renewable energy and related infrastructure
Energy efficiency
Environmentally sustainable management of living natural resources and land use



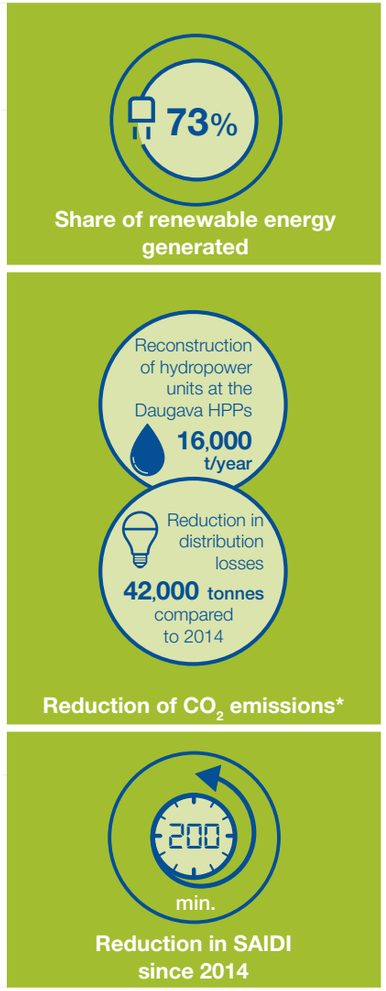
Renewable energy and related infrastructure
Energy efficiency
Environmentally sustainable management of living natural resources and land use



Renewable energy and related infrastructure
Energy efficiency
Environmentally sustainable management of living natural resources and land use

Use of proceeds and benefits from the project implementation

Group operating segment (share of total allocated proceeds)	Eligible projects	Allocated proceeds, MEUR	Allocated proceeds, 2021 issue	Allocated proceeds, 2022 issue	Allocated proceeds, 2023 issue	Project objectives and benefits
GENERATION 51%	Reconstruction of hydropower units and technological equipment at the Daugava and Aiviekste HPPs	**101.74**	24.95	49.99	26.8	Extending the service life of the hydropower units and increasing their capacity and efficiency ratios. Maintaining a high share of renewables in energy generation. Increasing the safety of operation of the Daugava HPPs. Reducing the oil leakage risk. Implementation of the programme allows for a reduction of CO_2 emissions of up to 16,000 tonnes per year. In 2023, the share of electricity generated from renewable energy sources by the Group was 73%. In 2021, full reconstruction of the Aiviekste HPP was completed.
	Protection of biodiversity	**0.08**	0.05	0.01	0.02	Reducing the impact of the Daugava HPPs on fish stocks and biodiversity in the Daugava River basin. Every year, more than 400 fish spawning nests are placed in the Daugava River. An 8 km long stretch of the Berzene River has been cleaned from obstructions and the research to identify possible measures to facilitate the migration of migratory fish in the Berzene River and to improve the habitats of protected species has been carried out.
DISTRIBUTION 49%	Building and reconstruction of electricity lines and transformer points	**78.32**	22.3	47.02	9	Reducing the duration of power interruptions and electricity losses. Extending the service life of the distribution grid. Since the introduction of the green bond programme in 2015, interruption duration and interruption frequency indexes have been reduced substantially (SAIFI by 29% and SAIDI by 43%). The reduction of CO_2 emissions resulting from the decrease in distribution losses is around 42,000 tonnes.
	Smart meters	**19.86**	2.7	2.98	14.18	Reducing the duration of power interruptions and electricity losses. Opportunities for more efficient electricity consumption and use of smart energy efficiency products and services. Since the introduction of the green bond programme in 2015, more than 1.1 million smart meters have been installed; these account for around 99% of the total fleet of electricity meters.
	KOPĀ	**200.00****	**50.00****	**100.00****	**50.00****	



* The potential reduction in CO_2 emissions resulting from the reconstruction of the Daugava HPP hydropower units is up to 16,110 tonnes per year (at specific CHPP-2 emissions in the condensation mode of 0.379 t CO_2/MWh). Since the introduction of the green bond programme in 2015, the reduction in CO_2 emissions resulting from the decrease in distribution losses is 42,430 tonnes.
** 100% of the proceeds from green bonds are used to finance projects completed within one year prior to the issue or later.

EU Taxonomy Tables

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities in 2023

Economic activities (1)	Taxonomy Code(s) (2)	Absolute turnover (3)	Proportion of turnover (4)	Substantial contribution criteria: Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	DNSH criteria ("Does Not Significantly Harm"): Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy-aligned proportion of turnover 2022 (18)	Taxonomy-aligned proportion of turnover 2022 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
		MEUR	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES		**1,315.8**	**64.7**																	
A.1. Taxonomy-aligned activities																				
Electricity generation using solar photovoltaic technology	4.1.	0.0	0.0	100							Y	N/A	Y	N/A	Y	Y	0.0	0.0		
Electricity generation from wind power	4.3.	0.1	0.0	100							Y	Y	Y	N/A	Y	Y	0.0	0.0		
Electricity generation from hydropower	4.5.	544.6	26.8	100							Y	Y	N/A	N/A	Y	Y	26.8	22.2		
Transmission and distribution of electricity	4.9.	342.5	16.8	100							Y	N/A	Y	Y	Y	Y	16.8	16.3	E	
Storage of thermal energy	4.11.	0.0	0.0	100							Y	Y	Y	N/A	Y	Y	0.0	0.0	E	
District heating/cooling distribution	4.15.	4.2	0.2	100							Y	Y	N/A	Y	Y	Y	0.2	0.2		
Cogeneration of heat/cool and power from bioenergy	4.20.	6.7	0.3	100							Y	Y	N/A	Y	Y	Y	0.3	0.4		
Production of heat/cool from bioenergy	4.24.	7.9	0.4	100							Y	Y	N/A	Y	Y	Y	0.4	0.3		
Infrastructure enabling low-carbon road transport and public transport	6.15.	0.3	0.0	100							Y	Y	Y	Y	Y	Y	0.0	0.0	E	
Turnover of taxonomy-aligned activities (A.1)		**906.4**	**44.6**														**44.6**	**39.4**		
A.2. Taxonomy-eligible-but-not-aligned activities																				
Electricity generation from fossil gaseous fuels	4.29.	61.0	3.0																	
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	4.30.	275.5	13.5																	
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	4.31.	73.0	3.6																	
Turnover of taxonomy-eligible-but-not-aligned activities (A.2)		**409.5**	**20.1**																	
TOTAL (A.1 + A.2)		**1,315.8**	**64.7**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES		**718.6**	**35.3**																	
Taxonomy-non-eligible activities		**718.6**	**35.3**																	
TOTAL (A+B)		**2,034.4**	**100**																	

Proportion of OPEX from products or services associated with Taxonomy-aligned economic activities in 2023

Economic activities (1)	Taxonomy Code(s) (2)	Absolute turnover (3)	Proportion of turnover (4)	Substantial contribution criteria: Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	DNSH criteria ("Does Not Significantly Harm"): Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy-aligned proportion of turnover 2022 (18)	Taxonomy-aligned proportion of turnover 2022 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
		MEUR	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES		**133.4**	**52.7**																	
A.1. Taxonomy-aligned activities																				
Electricity generation using solar photovoltaic technology	4.1.	0.0	0.0	100							Y	N/A	Y	N/A	Y	Y	0.0	0.0		
Electricity generation from wind power	4.3.	0.2	0.1	100							Y	Y	Y	N/A	Y	Y	0.1	0.0		
Electricity generation from hydropower	4.5.	17.6	7.0	100							Y	Y	N/A	N/A	Y	Y	7.0	6.8		
Transmission and distribution of electricity	4.9.	91.4	36.2	100							Y	N/A	Y	Y	Y	Y	36.2	39.2	E	
Storage of thermal energy	4.11.	0.0	0.0	100							Y	Y	Y	N/A	Y	Y	0.0	0.0	E	
District heating/cooling distribution	4.15.	0.5	0.2	100							Y	Y	N/A	Y	Y	Y	0.2	0.3		
Cogeneration of heat/cool and power from bioenergy	4.20.	0.6	0.2	100							Y	Y	N/A	Y	Y	Y	0.2	0.3		
Production of heat/cool from bioenergy	4.24.	0.7	0.3	100							Y	Y	N/A	Y	Y	Y	0.3	0.3		
Infrastructure enabling low-carbon road transport and public transport	6.15.	0.5	0.2	100							Y	Y	Y	Y	Y	Y	0.2	0.2	E	
OPEX of taxonomy-aligned activities (A.1)		**111.5**	**44.1**														**44.1**	**47.0**		
A.2. Taxonomy-eligible-but-not-aligned activities																				
Electricity generation from fossil gaseous fuels	4.29.																			
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	4.30.	21.8	8.6																	
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	4.31.																			
OPEX of taxonomy-eligible-but-not-aligned activities (A.2)		**21.8**	**8.6**																	
TOTAL (A.1 + A.2)		**133.4**	**52.7**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES		**119.5**	**47.3**																	
Taxonomy-non-eligible activities		**119.5**	**47.3**																	
TOTAL (A+B)		**252.9**	**100**																	

Proportion of CAPEX from products or services associated with Taxonomy-aligned economic activities in 2023

Economic activities (1)	Taxonomy Code(s) (2)	Absolute turnover (3)	Proportion of turnover (4)	Substantial contribution criteria						DNSH criteria ("Does Not Significantly Harm")						Minimum safeguards (17)	Taxonomy-aligned proportion of turnover 2022 (18)	Taxonomy-aligned proportion of turnover 2022 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
				Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)					
		MEUR	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES		**174.0**	**90.0**																	
A.1. Taxonomy-aligned activities																				
Electricity generation using solar photovoltaic technology	4.1.	34.2	17.7	100							Y	N/A	Y	N/A	Y	Y	17.7	5.1		
Electricity generation from wind power	4.3.	3.8	2.0	100							Y	Y	Y	N/A	Y	Y	2.0	0.3		
Electricity generation from hydropower	4.5.	17.4	9.0	100							Y	Y	N/A	N/A	Y	Y	9.0	9.8		
Transmission and distribution of electricity	4.9.	99.6	51.5	100							Y	N/A	Y	Y	Y	Y	51.5	69.6	E	
Storage of thermal energy	4.11.	0.0	0.0	100							Y	Y	Y	N/A	Y	Y	0.0	0.0	E	
District heating/cooling distribution	4.15.	0.4	0.2	100							Y	Y	N/A	Y	Y	Y	0.2	0.4		
Cogeneration of heat/cool and power from bioenergy	4.20.	0.0	0.0	100							Y	Y	N/A	Y	Y	Y	0.0	0.0		
Production of heat/cool from bioenergy	4.24.	3.3	1.7	100							Y	Y	N/A	Y	Y	Y	1.7	0.9		
Infrastructure enabling low-carbon road transport and public transport	6.15.	2.2	1.2	100							Y	Y	Y	Y	Y	Y	1.2	0.7	E	
CAPEX of taxonomy-aligned activities (A.1)		**160.9**	**83.2**														**83.2**	**86.8**		
A.2. Taxonomy-eligible-but-not-aligned activities																				
Electricity generation from fossil gaseous fuels	4.29.																			
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	4.30.	13.0	6.7																	
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	4.31.																			
CAPEX of taxonomy-eligible-but-not-aligned activities (A.2)		**13.0**	**6.7**																	
TOTAL (A.1 + A.2)		**174.0**	**90.0**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES		**19.4**	**10.0**																	
Taxonomy-non-eligible activities		**19.4**	**10.0**																	
TOTAL (A+B)		**193.3**	**100**																	

GRI Index

Latvenergo Group has reported in accordance with the GRI Standards for the period from 1 January 2023 until 31 December 2023. GRI Sector Standard for energy/electric utilities is not yet developed. Sector-specific information is disclosed using GRI G4 Electric Utilities Sector Disclosures. For interoperability of GRI disclosures and ESRS disclosure requirements, see the GRI-ESRS interoperability index.

Universal Standards

		Page	External assurance
	1. The organization and its reporting practices		
2-1	Organizational details	8	✓
2-2	Entities included in the organization's sustainability reporting	7	✓
2-3	Reporting period, frequency and contact point	7	✓
2-4	Restatements of information	7	✓
2-5	External assurance	7; 24–32	✓
	2. Activities and workers		
2-6	Activities, value chain and other business relationships	38–39, 45	✓
2-7	Employees	85	✓
2-8	Workers who are not employees	87	✓
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	47–52	✓
EU2	Net energy output broken down by primary energy source and by regulatory regime	47–52	✓
EU3	Number of residential, industrial, institutional and commercial customer accounts	53, 58–59	✓
EU4	Length of above and underground transmission and distribution lines by regulatory regime	58–59	✓
EU5	Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework	99	✓
	3. Governance		
2-9	Governance structure and composition	24–32	✓
2-10	Nomination and selection of the highest governance body	24–32	✓
2-11	Chair of the highest governance body	24–32	✓
2-12	Role of the highest governance body in overseeing the management of impacts	24–32	✓
2-13	Delegation of responsibility for managing impacts	24–32	✓
2-14	Role of the highest governance body in sustainability reporting	24–32	✓
2-15	Conflicts of interest	73	✓
2-16	Communication of critical concerns	73	✓
2-17	Collective knowledge of the highest governance body	24–32	✓
2-18	Evaluation of the performance of the highest governance body	24–32	✓
2-19	Remuneration policies	24–32	✓
2-20	Process to determine remuneration	24–32	✓
2-21	Annual total compensation ratio	24–32	✓
	4. Strategy, policies and practices		
2-22	Statement on sustainable development strategy	5–6, 11–17	✓
2-23	Policy commitments	11–17	✓
2-24	Embedding policy commitments	11–17	✓
2-25	Processes to remediate negative impacts	73	✓
2-26	Mechanisms for seeking advice and raising concerns	73	✓
2-27	Compliance with laws and regulations	73	✓
2-28	Membership associations	43	✓
	5. Stakeholder engagement		
2-29	Approach to stakeholder engagement	40–42, 65–66	✓
2-30	Collective bargaining agreements	85	✓
3-1	Process to determine material topics	65–66	✓
3-2	List of material topics	65–66	✓

Specific standard disclosures

Sustainability topic	Materiality in the Group: Generation and Trade	Materiality in the Group: Distribution	GRI Standard		GRI disclosure	Page	External assurance
ECONOMIC TOPICS							
Efficiency of generation plants	✓		3-3 Management of material topics 2021			68, 40–42	✓
	✓		Electric Utilities Sector Disclosures (G4)	EU11	Average generation efficiency of plants	68	✓
	✓			EU30	Average plant availability factor	68	✓
Contribution to the economy	✓	✓	3-3 Management of material topics 2021			69, 40–42	✓
	✓	✓	201 Economic Performance 2016	201-1	Direct economic value generated and distributed	70	✓
	✓	✓		201-3	Defined benefit plan obligations and other retirement plans	69	✓
	✓	✓		201-4	Financial assistance received from government	70	✓
Efficiency and availability of distribution system		✓	3-3 Management of material topics 2021			71, 40–42	✓
		✓	Electric Utilities Sector Disclosures (G4)	EU12	Distribution losses as a percentage of total energy	71	✓
		✓		EU26	Percentage of population unserved in licensed distribution or service areas	71	✓
		✓		EU27	Number of disconnections for private individuals for non-payment	71	✓
		✓		EU28	Power outage frequency (SAIFI)	72	✓
		✓		EU29	Average power outage duration (SAIDI)	72	✓
Compliance and fair business	✓	✓	3-3 Management of material topics 2021			73, 40–42	✓
	✓	✓	205 Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	74	✓
	✓	✓		205-3	Confirmed incidents of corruption and actions taken	74	✓
	✓	✓	206 Anti-competitive Behavior 2016	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	74	✓

SOCIAL TOPICS							
Customer satisfaction	✓	✓	3-3 Management of material topics 2021			76–78, 40–42	✓
Emergency planning	✓	✓	3-3 Management of material topics 2021			82, 40–42	✓
Occupational health and safety	✓	✓	3-3 Management of material topics 2021			86–88, 40–42	✓
	✓	✓	403 Occupational Health and Safety 2018	403-1	OHS management system	86–88	✓
	✓	✓		403-2	Hazard identification, risk assessment, and incident investigation	86–88	✓
	✓	✓		403-3	Occupational health services	86–88	✓
	✓	✓		403-4	Worker participation, consultation, and communication on OHS	86–88	✓
	✓	✓		403-5	Worker training on OHS	86–88	✓
	✓	✓		403-6	Promotion of worker health	86–88	✓
	✓	✓		403-7	Prevention and mitigation of OHS impacts directly linked by business relationships	86–88	✓
	✓	✓		403-8	Workers covered by an OHS management system	88	✓
	✓	✓		403-9	Work-related injuries	88	✓
	✓	✓	Electric Utilities Sector Disclosures (G4)	EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	87	✓
Safety of distribution services		✓	3-3 Management of material topics 2021			79, 40–42	✓
		✓	Electric Utilities Sector Disclosures (G4)	EU25	Number of injuries and fatalities to the public involving company assets	79	✓
Public policy engagement	✓	✓	3-3 Management of material topics 2021			83, 40–42	✓
	✓	✓	415 Public Policy 2016	415-1	Political contributions	83	✓
Employee involvement and development	✓	✓	3-3 Management of material topics 2021			89–90, 40–42	✓
	✓	✓	402 Labor-Management Relations 2016	402-1	Minimum notice periods regarding operational changes	91	✓
	✓	✓	404 Training and Education 2016	404-1	Average hours of training per year	91	✓
	✓	✓	Electric Utilities Sector Disclosures (G4)	EU15	Percentage of employees eligible to retire in the next 5 and 10 years	91	✓
Personal data security	✓	✓	3-3 Management of material topics 2021			79, 40–42	✓
	✓	✓	418 Customer Privacy 2016	418-1	Complaints concerning breaches of customer privacy and losses of customer data	79	✓
Information availability	✓	✓	3-3 Management of material topics 2021			80, 40–42	✓
	✓	✓	417 Marketing and Labeling	417-3	Incidents of non-compliance concerning marketing communications	80	✓

ENVIRONMENTAL TOPICS							
Environmental compliance	✓	✓	3-3 Management of material topics 2021			94, 40–42	✓
Air pollution and climate change	✓	✓	3-3 Management of material topics 2021			95, 40–42	✓
	✓	✓	305 Emissions 2016	305-1	Direct (Scope 1) GHG emissions	96–98	✓
	✓	✓		305-2	Indirect (Scope 2) GHG emissions	96–98	✓
	✓	✓		305-3	Indirect (Scope 3) GHG emissions	96–98	✓
	✓	✓		305-4	GHG emissions intensity	96–98	✓
	✓	✓		305-7	NO_x, SO_x, and other significant air emissions	99	✓
Resource and energy consumption	✓		3-3 Management of material topics 2021			100, 40–42	✓
	✓		301 Materials 2016	301-1	Materials used by weight or volume	101	✓
	✓		302 Energy 2016	302-1	Energy consumption within the organization	101	✓
	✓		303 Water 2018	303-3	Water withdrawal	102	✓
Renewable energy and strengthening of energy independence	✓		3-3 Management of material topics 2021			102, 40–42	✓
Biodiversity	✓	✓	3-3 Management of material topics 2021			103–104, 40–42	✓
	✓	✓	304 Biodiversity 2016	304-1	Operational sites in protected areas and areas of high biodiversity value outside protected areas	103	✓
	✓	✓	304 Biodiversity 2016	304-2	Significant impacts on biodiversity	103	✓
	✓	✓	304 Biodiversity 2016	304-4	Protected species with habitats in areas affected by operations	103	✓

Terms and Abbreviations

autotransformer	transformer with one winding, which is the highest voltage winding, but part of this winding forms the lowest voltage winding
auxiliary consumption (of electricity)	the part of electricity consumed by auxiliary equipment of the main energy generating or converting equipment
biodiversity	the diversity of all living things – plants, animals, fungi, microorganisms, their genes and ecosystems
bioenergy	energy from biomass
biogas	gas from the decomposition of organic matter which can be used as fuel
biomass	the biodegradable fraction in products and waste of agriculture, forestry and related industries, as well as the biodegradable fraction in industrial and municipal waste
bonds	a security that gives its holder an income in the form of pre-determined interest
cable line	a power line created with a special insulated wire (cable) and installed in the ground, on the walls of a building, in cable ducts, pipes, etc.
CAPEX	capital expenditures
CHPP	see *combined heat and power plant*
CICERO	Center for International Climate and Environmental Research
climate neutrality	maintaining a balance between carbon emissions and carbon absorption from the atmosphere through carbon sequestration systems
cogeneration	cogeneration of heat and electricity in one energy installation; significantly reduces fuel consumption compared to separate heat and electricity generation
combined heat and power plant	a power plant that produces electricity from thermal energy obtained by burning fossil fuels; thermal power plant
condensation	electricity generation mode in which heat is not generated
COSO	Committee of Sponsoring Organizations of the Treadway Commission
coupon (bond coupon)	the amount of interest on a security for a predetermined period of time
credit rating	assessment of a borrower's creditworthiness, which is expressed by a special index or combination of letters and which indicates the degree of risk
critical infrastructure	facilities and systems, the destruction or malfunction of which would significantly affect the implementation of state functions
CSR	corporate social responsibility
CSRD	Corporate Sustainability Reporting Directive
derivative financial instruments	bilateral agreements, the value of which depends on and changes according to fluctuations in the value of the guarantee (shares, currency, bonds, interest rates) underlying the instrument
direct greenhouse gas emissions	greenhouse gas emissions from sources owned or controlled by the organisation
distribution system	system which ensures the flow of electricity from the electricity transmission network and electricity generators connected to the distribution networks to electricity consumers
EBITDA	earnings before interest, taxes, depreciation, and amortization
EC	European Commision
EEOS	energy efficiency obligation scheme
electricity balance sheet	an overview of the electricity produced, sold and purchased by the company as well as consumed by its auxiliary equipment
electromobility	an integral part of the transport sector, consisting of environmentally friendly electric motor vehicles
energy efficiency	more optimal and efficient use of energy
energy infrastructure	the set of material objects, communication and service possibilities necessary for ensuring the operation of the energy sector
energy management	a set of energy consumer actions aimed at reducing energy consumption

energy sources	fuel stocks and energy sources that can be used for direct use or energy generation
ESG	environment, society, and governance
ETS	Emissions Trading System
EU	European Union
EU taxonomy	classification system for economic activities that aims to identify which activities can be considered sustainable
ESRS	European Sustainability Reporting Standards
European Green Deal	the growth strategy aspiring to transform the EU into a climate-neutral, fair and prosperous society with a modern, resource-efficient and competitive economy
fossil energy sources	non-renewable energy sources, the use of which results in the release of greenhouse gas emissions into the atmosphere, which have a significant impact on climate change (oil products, natural gas, peat and coal)
futures	standardised contracts to buy or sell something at a certain price at some point in the future
Global Reporting Initiative	international guidelines for reporting on the organisation's economic, environmental and social impacts
global warming potential	the value (coefficient) that shows how much heat is absorbed into the atmosphere by a given greenhouse gas compared to the same amount of CO_2
green bonds	bonds used to finance projects that have a positive impact on the environment and/or the climate
green energy	energy from renewable sources
green procurement	procurement which includes criteria for the purchase of goods and services with the least possible impact on the environment
greenhouse gases	gases that absorb and re-emit infrared radiation and whose accumulation in the atmosphere contributes to the acceleration of climate change (the main GHGs are CO_2, CH_4, N_2O, SF_6, HFC, PFC)
GRI	see *Global Reporting Initiative*
high voltage	electrical voltage greater than 1000 volts; in Latvia, it is defined as 110 kV–330 kV voltage
HPP	see *hydropower plant*
hydropower plant	a power plant in which energy from the movement of water is converted into electricity
hydropower unit	equipment for converting water stream energy into electrical energy
IFRS	International Financial Reporting Standards
indirect greenhouse gas emissions	emissions that result from the generation of purchased electricity and heating consumed by an organisation
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
KPI	key performance indicator
LLU	Latvia University of Life Sciences and Technologies
LNG	liquified natural gas
low voltage	voltage ratings for use in electricity distribution, the maximum value of which in alternating voltage networks does not exceed 1000 V
mandatory procurement	the support mechanism established by the Latvian state for electricity generators, which until 2012 could be obtained by generators that produce electricity in efficient cogeneration or from renewable energy sources
medium voltage	voltage rating (6kV–20kV) between low voltage and high voltage
MP	mandatory procurement
MPC	mandatory procurement component
National Energy and Climate Plan	a document for long-term energy and climate policy planning, which sets the basic principles, goals and action lines of the national energy and climate policy of Latvia
NGO	non-governmental organisation
OECD	Organization for Economic Cooperation and Development
OPEX	operating expenses
overhead line	power line, the wires of which are fixed in supports on insulators at a certain height above the ground (there may also be overhead lines with insulated wires or aerial cables)
peak load	maximum electricity demand

plant availability	the condition of the installation/plant in which it can perform its intended functions
power exchange	an electricity trading site where electricity exchange participants buy and sell electricity through supply and demand
primary energy sources	energy sources (e.g. fossil, renewable, nuclear) from which electricity and heat are derived
PUC	Public Utilities Commission
renewable energy sources	energy sources available indefinitely that regenerate faster than their consumption rate (wind, water, solar radiation, biomass, geothermal energy, waves, tides)
RES	see *renewable energy sources*
RTU	Riga Technical University
SFRS	State Fire and Rescue Service
SPP	solar power plant
smart meter	an electricity meter that records hourly consumption and can be served remotely
solar collector	equipment designed to convert solar radiation into heat
solar panel	equipment designed to convert solar radiation into electricity
STEM	science, technology, engineering and mathematics
Sustainability Index	assessment of corporate sustainability and responsibility, which is carried out annually by the Institute for Corporate Sustainability and Responsibility in Latvia, based on an internationally recognised methodology
sustainability indicator	an indicator that describes the economic, environmental or social topic significant for the company and/or its stakeholders
sustainability topic	an economic, environmental or social topic significant for the company and/or its stakeholders
Sustainable Development Goals	global development goals set by the UN that are to be achieved by 2030
targeted grant	state budget funds allocated for a defined, specific purpose
TCFD	Task Force on Climate-Related Financial Disclosures
transformer	electrical equipment for increasing (step-up transformer) or decreasing (step-down transformer) alternating voltage
transmission system	330 kV and 110 kV power transmission lines, substations and distribution points that ensure electricity transmission
UN	United Nations
water stress	set of risks related to freshwater availability (pollution, consumption, impact of climate change)
WPP	wind power plant

Building a better working world

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Independent Auditors' Assurance Report

To the management board of Latvenergo AS:

Scope

We have been engaged by Latvenergo AS to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements, hereinafter referred to as ‚the engagement', to report on Latvenergo AS and its subsidiaries (hereinafter 'the Group') Sustainability Report on pages 4 to 104 (the ‚Subject Matter') as of 31 December 2023.

Criteria applied by Group

In preparing the Sustainability Report, the Group applied requirements of application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network based non-profit organization with secretariat based in Amsterdam, the Netherlands. (‚Criteria').

Group's responsibilities

Group's management is responsible for selecting the Criteria, and for presenting the Sustainability Report in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Subject Matter, such that it is free from material misstatement, whether due to fraud or error.

EY's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ('ISAE 3000'). That standard require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Subject Matter in order for it to be in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services engagements, which requires that we design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Sustainability report and related information, and applying analytical and other appropriate procedures.

Our procedures included:

- interviews with the responsible management, at Group level, subsidiary level, and at selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient;
- review of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient;
- an evaluation of the design of the systems and processes used to obtain, manage and validate sustainability information;
- verifying the information included in the Sustainability Report through enquires to the relevant management of the Group;
- a reconciliation of financial information and sustainability information with the Group's Consolidated Annual Report for the financial year 2023;
- an assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria;
- testing performance data, on a selective basis, substantively at both an operational and corporate level;
- tested sample documentation to corroborate main statements of management and senior executives in our interviews.

We also performed such other procedures as we considered necessary in the circumstances.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to Sustainability report as of 31 December 2023 in order for it to be in accordance with the Criteria.

Ernst & Young Baltic SIA
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga,

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

Annual Report

Latvenergo

Latvenergo Group Consolidated and Latvenergo AS Annual Report

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

This is pdf format of the annual report further converted to the ESEF report to be considered as the official annual report prepared in accordance with the respective requirements

Contents

FINANCIAL CALENDAR

Interim Condensed Financial Statements:

For the 3 months of 2024 (unaudited) – 31.05.2024

For the 6 months of 2024 (unaudited) – 30.08.2024

For the 9 months of 2024 (unaudited) – 29.11.2024

Key figures

In order to ensure an objective and comparable presentation of the financial results, Latvenergo Group and Latvenergo AS uses various financial figures and ratios that are derived from the financial statements.

Latvenergo Group

Operational figures		2023	2022	2021	2020	2019
Total electricity supply, incl.:	GWh	8,659	7,346	9,260	8,854	9,259
- Retail*	GWh	6,208	5,452	6,706	6,394	6,505
- Wholesale**	GWh	2,450	1,894	2,554	2,460	2,754
Total natural gas supply, incl.:	GWh	1,554	1,040	1,026	516	303
- Retail	GWh	896	930	1,026	516	303
- Wholesale	GWh	658	110	–	–	–
Electricity generated	GWh	5,132	3,822	4,517	4,249	4,880
Thermal energy generated	GWh	1,698	1,777	2,072	1,702	1,842
Number of employees		3,497	3,316	3,153	3,295	3,423
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

EUR'000

Financial figures	2023	2022	2021	2020	2019***
Revenue	2,034,425	1,841,801	1,065,219	773,391	841,636
EBITDA	601,769	360,209	198,813	277,894	243,526
Operating profit	404,596	193,961	81,890	121,350	100,365
Profit before tax	388,529	184,545	74,930	112,699	92,072
Profit for the year	350,917	183,874	71,623	116,309	94,359
Dividends paid to equity holder of the Parent Company	152,538	70,160	98,246	127,071	132,936
Assets	4,127,922	3,855,330	3,475,890	3,358,835	3,864,941
Non–current assets	3,377,267	3,078,635	2,894,502	2,976,192	2,798,712
Equity	2,963,080	2,356,419	2,123,448	2,118,242	2,265,487
Borrowings	629,696	875,918	795,029	743,199	882,671
Net debt[1)]	511,240	763,161	697,950	555,876	563,959
Net cash flows generated from operating activities****	575,682	126,499	67,250	281,647	289,826
Adjusted funds from operations (FFO) [2)]	513,678	338,977	176,143	249,534	259,237
Capital expenditure	193,349	121,666	126,728	168,855	229,427

Financial ratios	2023	2022	2021	2020	2019	Formulas
EBITDA margin	30%	20%	19%	36%	29%	EBITDA / revenue
Operating profit margin	19.9%	10.5%	7.7%	15.7%	11.9%	Operating profit / revenue
Profit before tax margin	19.1%	10.0%	7.0%	14.6%	10.9%	Profit before tax / revenue
Profit margin	17.2%	10.0%	6.7%	15.0%	11.2%	Profit for the year / revenue
Adjusted FFO / net debt	81%	46%	28%	45%	48%	Adjusted FFO / ((net debt at the beginning of the reporting year + net debt at the end of the reporting year) /2)
Equity–to–asset ratio	72%	61%	61%	63%	59%	Equity at the end of the reporting year / assets at the end of the reporting year
Net debt / EBITDA	1.1	2.0	3.2	2.0	2.2	(Net debt at the beginning of the reporting year + net debt at the end of the reporting year) / 2 / EBITDA
Net debt / equity	0.17	0.32	0.33	0.26	0.25	Net debt at the end of the reporting year / equity at the end of the reporting year
Current ratio	2.2	1.2	1.4	1.5	1.2	Current assets at the end of the reporting year / current liabilities at the end of the reporting year
Return on assets (ROA)	8.8%	5.0%	2.1%	3.2%	2.5%	Profit for the year / ((assets at the beginning of the reporting year + assets at the end of the reporting year) / 2)
Return on equity (ROE)	13.2%	8.2%	3.4%	5.3%	4.1%	Profit for the year / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2)
Adjusted ROE excluding distribution	19.9%	16.3%	5.5%	7.7%	4.8%	(Group's profit for the year – Sadales tīkls AS profit for the year) / ((Group's equity at the beginning of the reporting year – Sadales tīkls AS equity at the beginning of the reporting year + Group's equity at the end of the reporting year – Sadales tīkls AS equity at the end of the reporting year) / 2)
Return on capital employed (ROCE)***	11.9%	6.3%	2.9%	4.2%	3.4%	Operating profit / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2) + (borrowings at the beginning of the reporting year + borrowings at the end of the reporting year) / 2)
Dividend pay–out ratio	73%	88%	63%	126%	62%	Dividends paid to equity holder of the Parent Company / profit of the Parent Company in the previous year

Based on the most commonly used financial figures and ratios in the industry, the Latvenergo Group Strategy for 2022-2026 (see also the Management Report – section Further development, and Sustainability Report), as well as the binding financial covenants set in the Group's loan agreements, Latvenergo Group has set here and therefore uses the following financial figures and ratios:

- profitability measures – EBITDA; EBITDA margin; operating profit margin; profit before tax margin; profit margin; return on assets (ROA); return on equity (ROE); adjusted ROE excluding distribution; return on capital employed (ROCE)
- capital structure measures – net debt[1)]; adjusted FFO[2)]/net debt; equity–to–asset ratio; net debt / EBITDA; net debt / equity; current ratio
- a dividend policy measure – dividend pay–out ratio

* Including operating consumption

** Including sale of energy purchased within the mandatory procurement on the Nord Pool

*** Figures and ratios for 2019 - 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership)

**** Comparative figures recalculated, presenting changes in current intangible assets (CO_2 emission rights) in net cash flows from operating activities as changes in current assets

1) Net debt = borrowings at the end of the reporting year – cash and cash equivalents at the end of the reporting year

2) Adjusted funds from operations (FFO) = Net cash flows generated from operating activities – (changes in inventories and current intangible assets+ changes in receivables from contracts with customers and other receivables+ changes in other financial investments) – changes in trade and other liabilities – compensation from the state-on-state support for the installed capacity of CHPPs

Latvenergo AS

Operational figures		2023	2022	2021	2020	2019
Total electricity supply, incl.:	GWh	6,090	4,700	5,304	5,318	5,502
- Retail*	GWh	3,830	3,540	3,999	4,235	4,211
- Wholesale**	GWh	2,261	1,161	1,305	1,083	1,290
Total natural gas supply, incl.:	GWh	1,435	905	804	453	294
- Retail	GWh	777	795	804	453	294
- Wholesale	GWh	658	110	–	–	–
Electricity generated	GWh	5,115	3,800	4,495	4,215	4,832
Thermal energy generated	GWh	1,457	1,531	1,800	1,475	1,603
Number of employees at the end of the reporting year		1,414	1,329	1,269	1,267	1,328
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

EUR'000

Financial figures	2023	2022	2021	2020	2019
Revenue	1,397,179	1,231,015	592,785	385,612	437,529
EBITDA	473,295	280,325	85,275	197,889	112,651
Operating profit	362,267	198,812	52,367	111,630	45,108
Profit before tax	362,660	209,362	79,520	154,848	101,227
Profit for the year	331,561	209,362	79,520	154,848	101,227
Dividends paid to equity holder of the Parent Company	152,538	70,160	98,246	127,071	132,936
Assets	3,474,032	3,305,536	2,915,587	2,760,155	3,136,958
Non–current assets	2,672,436	2,434,746	2,215,793	2,307,985	2,615,113
Equity	2,608,014	2,018,694	1,761,070	1,746,436	1,949,287
Borrowings	618,179	863,938	782,322	733,392	872,899
Net debt[1)] ***	511,016	763,670	689,904	548,511	555,348
Net cash flows generated from operating activities****	423,244	258,419	291,049	436,615	352,535
Capital expenditure	64,452	30,040	29,545	50,999	48,269

* Including operating consumption

** Including sale of energy purchased within the mandatory procurement on the Nord Pool

*** Figures and ratios for 2019 - 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership)

**** Comparative figures recalculated, presenting changes in current intangible assets (CO_2 emission rights) in net cash flows from operating activities as changes in current assets

1) Net debt = borrowings at the end of the reporting year – cash and cash equivalents at the end of the reporting year

Financial ratios	2023	2022	2021	2020	2019	Formulas
EBITDA margin	33.9%	22.8%	14.4%	51.3%	25.7%	EBITDA / revenue
Operating profit margin	25.9%	16.2%	8.8%	28.9%	10.3%	Operating profit / revenue
Profit before tax margin	26.0%	17.0%	13.4%	40.2%	23.1%	Profit before tax / revenue
Profit margin	23.7%	17.0%	13.4%	40.2%	23.1%	Profit for the year / revenue
Equity–to–asset ratio	75%	61%	60%	63%	62%	Equity at the end of the reporting year / assets at the end of the reporting year
Net debt / equity	0.20	0.38	0.39	0.31	0.29	Net debt at the end of the reporting year / equity at the end of the reporting year
Current ratio	3.5	1.5	1.8	2.3	1.8	Current assets at the end of the reporting year / current liabilities at the end of the reporting year
Return on assets (ROA)	9.8%	6.7%	2.8%	5.3%	3.2%	Profit for the year / ((assets at the beginning of the reporting year + assets at the end of the reporting year) / 2)
Return on equity (ROE)	14.3%	11.1%	4.5%	8.4%	5.1%	Profit for the year / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2)
Return on capital employed (ROCE)***	11.9%	7.3%	2.1%	4.4%	1.7%	Operating profit / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2) + (borrowings at the beginning of the reporting year + borrowings at the end of the reporting year) / 2)
Dividend pay–out ratio	73%	88%	63%	126%	62%	Dividends paid to equity holder of the Parent Company / profit of the Parent Company in the previous year

Management Report

Latvenergo Group (the Group) is one of the largest power suppliers and energy generators in the Baltics, operating in electricity and thermal energy generation and trade, natural gas trade, supply of products and services related to electricity consumption and energy efficiency, and electricity distribution services.

Latvenergo Group – one of the largest power suppliers in the Baltics

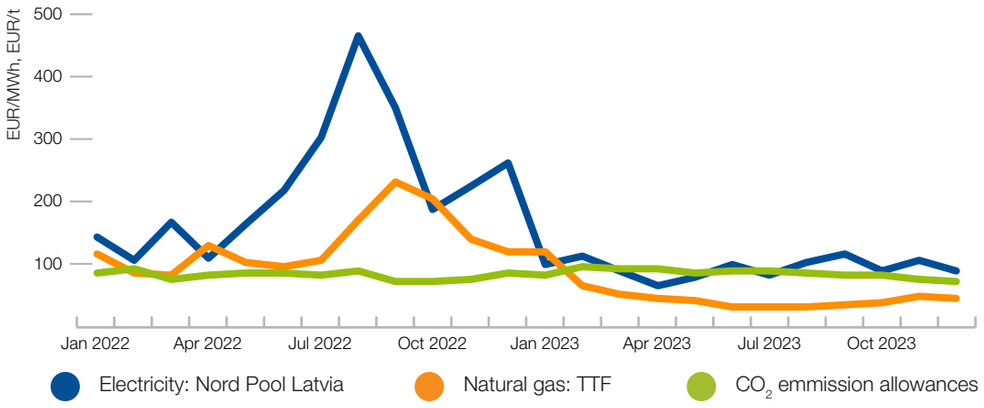
The parent company of Latvenergo Group is Latvenergo AS which is a power supply utility operating in electricity and thermal energy generation and trade, natural gas trade, as well as supply of products and services related to electricity consumption and energy efficiency in Latvia.

Latvenergo Group divides its operations into two operating segments: generation and trade; and distribution.

Operating Environment

In 2023, both the Nord Pool system price and the electricity price in Latvia decreased by 58% compared to the previous year. In the European Union (EU), the reduction in electricity prices was mainly affected by lower natural gas prices and increased electricity generation through renewable energy resources. According to Ember data, in 2023, the installed capacity of wind power plants (WPP) and solar power plants (SPP) in the European Union (EU) increased by 75 GW. Consequently, the development of wind power stations in the EU increased by 13% in 2023, while the development of solar power stations increased by 17%, collectively accounting for 27% of total electricity generation in 2023. Improved hydrological conditions also contributed to a 15% increase in hydroelectric power generation. Additionally, there was a decrease in electricity demand of approximately 2–3%. The electricity market was also stabilized with the help of the European Commission's REPowerEU plan, in response to the difficulties in the world energy market caused by the Russian invasion of Ukraine. The REPowerEU plan envisions implementing energy-saving measures, diversification of energy sources to reduce dependence on Russian fossil fuels and accelerated development of renewable energy resources.

Energy resource prices



Electricity and natural gas prices decreased

Average electricity price in Nord Pool regions, EUR/MWh (monthly)

Region	2023	2022	Δ, %
System price	56.4	135.9	(58%)
Latvia	93.9	225.9	(58%)
Lithuania	94.4	229.2	(59%)
Estonia	90.8	192.0	(53%)
Poland	111.7	166.7	(33%)
Sweden	49.3	100.3	(51%)
Finland	56.5	153.5	(63%)
Denmark	84.3	213.7	(61%)
Norway	56.5	117.0	(52%)
Germany	95.2	235.5	(60%)
France	96.9	275.9	(65%)
Great Britain	108.0	239.4	(55%)

In 2023, the average price of natural gas at the TTF (front month) reached 49 EUR/MWh, which is 63% lower than a year earlier. Slower global economic growth, along with high liquefied natural gas (LNG) imports, increased RES output and reduced natural gas consumption, contributed to an increase in the natural gas reserve fill rate in EU gas storage facilities. In 2023, the average fill rate of natural gas storage facilities, according to Gas Infrastructure Europe data, was 79% (in 2022, it was 61%). Until the end of March 2024, the REPowerEU plan continued, aiming for voluntary measures to reduce gas consumption by 15% in the EU territory.

Latvenergo AS has not imported natural gas from Russia since 24 February 2022, switching to supplies of LNG from other countries. Until 2032, Latvenergo AS has secured the rights to receive for regular natural gas deliveries at the Klaipeda LNG terminal at a volume of 6 TWh per year.

The average price of CO_2 emission allowances (EUA DEC futures) was 5% higher compared to the year 2022, reaching 85.3 EUR / t. However, at the end of the year, there was a downward trend in prices, affected by the reduction in natural gas prices and slower economic development. The European Parliament's decision to allocate additional quotas for financing REPowerEU, aimed at reducing Europe's dependence on Russian energy resources, led to an increased supply of quotas in the short term. The climate goal of the European Commission to reduce CO_2 emissions by 55% by 2030 compared to the levels of 1990 remains relevant.

Operating Results

Generation

Latvenergo Group is one of the largest electricity producers in the Baltics. In 2023, Latvenergo Group produced 1/3 of the total electricity generated in the Baltics. Moreover, 73% of the electricity was generated from renewable energy sources (in 2022: 70%). The total amount generated by Latvenergo Group's power plants comprised 5.1 TWh of electricity and 1.7 TWh of thermal energy.

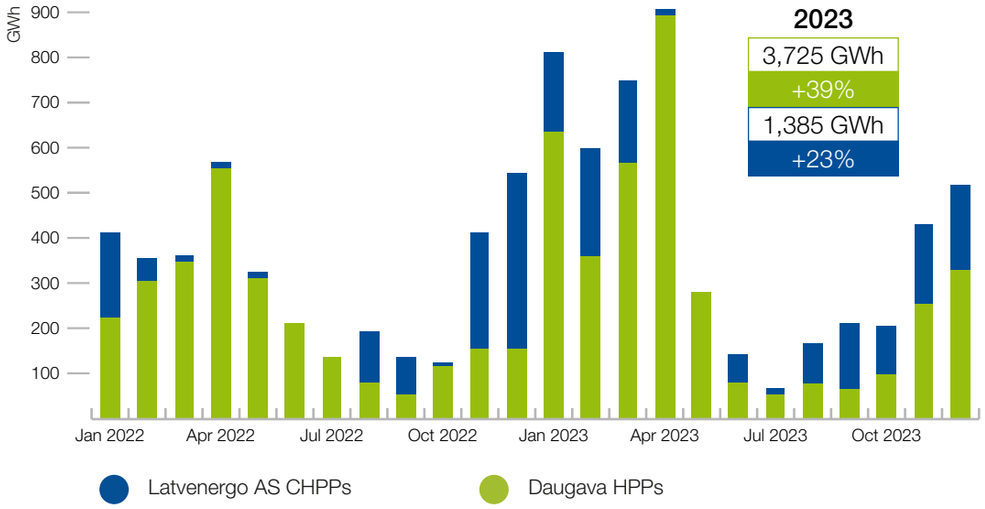
The Daugava HPPs generated the second largest amount of electricity in the last 25 years

The Daugava HPPs generated the largest amount of electricity since 2017 and the second largest amount in the last 25 years – 3.7 TWh, which is 39% more than in 2022. The amount of power generated at the Daugava HPPs was impacted by 56% higher water inflow in the Daugava River. According to data from the Latvian Environment, Geology and Meteorology Centre, the average water inflow in the Daugava River in 2023 was 789 m^3/s, while a year earlier it was 506 m^3/s.

The amount generated at the Latvenergo AS CHPPs increased by 23%, reaching 1.4 TWh. The increase was influenced by relatively low generation in the previous year, which was then affected by high natural gas prices. The operation of the CHPPs is adjusted to the conditions of the electricity market and heat demand.

The amount of thermal energy generated did not significantly change, reaching 1.7 TWh.

Electricity generation at Daugava HPPs and Latvenergo AS CHPPs



Trade

At the end of the reporting year, the number of electricity customers was more than 845 thousand, including almost 227 thousand foreign customers. The electricity customer portfolio shows a positive 3% increase mainly due to the increase in the number of customers within households in Lithuania. Under the *Elektrum* brand, Latvenergo Group has become the second-largest electricity supplier in the household customer segment in Lithuania.

Retail electricity trade increased by 14%

In 2023, the Group supplied 6.2 TWh of electricity to its customers in the Baltics, which is 14% more than a year earlier. The increase in electricity sales volume was mainly impacted by the growth in sales volume in the business customer segment, as well as the increase in sales volume in the household market in Lithuania.

The overall amount of retail electricity trade outside Latvia accounted for about 38%. The electricity trade volume in Latvia was 3.8 TWh, while in Lithuania it was 1.9 TWh and in Estonia it was 0.5 TWh.

Meanwhile, the number of natural gas customers has more than doubled, comprising more than 49 thousand at the end of December. The Group's natural gas sales in the Baltics decreased by 4%, reaching 896 GWh. The decrease is associated with a general decline in natural gas consumption in the Baltic market. In total, 1.6 TWh of natural gas was sold, which is almost half as much as in 2022.

In the reporting year, we continued to develop retail activities of other products and services related to electricity consumption and energy efficiency. The number of contracts for the installation of solar panels and trade of solar park components in the Baltics exceeded 1,600. The total installed solar panel capacity

Completed in 2023

6.2 TWh of electricity sold to Baltic retail customers.

0.9 TWh of natural gas sold to Baltic retail customers.

More than 1,600 contracts were concluded for the installation of solar panels in the Baltics.

More than 44.3 thousand electric vehicle charges were made at the Elektrum Drive electric car charging stations.

(including remote solar parks) provided to Latvenergo Group's retail customers in the Baltics exceeded 70 MW at the end of December; thus, *Latvenergo* is one of the leading providers of this service in the Baltics. Almost 3/4 of panels are installed for customers outside Latvia.

Steady growth in the number of *Elektrum Insured* product line customers in the Baltics continued, reaching about 130 thousand.

In the reporting year, we further strengthened our leading position in the electric vehicle charging station market in Latvia. The *Elektrum Drive* electric car charging network in the Baltics grew, reaching 400 charging ports. In 2023, 44.3 thousand electric vehicle charges were made, comprising 880 MWh, resulting in savings of 530 tonnes of CO_2 emissions. By using the *Elektrum Drive* application, charging is also possible within the e-mobi network in Latvia and at LIDL charging stations in Lithuania – providing customers access to a total of 571 charging points.

Distribution

Distribution segment provides electricity distribution services in Latvia. Sadales tīkls AS is the largest state distribution system operator, covering approximately 99% of the territory of Latvia. Distribution system tariffs are approved by the Public Utilities Commission (PUC).

As of 1 July 2023, the new distribution tariffs of Sadales tīkls AS have come into effect, with the tariff calculation increasing the proportion of the fixed tariff, providing a more appropriate solution to the actual maintenance cost structure of the distribution network. With the introduction of the new tariff, the financial results of the distribution segment have improved.

Under the law on measures to reduce the extraordinary rise in energy prices, from 1 September 2023 to 31 December 2023, a 60% reduction was applied to the fixed component of the electricity distribution tariff (maintenance fee for power) for all households. This reduction was compensated through funds allocated from the state budget.

To ensure a more sustainable approach and predictability of changes for customers in the future, from 1 January 2024 to 31 December 2025, the increase in the capacity payments of the electricity distribution tariff for household users will be applied gradually. The difference between the approved tariff and the one applied to customers will be compensated from dividends of Latvenergo AS paid in the state budget.

Considering the possibilities of obtaining financing, as well as the increase in energy resource prices in the last two years, microgeneration development in the country has been stimulated significantly. In 2022, the volume of new microgenerator connections to the distribution grid reached its peak, and in 2023, overall customer activity remained high. At the end of the reporting year, the total generation capacity of microgenerators and generators connected to the distribution system reached 550 MW. In 2023, the capacity of microgenerators connected to the distribution grid reached almost 70 MW, while the total generation capacity of connected generators increased by 137 MW.

Unfavourable weather conditions significantly affected SAIDI (System Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index) indicators in 2023. However, excluding mass damage, the reliability and quality of electricity supply have been increasing each year, and over the last five years, SAIFI has decreased by 16%, and SAIDI by 21%.

Financial Results

In 2023, Latvenergo Group's revenue reached EUR 2,034.4 million, which was EUR 192.6 million or 10% more than a year earlier. This was mainly impacted by EUR 135.8 million higher energy sales revenues mainly due to a 14% greater amount of electricity sold in retail, higher sales prices, a 39% greater amount of power generated at the Daugava HPPs and an increase in revenue in the distribution segment of 42.1 million EUR, following the introduction of the new distribution tariffs by Sadales tīkls AS starting from 1 July 2023.

Latvenergo Group's EBITDA increased by 67%

Latvenergo Group's EBITDA increased by EUR 241.6 million, which is 67% more than a year earlier, reaching EUR 601.8 million. This was mainly positively impacted by the greater amount of power generated at the Daugava HPPs, lower electricity and natural gas purchase prices and an increase in revenue in the distribution segment. The Group's profit for the reporting year reached EUR 350.9 million.

Investments

In 2023, the total amount of investment comprised EUR 193.3 million, which is 59% or EUR 71.7 million more compared to the previous year, and the largest increase was generated by investments in the development projects of solar power plants.

In the reporting year, investments in distribution comprised EUR 99.6 million, which is half of the Group's total investments. The majority of funds are invested in the construction and reconstruction of power lines and transformers, thereby ensuring high-quality network services, technical performance, and operational safety. The purpose of investments in the distribution segment is to promote the quality and security of the energy supply, reduce the frequency and duration of power supply disruptions caused by planned and unplanned maintenance, and ensure the appropriate voltage quality.

Latvenergo Group purposefully develops renewable generation capacity in the Baltic region

In the reporting year, EUR 34.9 million was allocated towards the development of *Elektrum* solar parks, which is almost 1/5 of Latvenergo Group's total investments. Also, the Daugava HPPs' hydropower unit reconstruction continued. In 2023, EUR 8.2 million was invested in the Daugava HPPs' hydropower unit reconstruction. 8 hydro units included in the programme have already been reconstructed as of 31 December 2023.

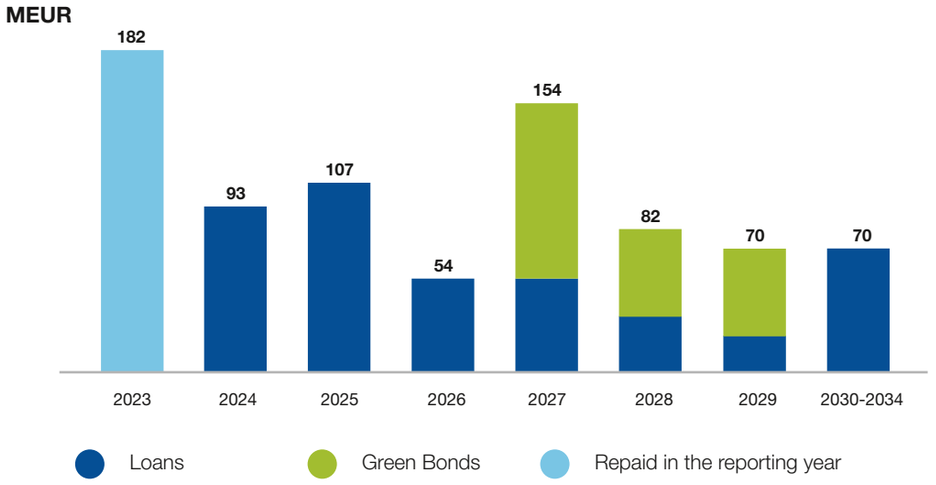
As per Latvenergo Group's strategic plan for 2022-2026, there will be a substantial increase in investments towards expanding the Group's renewable energy production capacity. This will lead to a significant reduction in greenhouse gas emissions and contribute to Latvia's goal of achieving climate neutrality by 2050.

In the reporting year, 3 solar parks with a total capacity of 18.7 MW were put into operation in Lithuania. By the end of the reporting year, we had 6 *Elektrum* solar parks in operation with a total capacity of almost 30 MW in Lithuania. The solar park capacity in Lithuania will be distributed in three revenue streams: selling capacity to customers, leasing capacity to customers, and supplying generated energy to customers. Meanwhile, in Latvia, the first solar park with a total capacity of 11.7 MW is expected to be operational in May 2024. In the Baltic region, the Group has solar and wind park projects in the project or construction stage with a total capacity of about 400 MW, including seven SPP projects in Latvia, with a total capacity of 40 MW, that were added to the Group's RES generation capacity portfolio in early 2024. Also, the development of a new WPP project has been initiated in Lithuania, in the Akmenes district, with a capacity of up to 15 MW. Solar and wind parks are expected to be gradually commissioned in 2024–2025.

Funding

Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner. Planning the sourcing of borrowings in a timely manner is also crucial to ensure loan refinancing risk management and debt repayment in due time.

Latvenergo Group's long-term debt repayment schedule



On February 22, 2023, Latvenergo AS concluded the third bond programme in the amount of EUR 200 million by issuing six-year green bonds with a total nominal value of EUR 50 million with a maturity date of February 22, 2029, and a fixed interest rate (coupon) and yield of 4.952% per year. The bonds are listed on Nasdaq Riga AS.

The bonds were issued in the format of green bonds, according to the Green Bond Framework of Latvenergo AS. The independent research centre CICERO Shades of Green has rated the updated Latvenergo AS Green Bond Framework as Dark Green (the highest category), indicating the compliance of the planned projects with long-term environmental protection and climate change mitigation objectives, as well as good governance and transparency.

As of 31 December 2023, the Group's borrowings amount to EUR 629.7 million, all of which are long-term loans (31 December 2022: EUR 875.9 million, including long-term loans in the amount of EUR 756.2 million). The loan portfolio includes long-term loans from commercial banks and international financial institutions, as well as green bonds in the amount of EUR 200 million.

External funding sources are purposefully diversified in the long run, thus creating a balance between lender categories in the total loan portfolio. In the reporting year, all the binding financial covenants set in Latvenergo Group's loan agreements were met.

Corporate Governance

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2023 is published. It is based on the Corporate Governance Code, which was published in 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice. Evaluating both the governance system of the capital company and its compliance with the principles in 2023, the Management Board considers that Latvenergo AS complies in all material aspects with all the principles set out in the Code, except for the criterion of gender representation on the company's Supervisory Board. For detailed information see the Sustainability Report 2023.

Non-financial Report

Latvenergo Group has prepared a non-financial report in accordance with the Law on the Financial Instruments Market.

For detailed information on corporate social responsibility (CSR) activities, description of the policies and procedures in relation to those matters, the outcome of the policies, risks and risk management, and non-financial key performance indicators, please see the Sustainability Report 2023 which is available on the Latvenergo website. The report is prepared in accordance with the GRI Standards requirements.

Non-financial report is in accordance with the GRI Standards

The sustainability report addresses such topics as corporate social responsibility, economic performance, product responsibility, society, employees and the work environment, environmental protection, etc.

Further Development

In March 2022, Latvenergo Group's medium-term strategy for 2022–2026, with new strategic operational and financial objectives, was approved by the Supervisory Board of Latvenergo AS.

New strategic objectives comprise:

- expand and diversify the generation portfolio with green technologies;
- strengthen the position of *Elektrum* as the most valuable energy trader in the Baltics;
- develop electrification of the transport sector;
- ensure a sustainable and economically viable distribution service and improve the security and quality of electricity supply.

Along with the strategy approval, Latvenergo Group's financial targets have been set. The targets are divided into four groups – profitability, capital structure, dividend policy and other.

The financial targets are set to ensure:

- ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk;
- an optimal and industry-relevant capital structure that limits potential financial risks;
- an adequate dividend policy that is consistent with the planned investment policy and capital structure targets;
- an investment grade credit rating to secure funding for the strategy's ambitious investment programme.

Target group	Ratio	Year 2026
Profitability	Return on equity (ROE) excluding Distribution*	> 7%
Capital structure	Adjusted FFO / Net Debt ratio	> 25%
Dividend policy	Dividend payout ratio	> 64%
Other	Moody's credit rating	Maintain an investment grade credit rating

* The profitability of the regulated services provided by the Group is determined by the Public Utilities Commission. The most significant share in the Group's regulated services is the distribution service. When evaluating the fulfilment of the ROE target, the Group's return indicator will be assessed, excluding the regulated return on the distribution service – ROE excluding distribution.

More information on the 2023 targets and the new strategy can be found in the Sustainability Report 2023.

Financial Risk Management

The activities of Latvenergo Group and Latvenergo AS are exposed to a variety of financial risks: market risks, credit risk, and liquidity and cash flow risk. Latvenergo Group's Financial Risk Management Policy focuses on eliminating the potential adverse effects from such risks on financial performance. In the framework of financial risk management, Latvenergo Group and Latvenergo AS use various financial risk controls and hedging to reduce certain risk exposures.

a) Market risks

I) Price risk

Price risk might negatively affect the financial results of Latvenergo Group and Latvenergo AS due to falling revenue from generation and a mismatch between short run electricity production costs or electricity and natural gas purchase costs at floating market prices and retail sales at fixed prices.

The main sources of Latvenergo Group's and Latvenergo AS exposure to price risk are the floating market prices of electricity on the Nord Pool power exchange in Baltic bidding areas and fluctuations in natural gas price procured for CHPPs' fuel and retail purposes. The financial results of the Group and the Parent Company may be negatively affected by the volatility of the electricity market price, which depends on the weather conditions in the Nordic countries, global prices of resources, and the influence

of local factors (water availability and ambient air temperature) on electricity generation opportunities. Movement in natural gas price due to changing demand–supply factors and seasonal fluctuations may have a negative effect on the difference between fixed retail electricity prices in contracts with customers and variable generation costs at CHPPs.

The Latvenergo Group and Latvenergo AS enter into long–term fixed price customer contracts for hedging price risk of electricity generation. In order to hedge the price risk caused by mismatch between retail sales at fixed prices and floating market prices, the Latvenergo Group and Latvenergo AS use electricity and natural gas financial derivatives, and enter into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – price has been fixed for 60-65% of projected electricity output prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs. The price fixing level reached 71% of the annual production volume by the end of December.

II) Interest rate risk

Latvenergo Group's and Latvenergo AS interest rate risk mainly arises from non–current borrowings at variable interest rates. They expose the Group and the Parent Company to the risk that finance costs might increase significantly when the reference rate surges. The borrowings from financial institutions have a variable interest rate, comprising 6–month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining more than 35% of its borrowings as fixed interest rate borrowings (considering the effect of interest rate swaps and issued bonds) with a duration of 1–4 years. Considering the effect of interest rate swaps and bonds with a fixed interest rate, 46% of the Group's and 47% of the Parent Company's non–current borrowings had a fixed interest rate with an average duration of 2.1 years for the Group and 2.1 years for the parent Company as of 31 December 2023.

III) Currency risk

Foreign currency exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency other than the functional currency, which is the EUR.

To manage the foreign currency exchange risk for liabilities arising from natural gas purchases, the Financial Risk Management Policy envisages use of foreign exchange forward contracts. During 2023, five EUR/USD forward foreign currencies exchange contracts in the amount of USD 153.5 thousand with an execution date of 22 February and 26 April 2023 were fulfilled, concluded in 2022 in order to limit the currency risk of the payments in US dollars planned in the natural gas purchase agreement concluded in 2022. As of 31 December 2023 there were no outstanding foreign exchange forward contracts.

As of 31 December 2023, all borrowings of Latvenergo Group and Latvenergo AS are denominated in euros, and during the reporting year, there was no substantial exposure to foreign currency risk as regards the Group's and the Parent Company's investments in non–current or current assets.

b) Credit risk

Credit risk is managed at the Latvenergo Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, and receivables. Credit risk exposure of receivables is limited due to the large number of Group customers as there is no significant concentration of credit risk with any single counterparty or group of counterparties with similar characteristics.

Credit risk related to cash and deposits with banks is managed by balancing the placement of financial assets in order to simultaneously choose the best offers and reduce the probability of incurrence of loss. No credit limits were exceeded during the reporting year, and the management does not expect any losses due to the occurrence of credit risk.

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short–term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 31 December 2023, Latvenergo Group's liquid assets (cash and cash equivalents – short–term deposits up to 3 months) reached EUR 118.5 million (31 December 2022: EUR 112.8 million), while the Latvenergo AS liquid assets reached EUR 107.2 million (31/12/2022: EUR 100.3 million).

The Group and the Parent Company continuously monitor cash flow and liquidity forecasts, which comprise the undrawn borrowing facilities and cash and cash equivalents.

Events after the reporting year

The Ministry of Economics and Latvenergo AS were ordered to draw up an assessment on the most optimal solution for the structure of Latvenergo AS Group, considering the possibility of merging the existing and planned renewable energy projects of Latvenergo AS Group into one subsidiary.

Latvijas valsts meži AS was permitted to terminate its participation in Latvijas vēja parki SIA, the joint venture of Latvijas valsts meži AS and Latvenergo AS, by alienating all shares (20%) of Latvijas vēja parki SIA owned by Latvijas valsts meži AS for the benefit of Latvenergo AS.

In order to implement the installation of the total new RES (RES - renewable energy sources) capacity of 2,300 MW provided for by the strategy of Latvenergo Group, the Ministry of Economics was instructed to draw up a draft order on the authorisation for determining a different amount of dividends to be paid by Latvenergo AS to the State budget as of 2027 in the medium-term Latvenergo AS Strategy for 2026–2030, bringing the amount of dividends to be paid by Latvenergo AS to the State budget in line with the average dividend payout ratio of European energy sector market participants and to submit the aforementioned draft order to the Cabinet of Ministers for consideration.

All other significant events that would materially affect the financial position, financial performance or cash flows of the Latvenergo Group and Latvenergo AS after the reporting year are disclosed in Note 31 of the Group's and the Parent Company's Financial Statements.

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS, the Group consolidated financial statements and the Company financial statements for the year ended 31 December 2023 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and in all material aspects present a true and fair view of the financial position, profit and loss and cash flows of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

Profit distribution

According to the Law "On state budget for 2024 and budgetary framework for 2024, 2025 and 2026" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2024 (for the reporting year 2023) is 64% of the profit for the reporting year, but not less than EUR 199.3 million, corporate income tax calculated and paid in accordance with the laws and regulations. The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

This document is signed with a secure digital signature and contains a time stamp

Mārtiņš Čakste
Chairman of the Management Board of Latvenergo AS

Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Revenue	6	2,034,425	1,841,801	1,397,179	1,231,015
Other income	7	31,896	31,174	28,343	28,690
Raw materials and consumables	8	(1,248,320)	(1,333,708)	(846,986)	(891,138)
Personnel expenses	9	(141,882)	(116,993)	(63,366)	(52,812)
Other operating expenses	10	(74,350)	(62,065)	(41,875)	(35,430)
EBITDA*		**601,769**	**360,209**	**473,295**	**280,325**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a,14 a, 15	(197,173)	(166,248)	(111,028)	(81,513)
Operating profit		**404,596**	**193,961**	**362,267**	**198,812**
Finance income	11	9,226	1,414	24,747	10,767
Finance costs	11	(25,293)	(10,830)	(25,278)	(10,802)
Dividends from subsidiaries	16	–	–	924	10,585
Profit before tax		**388,529**	**184,545**	**362,660**	**209,362**
Income tax	12	(37,612)	(671)	(31,099)	–
Profit for the year		**350,917**	**183,874**	**331,561**	**209,362**
Profit attributable to:					
- Equity holder of the Parent Company	21 c	349,749	183,443	331,561	209,362
- Non–controlling interests		1,168	431	–	–
Basic earnings per share (in euros)	21 c	0.443	0.232	0.420	0.265
Diluted earnings per share (in euros)	21 c	0.443	0.232	0.420	0.265

* See Alternative Performance Measures in Note 2 for the definition of this Alternative Performance Measure

The notes on pages 136 to 181 are an integral part of these Financial Statements

Statement of Comprehensive Income

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Profit for the year		**350,917**	**183,874**	**331,561**	**209,362**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods, net of tax:					
- gains / (losses) from change in hedge reserve	21 a, 24	99,380	(109,483)	99,380	(109,483)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		**99,380**	**(109,483)**	**99,380**	**(109,483)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax:					
- gains on revaluation of non–current assets	14 a, 21 a	312,061	227,695	312,061	227,695
- (losses) / gains on remeasurement on defined benefit plan	21 a, 27	(2,709)	645	(1,144)	210
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**309,352**	**228,340**	**310,917**	**227,905**
Other comprehensive income for the year		**408,732**	**118,857**	**410,297**	**118,422**
TOTAL comprehensive income for the year		**759,649**	**302,731**	**741,858**	**327,784**
Attributable to:					
- Equity holder of the Parent Company		758,481	302,300	741,858	327,784
- Non–controlling interests		1,168	431	–	–

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Mārtiņš Čakste
Chairman of the Management Board of Latvenergo AS

Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Liāna Ķeldere
Accounting director of Latvenergo AS

Statement of Financial Position

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
ASSETS					
Non-current assets					
Intangible assets	13 a	57,326	51,789	21,647	18,397
Property, plant and equipment	14 a	3,301,051	3,005,370	1,505,411	1,242,660
Right–of–use assets	15	11,219	10,526	4,710	5,066
Investment property	14 b	2,309	2,297	2,261	2,222
Non-current financial investments	16	42	40	671,720	647,320
Non–current loans to related parties	29 e	863	–	463,030	510,468
Other non-current receivables	18 c	447	482	447	482
Deferred income tax assets	12	800	–	–	–
Derivative financial instruments	24	3,210	8,131	3,210	8,131
Total non-current assets		**3,377,267**	**3,078,635**	**2,672,436**	**2,434,746**
Current assets					
Inventories	17	183,798	295,638	146,045	261,586
Current intangible assets	13 b	23,051	31,664	23,051	31,664
Receivables from contracts with customers	18 a	224,922	314,109	161,674	233,192
Other current receivables	18 b, c	50,081	17,521	52,280	36,451
Deferred expenses		2,388	2,408	2,156	2,191
Current loans to related parties	29 e	–	–	161,268	202,840
Derivative financial instruments	24	7,959	2,598	7,959	2,598
Other current financial investments	19	140,000	–	140,000	–
Cash and cash equivalents	19	118,456	112,757	107,163	100,268
Total current assets		**750,655**	**776,695**	**801,596**	**870,790**
TOTAL ASSETS		**4,127,922**	**3,855,330**	**3,474,032**	**3,305,536**

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
EQUITY AND LIABILITIES					
EQUITY					
Share capital	20	790,368	790,368	790,368	790,368
Reserves	21 a	1,681,852	1,282,683	1,320,419	910,683
Retained earnings		483,016	276,242	497,227	317,643
Equity attributable to equity holder of the Parent Company		**2,955,236**	**2,349,293**	**2,608,014**	**2,018,694**
Non-controlling interests		7,844	7,126	–	–
Total equity		**2,963,080**	**2,356,419**	**2,608,014**	**2,018,694**
LIABILITIES					
Non-current liabilities					
Borrowings	23	536,316	574,754	527,082	561,551
Lease liabilities	15	9,015	8,648	3,607	4,206
Deferred income tax liabilities	12	5,475	667	–	–
Provisions	27	18,240	15,566	8,565	7,552
Deferred income from contracts with customers	28 I) a	138,506	133,116	668	735
Other deferred income	28 I) b, c	112,509	121,180	94,263	115,798
Other non-current liabilities		–	265	–	–
Total non-current liabilities		**820,061**	**854,196**	**634,185**	**689,842**
Current liabilities					
Borrowings	23	93,380	301,164	91,097	302,387
Lease liabilities	15	2,391	2,027	1,217	960
Trade and other payables	26	202,733	165,274	115,300	133,768
Deferred income from contracts with customers	28 II) a	21,304	29,330	67	13,714
Other deferred income	28 II) b, c	24,973	24,901	24,152	24,152
Derivative financial instruments	24	–	122,019	–	122,019
Total current liabilities		**344,781**	**644,715**	**231,833**	**597,000**
Total liabilities		**1,164,842**	**1,498,911**	**866,018**	**1,286,842**
TOTAL EQUITY AND LIABILITIES		**4,127,922**	**3,855,330**	**3,474,032**	**3,305,536**

The notes on pages 136 to 181 are an integral part of these Financial Statements

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Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Liāna Ķeldere
Accounting director of Latvenergo AS

Statement of Changes in Equity

EUR'000

	Notes	Group						Parent Company			
		Attributable to equity holder of the Parent Company						Attributable to equity holder of the Parent Company			
		Share capital	Reserves	Retained earnings	Total	Non-controlling interests	TOTAL	Share capital	Reserves	Retained earnings	TOTAL
As of 31 December 2021		**790,368**	**1,175,355**	**151,430**	**2,117,153**	**6,295**	**2,123,448**	**790,368**	**795,731**	**174,971**	**1,761,070**
Non-controlling interests' contributions to share capital		–	–	–	**–**	400	**400**	–	–	–	**–**
Dividends for 2021	21 b	–	–	(70,160)	**(70,160)**	–	**(70,160)**	–	–	(70,160)	**(70,160)**
Disposal of non-current assets revaluation reserve	21 a	–	(11,529)	11,529	**–**	–	**–**	–	(3,470)	3,470	**–**
Total transactions with owners and other changes in equity		**–**	**(11,529)**	**(58,631)**	**(70,160)**	**400**	**(69,760)**	**–**	**(3,470)**	**(66,690)**	**(70,160)**
Profit for the year		–	–	183,443	**183,443**	431	**183,874**	–	–	209,362	**209,362**
Other comprehensive income for the year	21 a	–	118,857	–	**118,857**	–	**118,857**	–	118,422	–	**118,422**
Total comprehensive income for the year		**–**	**118,857**	**183,443**	**302,300**	**431**	**302,731**	**–**	**118,422**	**209,362**	**327,784**
As of 31 December 2022		**790,368**	**1,282,683**	**276,242**	**2,349,293**	**7,126**	**2,356,419**	**790,368**	**910,683**	**317,643**	**2,018,694**
Dividends for 2022	21 b	–	–	(152,538)	**(152,538)**	(450)	**(152,988)**	–	–	(152,538)	**(152,538)**
Formed other reserves	21 a	–	50	(50)	**–**	–	**–**	–	–	–	**–**
Disposal of non-current assets revaluation reserve	21 a	–	(9,613)	9,613	**–**	–	**–**	–	(561)	561	**–**
Total transactions with owners and other changes in equity		**–**	**(9,563)**	**(142,975)**	**(152,538)**	**(450)**	**(152,988)**	**–**	**(561)**	**(151,977)**	**(152,538)**
Profit for the year		–	–	349,749	**349,749**	1,168	**350,917**	–	–	331,561	**331,561**
Other comprehensive income for the year	21 a	–	408,732	–	**408,732**	–	**408,732**	–	410,297	–	**410,297**
Total comprehensive income for the year		**–**	**408,732**	**349,749**	**758,481**	**1,168**	**759,649**	**–**	**410,297**	**331,561**	**741,858**
As of 31 December 2023		**790,368**	**1,681,852**	**483,016**	**2,955,236**	**7,844**	**2,963,080**	**790,368**	**1,320,419**	**497,227**	**2,608,014**

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Liāna Ķeldere
Accounting director of Latvenergo AS

Statement of Cash Flows

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Cash flows from operating activities					
Profit before tax		**388,529**	**184,545**	**362,660**	**209,362**
Adjustments:					
- Depreciation, amortisation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a, 14 a, 15	197,173	166,248	111,028	81,513
- Loss / (income) from disposal of non-current assets	2	6,629	3,984	(373)	(2,485)
- Interest expense	11	24,961	10,493	24,981	10,508
- Interest income	11	(6,149)	(27)	(21,670)	(9,380)
- Fair value (gain) / loss on derivative financial instruments	8	(23,079)	9,022	(23,079)	8,753
- Dividends from subsidiaries	16	–	–	(924)	(10,585)
- (Decrease) / increase in provisions	27	(35)	480	(130)	222
- Unrealised loss on currency translation differences	11	4	29	–	5
Interest paid		(23,638)	(9,098)	(23,402)	(8,909)
Interest paid on leases	15	(114)	(88)	(37)	(26)
Interest received		5,506	27	5,270	27
Paid corporate income tax		(32,119)	(2,648)	(31,099)	–
Funds from operations (FFO)*		**537,668**	**362,967**	**403,225**	**279,005**
Decrease / (increase) in inventories and current intangible assets	2	120,445	(110,925)	124,155	(97,717)
Decrease / (increase) in receivables from contracts with customers and other receivables		57,353	(89,847)	76,230	(95,101)
Increase in other current financial investments	19	(140,000)	–	(140,000)	–
Increase / (decrease) in trade and other liabilities		216	(35,696)	(57,714)	(49,662)
Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net	29 e	–	–	17,348	221,894
Net cash flows generated from operating activities		**575,682**	**126,499**	**423,244**	**258,419**

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Cash flows from investing activities					
Loans issued to related parties	29 e	(863)	–	–	(225,482)
Repayment of loans to related parties	29 e	–	–	68,272	–
Purchase of intangible assets and PPE	2	(181,515)	(118,210)	(61,263)	(28,570)
Dividends received from subsidiaries	16	–	–	924	156
Investments in subsidiaries	16	–	–	(28,399)	(2,102)
Net cash flows used in investing activities		**(182,378)**	**(118,210)**	**(20,466)**	**(255,998)**
Cash flows from financing activities					
Repayment of issued debt securities (bonds)	23	–	(100,000)	–	(100,000)
Proceeds on issued debt securities (bonds)	23	50,000	100,000	50,000	100,000
Proceeds on borrowings from financial institutions	23	2,000	207,846	–	200,013
Repayment of borrowings from financial institutions	23	(301,090)	(129,118)	(295,276)	(123,801)
Received financing from European Union		16,245	4	2,625	–
Lease payments	15	(1,772)	(1,583)	(694)	(623)
Proceeds from non-controlling interests' contributions to share capital		–	400	–	–
Dividends paid to non-controlling interests	21 b	(450)	–	–	–
Dividends paid to equity holder of the Parent Company	21 b	(152,538)	(70,160)	(152,538)	(70,160)
Net cash flows (used in) / generated from financing activities		**(387,605)**	**7,389**	**(395,883)**	**5,429**
Net increase in cash and cash equivalents		**5,699**	**15,678**	**6,895**	**7,850**
Cash and cash equivalents at the beginning of the year	19	112,757	97,079	100,268	92,418
Cash and cash equivalents at the end of the year	**19**	**118,456**	**112,757**	**107,163**	**100,268**

* See Alternative Performance Measures in Note 2 for the definition of this Alternative Performance Measure

The notes on pages 136 to 181 are an integral part of these Financial Statements

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Liāna Ķeldere
Accounting director of Latvenergo AS

Notes to the Financial Statements

1. Corporate information

All shares of public limited company Latvenergo, parent company of Latvenergo Group (hereinafter – Latvenergo AS or the Parent Company) are owned by the Republic of Latvia and are held by the Ministry of Economics of the Republic of Latvia. The registered address of the Parent Company is 12 Pulkveža Brieža Street, Riga, Latvia, LV–1230. According to the Energy Law of the Republic of Latvia, Latvenergo AS is designated as a national economy object of State importance and, therefore, is not subject to privatisation.

Latvenergo AS is power supply utility engaged in electricity and thermal energy generation, as well as sales of electricity and natural gas. Latvenergo AS is one of the largest corporate entities in the Baltics.

Subsidiaries included in Latvenergo Group (hereinafter – the Group), participating interest in subsidiaries, associated companies and other non–current financial investments are disclosed in Note 16.

Latvenergo AS and its subsidiaries Sadales tīkls AS and Enerģijas publiskais tirgotājs SIA are also shareholders with 48.15% interest held in company Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS holds 46.30% of interest) that manages a defined–contribution corporate pension plan in Latvia.

The Management Board of Latvenergo AS:

Since 26 January 2024 the Management Board of Latvenergo AS was comprised of the following members: Mārtiņš Čakste (Chairman of the Board), Dmitrijs Juskovecs, Guntars Baļčūns, Harijs Teteris and Ilvija Boreiko.

Since 3 January 2022 till 26 January 2024 the Management Board of Latvenergo AS was comprised of the following members: Mārtiņš Čakste (Chairman of the Board), Dmitrijs Juskovecs, Guntars Baļčūns, Harijs Teteris and Kaspars Cikmačs until 24 September 2023.

The Supervisory Board of Latvenergo AS:

Since 1 March 2024 the Supervisory Board of Latvenergo AS was comprised of the following members: Aigars Laizāns (Chairman since 8 March 2024), Kaspars Rokens (Deputy Chairman), Toms Siliņš and Gundars Ruža.

Since 11 June 2020 till 1 March 2024 the Supervisory Board of Latvenergo AS was comprised of the following members: Ivars Golsts (Chairman), Kaspars Rokens (Deputy Chairman), Aigars Laizāns, Toms Siliņš and Gundars Ruža.

The Supervisory body – Audit Committee:

Since 3 February 2021 and re-elected for a term of three years from 3 February 2024, Audit Committee was comprised of the following members: Svens Dinsdorfs, Torbens Pedersens (Torben Pedersen), Ilvija Grūba, Toms Siliņš and Gundars Ruža.

The Latvenergo Group's and Latvenergo AS auditor is the certified audit company Ernst & Young Baltic SIA (40003593454) (licence No. 17) and certified auditor in charge is Diāna Krišjāne, certificate No. 124.

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2023 on 23 April 2024. The Financial Statements are subject to Shareholder's approval in the Shareholder's Meeting.

2. Summary of material accounting policies

The principal accounting policies applied in the preparation of these Financial Statements as a whole are set out below, while remaining accounting policies are described in the notes to which they relate. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Financial Statements of the Latvenergo Group and Latvenergo AS are prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union (IFRS). Due to the European Union's endorsement procedure, the standards and interpretations not approved for use in the European Union are also presented in this note as they may have impact on the Financial Statements in the following periods if endorsed.

The Financial Statements are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments and non-current financial investments) measured at fair value and certain property, plant and equipment carried at revalued amounts as disclosed in the accounting policies presented below.

The Financial Statements for 2023 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ended 31 December 2023 and comparative information for 2022. Where it has been necessary, comparatives for 2022 are reclassified using the same principles applied for preparation of the Financial Statements for 2023.

The Group and the Parent Company has reclassified individual positions in the statement of cash flows for the year 2022 for CO_2 emission rights, presenting changes in current intangible assets in net cash flows from operating activities.

Reclassification of individual positions in the Statement of Cash Flows for the year ended 31 December 2022:

EUR'000

	Group			Parent Company		
	2022 before reclassification	Reclassification	2022 after reclassification	2022 before reclassification	Reclassification	2022 after reclassification
Cash flows from operating activities						
- Loss from disposal of non-current assets	43,229	(39,245)	3,984	36,760	(39,245)	(2,485)
Funds from operations (FFO)	**402,212**	**(39,245)**	**362,967**	**318,250**	**(39,245)**	**279,005**
Decrease / (increase) in inventories and current intangible assets	(103,526)	(7,399)	(110,925)	(90,318)	(7,399)	(97,717)
Net cash flows from operating activities	**173,143**	**(46,644)**	**126,499**	**305,063**	**(46,644)**	**258,419**
Cash flows from investing activities						
Purchase of intangible assets and PPE	(164,854)	46,644	(118,210)	(75,214)	46,644	(28,570)
Net cash flows used in investing activities	**(164,854)**	**46,644**	**(118,210)**	**(302,642)**	**46,644**	**(255,998)**

The Latvenergo Group's and Latvenergo AS Financial Statements have been prepared in euros (EUR) currency and all amounts shown in these Financial Statements except non-monetary items are presented in thousands of EUR (EUR'000).

All figures, unless stated otherwise are rounded to the nearest thousand. Certain monetary amounts, percentages and other figures included in this report are subject to rounding adjustments. On occasion, therefore, amounts shown in tables may not be the arithmetic accumulation of the figures that precede them, and figures expressed as percentages in the text and in tables may not total 100 percent.

The preparation of the Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

Alternative Performance Measures

In order to ensure a fair presentation of the Group's and the Parent Company's operations, the Group and the Parent Company uses Alternative Performance Measures that are not defined in IFRS or in the Accounting Law of the Republic of Latvia. The Alternative Performance Measures are described below, including their definitions and how they are calculated.

The Group and the Parent Company believes that these measures provide valuable supplementary information for stakeholders and the management. These financial measures should not be seen as a substitute for measures that are defined according to IFRS and these are not comparable with measures used by other companies.

EBITDA – operating profit before depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets (Earnings Before Interest, Tax, Depreciation and Amortisation)

Funds from operations (FFO) = Net cash flows from operating activities – changes in inventories and current intangible assets – changes in receivables from contracts with customers and other receivables – changes in other current financial investments – changes in trade and other liabilities – Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net.

Capital expenditure – additions of property, plant and equipment, intangible assets and investment properties, including assets from the acquisition of subsidiaries.

European Single Electronic Format (ESEF) reporting

The Group and the Parent Company are required to file annual report in the European Single Electronic Format (ESEF) using the XHTML format and to tag the consolidated financial statements including notes using Inline eXtensible Business Reporting Language (iXBRL). The prepared financial statements comply with 2023 taxonomy. Where a financial statement line item or text block is not defined in the ESEF taxonomy, an extension to the taxonomy has been created.

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

a) Standards issued and that are effective, approved by the European Union, and are relevant for the Group's and the Parent Company's operations

The adopted policies correspond to the accounting policies of the previous financial year, except for the following IFRS amendments, which The Group and the Parent Company has adopted starting from 1 January 2023:

- **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. 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. The Group's and the Parent Company's management reviewed its accounting policies disclosure and made updates to the information disclosed in Notes of the 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 1 January 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. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Group's and the Parent Company's management assessed that these amendments didn't have an impact on the accounting policies and the disclosure of accounting estimates in the financial statements.

- **IAS 12 'Income Taxes' and its amendments related to International Tax Reform - Pillar Two Model Rules (Amendments)**

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

Article 50 of global minimum tax Directive (EU) 2022/2523 of 14 December 2022 allows member states that have 12 (twelve) or fewer ultimate parent entities (UPEs) of in-scope multinational enterprises (MNEs) groups to hold off on applying the Income Inclusion Rule (IIR) and Undertaxed Profit Rule (UTPR) for 6 (six) consecutive fiscal years starting on December 31. The Ministry of Finance of Republic of Latvia postponed the implementation of the Pillar Two rules by 6 (six) years starting from 31 December 2023 as allowed by exception. Considering the status of endorsement, the Group and the Parent Company has not identified material impact on its' financial statements.

b) Standards and its amendments issued and approved by the European Union, but not yet effective and are not applicable before the date of entry into force, but are relevant for the Group's and the Parent Company's operations

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

The amendments become effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted, and amendments must be applied prospectively in accordance with IAS 8. The purpose of the amendments is to clarify IAS 1 principles for classifying liabilities as current or non-current. The Group and the Parent Company will assess the impact of these amendments on the classification of their liabilities and financial statements and does not expect that they may have a material effect on the Group's and the Parent Company's financial position.

c) Standards and its amendments which have not yet issued, not yet approved by the European Union and not relevant for the Group's and the Parent Company's operations

- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)
- IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)
- Amendment in 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

d) Standards issued and which became effective, approved by the European Union, and which are not relevant for the Company's operations

- IFRS 17 Insurance Contracts
- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)
- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)

Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries' financial reports are consolidated from the date on which control is transferred to the Parent Company and are no longer consolidated from the date when control ceases. General information about entities included in consolidation and its primary business activities are disclosed in Note 16.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed to the Statement of Profit or Loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Intercompany transactions, balances, and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Transactions with non–controlling interests and owners

The Group treats transactions with non–controlling interests as transactions with equity owners of the economic entity. Changes in a Parent's ownership interest in a subsidiary that do not result in the Parent losing control over the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners).

Foreign currency translation

a) Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Group's entity operates ("the functional currency"). The Financial Statements have been prepared in euros (EUR), which is the Parent Company's functional currency, and presented in thousands of EUR. All figures, unless stated otherwise are rounded to the nearest thousand.

b) Transactions and balances

All transactions denominated in foreign currencies are translated into functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rate at the last day of the reporting year. The resulting gain or loss is charged to the Statement of Profit or Loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Financial assets and liabilities

Financial Assets

The Group and the Parent Company classify its financial assets under IFRS 9 in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.

The Group and the Parent Company reclassify debt investments only when their business model for managing these assets changes.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Parent Company's business model for managing the asset and the cash flow characteristics of the asset. The Group and the Parent Company classify all of their debt instruments:

- at *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are subsequently measured at amortised cost using the effective interest (EIR) method and are subject to impairment. Any gain or loss arising on de-recognition is recognised directly in profit or loss. Impairment losses are presented as separate item 'Expected credit losses (including reversals) on financial instruments' in the statement of profit or loss position 'Other operating expenses' (Note 10).

Equity instruments

The Group and the Parent Company subsequently measure all equity investments at fair value. Dividends from such investments continue to be recognised in profit or loss when the Group's and the Parent Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income (FVOCI) or financial instruments at fair value through profit or loss (FVPL) are not reported separately from other changes in fair value.

Financial Liabilities

Financial liabilities are classified as measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains or losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

Impairment

The Group and the Parent Company assess on a forward-looking basis the expected credit loss associated with their debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Rules for estimating and recognising impairment losses are described in Note 4 b.

The Group and the Parent Company have applied two expected credit loss models: counterparty model and portfolio model.

Counterparty model is used on individual contract basis for deposits, investments in State Treasury bonds, loans to subsidiaries and cash and cash equivalents. The expected credit losses according to this model for those are based on assessment of the individual counterparty's risk of default based on Moody's 12 months corporate default and recovery rates if no significant increase in credit risk is identified. The circumstances indicating a significant increase in credit risk is significant increase in Moody's default and recovery rates (by 1 percentage point) and counterpart's inability to meet payment terms (overdue 30 days or more, insolvency or bankruptcy, or initiated similar legal proceedings and other indications on inability to pay). If significant increase in credit risk is identified, calculated lifetime expected credit loss is recognised.

For estimation of expected credit loss for unsettled revenue on mandatory procurement public service obligation (PSO) fee, individually significant other receivables and other receivables of energy industry companies and related parties the Group and the Parent Company apply the simplified approach and record lifetime expected losses based on corporate default and recovery rates.

Portfolio model is used for trade receivables by grouping together receivables with similar risk characteristics and the days past due and defined for basic business activities. For trade receivables grouped by portfolio model the Group and the Parent Company apply the simplified approach and record lifetime expected losses on receivables based on historically observed default rates, adjusted for forward-looking estimates, if any significant exists.

Derivative financial instruments

Derivative financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The Group and the Parent Company have decided to continue to apply hedge accounting requirements of IAS 39. Accounting principles for derivative financial instruments are disclosed in Note 24.

3. Financial risk management

3.1. Financial risk factors

The Group's and the Parent Company's activities expose them to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's and the Parent Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's and the Parent Company's financial performance. The Group and the Parent Company use derivative financial instruments to hedge certain risk exposures.

Risk management (except for price risk) is carried out by the Parent Company's Treasury department (the Group Treasury) according to the Financial Risk Management Policy approved by the Parent Company's Management Board. The Group Treasury identifies, evaluates and hedges financial risks in close co–operation with the Group's operating units / subsidiaries. The Parent Company's Management Board by approving the Financial Risk Management Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, foreign exchange risk, liquidity risk, and credit risk, use of financial instruments and investment of excess liquidity. Price risk management is carried out by the Parent Company's Electricity Trading department according to Electricity Wholesale Regulation approved by the Parent Company's Management Board.

Financial assets that are exposed to financial risks disclosed in the table below by measurement categories:

EUR'000

	Notes	Group			Parent Company		
		Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss
Financial assets as of 31 December 2023							
Receivables from contracts with customers	18 a	224,922	–	–	161,674	–	–
Other current financial receivables	18 b	47,972	–	–	51,225	–	–
Loans to related parties	29 e	863	–	–	624,298	–	–
Derivative financial instruments	24 l	–	5,297	5,872	–	5,297	5,872
Cash and cash equivalents	19	118,456	–	–	107,163	–	–
		392,213	**5,297**	**5,872**	**944,360**	**5,297**	**5,872**
Financial assets as of 31 December 2022							
Receivables from contracts with customers	18 a	314,109	–	–	233,192	–	–
Other current financial receivables	18 b	17,089	–	–	36,253	–	–
Loans to related parties	29 e	–	–	–	713,308	–	–
Derivative financial instruments	24 l	–	450	10,279	–	450	10,279
Cash and cash equivalents	19	112,757	–	–	100,268	–	–
		443,955	**450**	**10,279**	**1,083,021**	**450**	**10,279**

Financial liabilities that are exposed to financial risks disclosed in the table below by measurement categories:

EUR'000

	Notes	Group			Parent Company		
		Financial liabilities at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss
Financial liabilities as of 31 December 2023							
Borrowings	23	629,696	–	–	618,179	–	–
Lease liabilities	15	11,406	–	–	4,824	–	–
Trade and other financial current payables	26	136,014	–	–	87,078	–	–
		777,116	**–**	**–**	**710,081**	**–**	**–**
Financial liabilities as of 31 December 2022							
Borrowings	23	875,918	–	–	863,938	–	–
Derivative financial instruments	24 l	–	99,154	22,865	–	99,154	22,865
Lease liabilities	15	10,675	–	–	5,166	–	–
Trade and other financial current payables	26	107,811	–	–	99,902	–	–
		994,404	**99,154**	**22,865**	**969,006**	**99,154**	**22,865**

a) Market risk

I) Foreign currencies exchange risk

As of 31 December 2023 and 31 December 2022 the Group and the Parent Company had borrowings denominated only in euros (Note 23). Their revenues and most of the financial assets and liabilities were denominated in euros. Accordingly, neither the Group nor the Parent Company were subject to a significant foreign currencies exchange risk.

Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the Group's and the Parent Company's functional currency.

The Group's Treasury Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk.

During 2023, five EUR/USD forward foreign currencies exchange contracts in the amount of USD 153,5 thousand with an execution date of 22 February and 26 April 2023 were fulfilled, concluded in 2022 in order to limit the currency risk of the payments in USD planned in the natural gas purchase agreement concluded in 2022. As of 31 December 2023 there were no outstanding foreign exchange forward contracts.

II) Interest rate risk

As the Group and the Parent Company have significant floating interest–bearing assets and liabilities exposed to interest rate risk, the Group's, and the Parent Company's financial income and operating cash flows are substantially dependent on changes in market interest rates.

During 2023 if euro interest rates had been 50 basis points higher with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been EUR 737 thousand higher (2022: EUR 687 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 715 thousand higher (2022: EUR 678 thousand).

The Group's and the Parent Company's cash flow interest rate risk mainly arises from long–term borrowings at variable rates. They expose the Group and the Parent Company to a risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain more than 35% of its borrowings as fixed interest rates borrowings (considering the effect of interest rate swaps and issued bonds) with duration between 1–4 years.

The Group and the Parent Company analyse their interest rate risk exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group and the Parent Company calculate the impact on profit and loss as well as on cash flows of a defined interest rate shift.

Generally, the Group and the Parent Company raise long–term borrowings from financial institutions at floating rates and based on the various scenarios, the Group and the Parent Company manage their cash flow interest rate risk by using floating–to–fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Thereby fixed rates are obtained that are lower than those available if the Group and the Parent Company borrowed at fixed rates directly. Under the interest rate swaps, the Group and the Parent Company agree with other parties to exchange, at specified intervals (primarily semi–annually), the difference between fixed contract rates and floating–rate interest amounts calculated by reference to the agreed notional amounts.

To hedge cash flow interest rate risk, the Group and the Parent Company have entered into interest rate swap agreements with total notional amount of EUR 118 million (2022: EUR 133 million) (Note 24 II). 46 % of the Group's and 47 % the Parent Company's long-term borrowings as of 31 December 2023 (31/12/2022: 36 % and 36 % respectively) had fixed interest rate (considering the effect of the interest rate swaps) and average fixed rate duration was 2.1 years for the Group and 2.1 years for the Parent Company (2022: 1.8 years for the Group and 1.9 years the Parent Company).

If interest rates on euro denominated long-term borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher with all other variables held constant over the period until the next annual report, the Group's profit for the year and equity would have been EUR 1,914 thousand lower (over the next 12 months period after 31/12/2022: EUR 2,536 thousand), the Parent Company's profit for the year and equity would have been EUR 1,857 thousand lower (over the next 12 months period after 31/12/2022: EUR 2,474 thousand).

As of 31 December 2023, if short–term and long–term euro interest rates had been 50 basis points higher with all other variables held constant fair value of interest rate swaps would have been EUR 1,213 thousand higher (31/12/2022: EUR 1,623 thousand higher), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item. However, if short–term and long–term euro interest rates had been 50 basis points lower with all other variables held constant fair value of interest rate swaps would have been EUR 1,246 thousand lower (31/12/2022: EUR 1,671 thousand lower), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item and an ineffective portion recognised in the Statement of Profit or Loss.

III) Price risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The purchase and sale of goods produced, and the services provided by the Group and the Parent Company under the free market conditions, as well as the purchases of resources used in production is impacted by the price risk.

The most significant price risk is related to purchase of electricity and natural gas and usage of natural gas inventories. To hedge the risk related to changes in the price of electricity and natural gas the Parent Company during 2023 and 2022 has purchased electricity forward and natural gas forward contracts (Note 24 III, IV).

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments at fair value through profit or loss (FVPL), other financial assets carried at amortised cost, including outstanding receivables. Credit risk concentration in connection with receivables is limited due to broad range of the Group's and the Parent Company's customers. The Group and the Parent Company have no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics, except receivables from state for unsettled revenue on mandatory procurement PSO fee, loans to and receivables from subsidiaries and receivables from transmission system operator (Augstsprieguma tīkls AS). When assessing the credit risk for the loans to subsidiaries the Parent Company considers that Latvenergo AS has granted loans to subsidiaries in which it holds all the shares, and accordingly monitors the operations and financial situation of the subsidiaries (borrowers). Impairment loss has been deducted from gross amounts in the statement of financial position.

The maximum credit risk exposure related to financial assets (see table below) comprises of carrying amounts of cash and cash equivalents (Note 19), receivables from contracts with customers and other receivables (Note 18), derivative financial instruments (Note 24) and loans to related parties (Note 29 e).

Assessment of maximum possible exposure to credit risk

EUR'000

	Notes	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
Receivables from contracts with customers	18 a	224,922	314,109	161,674	233,192
Other current financial receivables	18 b	47,972	17,089	51,225	36,253
Loans to related parties	29 e	863	–	624,298	713,308
Cash and cash equivalents	19	118,456	112,757	107,163	100,268
Derivative financial instruments	24	11,169	10,729	11,169	10,729
		403,382	**454,684**	**955,529**	**1,093,750**

Under IFRS 9 the Group and the Parent Company measure the probability of default upon initial recognition of a receivable, except receivables from contracts with customers, and at each balance sheet date consider whether there has been a significant increase of credit risk since the initial recognition (see Notes 2 and 18 b).

For banks and financial institutions, independently rated parties with own or parent bank's minimum rating of investment grade are accepted. Otherwise, if there is no independent rating, management performs risk control to assess the credit quality of the financial counterparty, considering its financial position, past co–operation experience and other factors. After performed assessment individual credit limits are set based on internal ratings in accordance with principles set by the Financial Risk Management Policy. Depending on set credit limits, the cash held in one bank or financial institution cannot exceed fifty percent of total balance of cash. The basis for estimating the credit quality of individually significant financial assets not past due is credit ratings assigned by the rating agencies or, in their absence, the earlier credit behaviour of clients and other parties to the contract.

Credit risk related to cash and short–term deposits with banks is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses. Credit risk assessment related to receivables from contracts with customers and other financial receivables is described in Notes 4 b and 18.

The table below shows the balance of cash and cash equivalents by financial counterparties at the end of the reporting period:

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Investment level credit rating*	118,456	112,757	107,163	100,268
	118,456	**112,757**	**107,163**	**100,268**

* Investment level credit rating assigned to the parent companies of banks.

The table represents exposure to banks and financial counterparties broken down per rating class according to Moody's rating scale. The expected credit losses are not significant (below 1%) as the majority of cash and cash equivalents are held at banks and financial institutions belonging to financial groups with investment level credit rating and financial assets are considered to have good credit worthiness.

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Aa3	79,177	66,596	79,602	55,722
Baa1	17,344	43,644	16,461	43,154
Baa2	21,110	1,363	11,100	1,362
Baa3	825	1,154	–	30
	118,456	**112,757**	**107,163**	**100,268**

Set limits of credit exposure to the financial counterparties were not exceeded during the reporting period, and the Group's and the Parent Company's management do not expect any losses arising from a potential default of financial counterparty, as assessed that financial counterparties' credit risk are in Stage 1.

The Group and the Parent Company invest only in listed debt instruments with very low probability of default (State Treasury bonds).

c) Liquidity risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain sufficient amount of cash and cash equivalents (Note 19) and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks.

The table below analyses the Group's and the Parent Company's financial liabilities into relevant maturity groupings based on the settlement terms. The amounts disclosed in the table are the contractual undiscounted cash flows. Contractual undiscounted cash flows originated by the borrowings are calculated considering the actual interest rates at the end of the reporting period.

Liquidity analysis (contractual undiscounted gross cash flows)

EUR'000

	Notes	Group					Parent Company				
		Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
As of 31 December 2023											
Borrowings from financial institutions		105,333	119,825	158,276	99,286	**482,720**	102,632	117,339	152,874	96,710	**469,555**
Issued debt securities (bonds)		5,146	5,153	162,925	52,483	**225,707**	5,146	5,153	162,925	52,483	**225,707**
Lease liabilities*		2,455	2,336	3,539	4,337	**12,667**	1,284	1,281	1,461	1,193	**5,219**
Trade and other current financial payables	26	136,014	–	–	–	**136,014**	87,078	–	–	–	**87,078**
		248,948	**127,314**	**324,740**	**156,106**	**857,108**	**196,140**	**123,773**	**317,260**	**150,386**	**787,559**
As of 31 December 2022											
Borrowings from financial institutions		195,441	105,399	239,038	135,056	**674,934**	193,094	99,201	234,010	131,758	**658,063**
Issued debt securities (bonds)		2,670	2,670	108,010	50,137	**163,487**	2,670	2,670	108,010	50,137	**163,487**
Overdraft from financial institutions		119,478	–	–	–	**119,478**	119,478	–	–	–	**119,478**
Current borrowings from related parties		–	–	–	–	**–**	3,317	–	–	–	**3,317**
Derivative financial instruments		1,499	–	–	–	**1,499**	1,499	–	–	–	**1,499**
Lease liabilities*		2,023	1,798	2,939	4,581	**11,341**	876	866	1,847	1,554	**5,143**
Trade and other current financial payables	26	107,811	–	–	–	**107,811**	99,902	–	–	–	**99,902**
		428,922	**109,867**	**349,987**	**189,774**	**1,078,550**	**420,836**	**102,737**	**343,867**	**183,449**	**1,050,889**

* The carrying amount of the lease (discounted) for the Group is EUR 11,406 thousand and for the Parent Company EUR 4,824 thousand (31 December 2022: Group – EUR 10,675 thousand, Parent Company – EUR 5,166 thousand) (Note 15)

3.2. Capital management

The Group's and the Parent Company's objectives when managing capital are to safeguard the Group's and the Parent Company's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants (no breaches in 2023 nor 2022), which are linked to capital structure and are stipulated in the majority of loan agreements.

In order to maintain or adjust the capital structure, the Group and the Parent Company may evaluate the amount and timing of raising new debt due to investment programs or initiate new investments in the share capital by shareholder. To comply with loan covenants, the Group and the Parent Company monitor capital on the basis of the capital ratio.

This ratio is calculated by dividing the equity by the sum of total assets. According to the Group's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30% level.

The capital ratio figures were as follows:

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Total equity	2,963,080	2,356,419	2,608,014	2,018,694
Total assets	4,127,922	3,855,330	3,474,032	3,305,536
Capital Ratio	**72%**	**61%**	**75%**	**61%**

4. Critical accounting estimates and judgements

Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group and the Parent Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The Group and the Parent Company considers climate-related matters in estimates and assumptions, where appropriate. Latvenergo Group is making targeted investments to develop a portfolio of zero-emission and low-emission plants and to contribute to climate change mitigation. The Group implements technologies and measures that reduce, prevent or adapt to climate change. For more information please see Latvenergo Group Sustainability report, section Environmental Topics. Even though climate-related risks might not currently have a significant impact on measurement, useful lives of property, plant and equipment or impairment of non-financial assets, the Group is closely monitoring relevant changes and developments, such as new climate-related legislation.

The Management of the Group and the Parent Company has assessed the situation at the end of the reporting period and has determined that the events related to Russian military action in Ukraine and related sanctions against Russia and Belarus, have not created a significant negative impact on the Group's and the Parent Company's financial results, considering the nature and continuity of services provided by the Group and the Parent Company. The Management of the Group and the Parent

Company continuously takes the necessary actions to ensure both the continuation of the operations of the electricity distribution system operator and the availability of the services provided to customers, and the Management does not foresee significant operational disruptions in the future that could affect the continuation of the Group's and the Parent Company's operations and the valuation of assets and liabilities. The assumptions of the Group's and the Parent Company's Management are based on the information available at the date of approval of the financial statements. The impact of future events on the Group's and the Parent Company's future operations may differ from the current assessment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

The Group and the Parent Company make estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice. For the assets that are planned to be reconstructed, the remaining useful life is determined to be till the date of reconstruction. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. Values of fully depreciated property, plant and equipment are disclosed in Note 14 a. Quantifying an impact of potential changes in the useful lives is deemed impracticable, therefore sensitivity analysis is not disclosed.

II) Recoverable amount of property, plant and equipment

The Group and the Parent Company perform impairment tests for items of property, plant and equipment when the events and circumstances indicate a potential impairment. For the items of PPE are defined separate cash–generating units. According to these tests' assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance and repairs of the assets, as well as in respect of the inflation and discount rates. The estimates are based on the forecasts of the general economic environment, consumption and the estimated sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. Such factors as high maintenance and reconstruction costs, significant changes in expected discount rates, low load of several auxiliaries, comparatively substantial maintenance expense, limited facilities to sell property, plant and equipment in the market and other essential factors have an impact of decreasing of the recoverable amounts. Impairment charges recognised during the current reporting year are disclosed in Note 14 c.

III) Revaluation

Revaluation for part of the Group's and the Parent Company's property, plant and equipment are performed by independent, external and certified valuation experts by applying the depreciated replacement cost model or income method. Valuation has been performed according to international standards on property valuation, based on current use of property, plant and equipment that is estimated as the most effective and best use of these assets, also by determining the most appropriate valuation method for each group of revaluated property, plant and equipment. As a result of valuation, revaluated value is determined for hydropower plants and distribution system asset groups.

Using depreciated replacement cost model, depreciated replacement cost is the difference between the cost of replacement or renewal of similar asset at the time of revaluation and the accumulated loss of an asset's value that encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. Physical depreciation is determined proportionally to the age of the property, plant and equipment item. In assessment of property, plant and equipment items for which a reconstruction is planned in the near future additional functional depreciation is determined. Remaining useful lives of property, plant and equipment items after revaluation are revised according to estimated total depreciation.

Income method is based on the identification and analysis of generation capacity, forecasting of electricity trade prices, analysis of historical generation and operating expenses and forecast of future costs, capital expenditure, net cash flows, as well calculation of discount and capitalisation rates, based on market data.

PPE are revalued regularly but not less frequently than every five years. Revaluation may be performed more frequently if there are significant and sustained changes in the civil engineering construction costs, significant changes in expected discount rates or electricity prices. The revaluation process is initiated if the changes in the civil engineering construction costs exceeds 10% for two consecutive quarters since the previous revaluation, according to data of the Central Statistical Bureau, and are expected long lasting changes in the costs or due to significant and sustained changes (at least in year period) in discount rates and energy prices.

For detailed most recent revaluation results see Note 14 c.

b) Impairment of financial assets

The Group and the Parent Company have the following types of financial assets that are subject to the expected credit loss model:

- non–current and current loans to related parties
- other non–current receivables
- other financial investments (debt instruments)
- receivables from contracts with customers
- other current receivables
- cash and cash equivalents.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group and the Parent Company use judgement in making these assumptions and selecting the inputs to the calculation of expected credit losses, based on the Group's and the Parent Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The Group and the Parent Company apply two expected credit loss models: portfolio model and counterparty model (Note 2 and 18).

Using the portfolio model the Group and the Parent Company apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables of basic business activities (electricity, natural gas and heat and supporting services sales, IT and telecommunication services sales). To measure expected credit losses these receivables have been grouped based on shared credit risk characteristics and the days past due. The Group and the Parent Company therefore have concluded that the expected loss rates for these receivables are a reasonable

approximation of the credit risk exposure. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced. When calculating the expected credit losses, the current and forward-looking information on macroeconomic factors that affect the ability of customers to cover receivables has been taken into account, the Group and the Parent Company have assessed that the influence of these factors is not significant.

Counterparty model is used on individual contract basis for non–current and current loans to related parties, other financial investments and cash and cash equivalents. If no significant increase in credit risk is identified, the expected credit losses according to this model are based on assessment of the individual counterparty's or counterparty's industry risk of default and recovery rate assigned by Moody's credit rating agency for 12 months expected losses rates. The circumstances indicating a significant increase in credit risk is significant increase in Moody's default and recovery rates (by 1 percentage point) and counterparty's inability to meet payment terms (overdue 30 days or more). If significant increase in credit risk is identified, lifetime expected credit loss is calculated. The Group and the Parent Company considers a financial asset in default and lifetime expected credit losses are recognised when contractual payments are overdue 90 days or more, exists counterparty's insolvency or bankruptcy, initiated similar legal proceedings and other internal or external indications on inability to pay outstanding contractual amounts.

Counterparty model is also used for other non–current and current financial receivables, individually significant receivables, receivables of energy industry companies and related parties by calculating lifetime expected losses based on corporate default and recovery rates.

None of the Group's and the Parent Company's other financial investments measured at amortised cost (investments in State Treasury bonds) have significant increase in credit risk and therefore are considered to have low credit risk (Moody's credit rating – A3) and are in Stage 1, the loss allowance therefore was immaterial and wasn't recognised.

While cash and cash equivalents are also subject to the expected credit loss requirements of IFRS 9, the identified expected credit loss was immaterial, also considering fact that almost all of cash and cash equivalents are held in financial institutions with the credit rating grade of the institution or its parent bank at investment grade credit rating (mostly 'A level' credit rating) (Stage 1).

c) Estimates concerning revenue recognition from contracts with customers

I) Recognition of mandatory procurement PSO fees

The Group and the Parent Company have applied significant judgement for use of agent principle for recognition of mandatory procurement PSO fee (see also Note 6).

Management has considered the following indicators that the Group and the Parent Company are acting as agents because they:

- do not have control over the mandatory procurement PSO fee before transferring to the customer,
- have duty for including the mandatory procurement PSO fee in invoices issued to the end customers but are not entitled for revenues from mandatory procurement PSO fee. These fees are determined by state support mechanism and are covered by all electricity end-users in proportion to their electricity consumption,
- have no discretion in establishing mandatory procurement PSO fees price, either directly or indirectly.

II) Recognition of distribution system services and transmission system services (Parent Company)

Management has evaluated that it does not have influence and control over distribution system services and transmission system services, therefore the Parent Company acts as an agent. In particular, Management has considered the following indicators that the Parent Company is acting as an agent because it:

- does not control provision of distribution system and transmission system services,
- includes the distribution system and transmission system services in invoices issued to the customers on behalf of distribution system operator or transmission system operator and receives payment, but is not entitled to the respective revenues,
- has no discretion in distribution system or transmission system services price, either directly or indirectly (see also Note 6).

III) Recognition of connection service fees to distribution system (Group)

Connection fees to distribution system are not considered as separate (distinct) performance obligations, as are not distinct individually or within the context of the contract. Sales of distribution services are provided after customers have paid for the network connection; therefore network connection fees and sales of distribution services are highly interdependent and interrelated.

Income from connection and other income for reconstruction of distribution system assets on demand of clients are deferred as an ongoing service is identified as part of agreement to provide distribution system services to customers and accounted as deferred income (contract liabilities) from contracts with customers under IFRS 15 (see Note 6 and 28). Connection fees are recognised as income over the estimated customer relationship period. Based on Management estimate, 20 years is the estimated customer relationship period, which is estimated as period after which requested power output for connection object could significantly change due to technological reasons.

Thus period over which revenue is recognised is based on Management estimate, as it is reasonably certain that assets, whose costs are partly reimbursed by connection service fees, will be used to provide distribution system services for a longer period than the term stated in agreement with the customer (Note 6).

IV) State support for trade of energy, sales of distribution services and heat for end-users

In accordance with state support regulations in Latvia, Lithuania, and Estonia for reducing energy prices, are granted support for end-users for trade of energy, sales of distribution services and heat. These regulations do not change agreements on the scope of provided services and do not change the approved distribution system tariffs and energy prices, and respectively do not change the Group's and the Company's revenue recognition principles, but the process of receiving the transaction fees and the payer for the services, therefore not classified as government grant to the Group and the Parent Company (Note 6).

d) Recognition and reassessment of provisions

As of 31 December 2023, the Group had set up provisions for post–employment benefits and termination benefits totalling EUR 18.2 million (31/12/2022: EUR 15.6 million) and the Parent Company in amount of EUR 8.6 million (31/12/2022: EUR 7.6 million) (Note 27). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used

to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post–employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors were determined on the basis of previous experience.

e) Evaluation of effectiveness of hedging instruments

The Group and the Parent Company have concluded significant number of forward and future contracts and swap agreements to hedge the risk of the changes in prices of electricity and natural gas as well as interest rate fluctuations to which cash flow risk hedge accounting is applied and the gains and losses from changes in the fair value of the effective hedging instruments and items secured against risk are included in respective equity reserve. The evaluation of the effectiveness of the hedging is based on Management's estimates with regard to future purchase transactions of electricity and natural gas and signed variable interest loan agreements. When hedging instruments turn out to be ineffective, gains/losses from the changes in the fair value are recognised in the Statement of Profit or Loss (Note 25).

f) Recognition of one-off compensation in relation to cogeneration power plants

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP–1 and CHPP–2. The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. Conditional grant part recognised as deferred income in the Group's and the Parent Company's statement of financial position (Note 28) and to be allocated to income on a straight–line basis until fulfilling obligation till the end of the support period – 23 September 2028 (Note 7).

g) Deferred tax recognition

The untaxed profits of the subsidiaries are subject to deferred tax charge in the Consolidated Financial Statements to the extent that the Parent Company as a shareholder will decide in a foreseeable future on distribution of this profit through dividends which will be taxed on distribution with tax rate 20/80 of net expense (Note 12). Management of the Parent Company has made judgement on the expected timing and extent of the distribution profits of subsidiaries and recognised in the Group's Consolidated Financial Statements deferred tax liability related to profit of its subsidiaries to be distributed.

h) Recognition of financial security for participating in commodities exchange

The management of the Parent Company estimates that the Parent Company has no intention to discontinue trade operations in Nasdaq Commodities exchange, considering that electricity and natural gas financial transactions are part of the Parent Company's activities, and therefore financial collateral for securing the operations in Nasdaq Commodities exchange should not be estimated as liquid asset and should be recognised as non–current or current financial receivables (Note 18).

i) Fair values

The fair value of the financial assets and liabilities 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.

Fair values are estimated based on market prices and discounted cash flow models as appropriate. The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market prices used for financial assets held by the Group and the Parent Company are the actual closing prices. The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. The Group and the Parent Company use a variety of methods and make assumptions that are based on market conditions existing at end of reporting period. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

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

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

The following methods and assumptions were used to estimate the fair values:

a) the fair values of revalued property, plant and equipment are equal to revalued amounts, that are based on periodic valuations by external independent valuers or by the Group's or the Parent Company's management, less subsequent accumulated depreciation, and subsequent accumulated impairment losses (Level 3),

b) The management of the Group and the Parent Company assessed that the fair values of cash and short–term deposits, receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short–term maturities of these instruments (Level 3),

c) Non-current financial investments in Pirmais Slēgtais Pensiju Fonds AS are valued at acquisition cost not at fair value because the Group and the Parent Company are only a nominal shareholder in the Pension Fund that is a non–profit company, and all risks and benefits arising from Pension Fund activities and investments in the pension plan are taken and accrued by the members of the Pension Fund pension plan (Level 3),

d) The fair values of borrowings with floating interest rates approximate their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group and the Parent Company, i.e., the floating part of the interest rate corresponds to the money market price while the added part of the interest rate corresponds to the risk premium the lenders in financial and capital markets require from companies of similar credit rating level (Level 2),

e) The fair value of loans to subsidiaries with fixed rates calculations are based on discounted cash flows using discount factor of respective maturity EUR swap rates increased by average market margin of short–term financing (Level 2),

f) The Group and the Parent Company enter into derivative financial instruments with various counterparties, financial institutions, and energy utility company, with investment grade credit ratings. The fair value of derivative financial instruments is determined by using various valuation methods and models with market observable inputs. The models incorporate the credit quality of counterparties,

foreign exchange spot and forward rates. The fair values of interest rate swaps are obtained from corresponding bank's revaluation reports and fair values of financial instruments as specified by banks are recognised in financial statements. To make sure the fair values of interest rate swaps are accurate in any material aspect, the Group and the Parent Company makes its own interest rate swaps fair value calculations by discounting financial instruments future contractual cash flows using 6 months Euribor swap rate curve. The fair value of electricity forward and future contracts and natural gas swap contracts is calculated as discounted difference between actual market and settlement prices for the volume set in the agreements. If counterparty is a bank, calculated fair values of financial instruments are compared to bank's revaluation reports and the bank's calculated fair values of the financial instruments are used in the financial reports; In case of electricity forward and future contracts and natural gas swap contracts are concluded with counterparties, fair values as calculated by the Group and the Parent Company are recognised in Financial Statements (Level 2),

g) The fair value of the bonds issued are calculated by discounting their future cash flows using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor (Level 2),

h) The fair value of investment properties is determined using the income method, by discounting expected future cash flows. In 2023, the nominal pre–tax discount rate used to determine the fair value of investments is 7.24% (2022: 5.92%) as included in the electricity distribution and transmission system service tariff calculation methodology (Level 3).

5. Operating segment information

For segment reporting purposes, the division into operating segments is based on internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the operating segment decision maker – management of the Group's company operating in each of segments. The Management Board of the Parent Company reviews financial results of operating segments.

The profit measure monitored by the chief operating decision maker primarily is EBITDA, but it also monitors operating profit. In separate financial statements operating profit excludes the dividend income and interest income from subsidiaries. The subsidiaries operate independently from the Parent Company under the requirements of EU and Latvian legislation and their businesses are different from that of the Parent Company. Therefore, the Parent Company's chief operating decision maker monitors the performance of the Parent Company and makes decisions regarding allocation of resources based on the operating results of the Parent Company.

The Group divides its operations into two main operating segments – generation and trade, and distribution. The Parent Company divides its operations into one main operating segment – generation and trade.

In addition, corporate functions, that cover administration and other support services, are presented in the Group and the Parent Company as separate segment.

Corporate functions provide management services to subsidiaries as well as provides IT and telecommunication, rental services to external customers.

Generation and trade comprises the Group's electricity and thermal energy generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity and natural gas trade (including electricity and natural gas wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ (including its subsidiaries – Energiaturu Võrguehitus OÜ, HN põld ja mets 1 OÜ) and Elektrum Lietuva, UAB (including its subsidiary – Klaipėda unlimited sun, UAB), development of wind farms provided by Latvijas vēja parki SIA, as well as administration of the mandatory procurement process provided by Enerģijas publiskais tirgotājs SIA.

The operations of the distribution operating segment relate to the provision of electricity distribution services in Latvia and is managed by the subsidiary Sadales tīkls AS (the largest distribution system operator in Latvia).

The following table presents revenue, financial results and profit information and segment assets and liabilities of the Group's and the Parent Company's operating segments. Inter–segment revenue is eliminated on consolidation and reflected in the 'adjustments and eliminations' column. All transactions between segments are made based on the regulated tariffs, where applicable, or on an arm's length principle.

EUR'000

	Group						Parent Company				
	Generation and trade	Distribution	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
2023											
Revenue											
External customers	1,683,894	342,460	8,071	**2,034,425**	–	**2,034,425**	1,362,802	34,377	**1,397,179**	–	**1,397,179**
Inter-segment	40,806	869	55,437	**97,112**	(97,112)	**–**	4,648	31,931	**36,579**	(36,579)	**–**
TOTAL revenue	**1,724,700**	**343,329**	**63,508**	**2,131,537**	**(97,112)**	**2,034,425**	**1,367,450**	**66,308**	**1,433,758**	**(36,579)**	**1,397,179**
Results											
EBITDA	**480,181**	**111,853**	**9,735**	**601,769**	**–**	**601,769**	**459,763**	**13,532**	**473,295**	**–**	**473,295**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(102,660)	(82,233)	(12,280)	**(197,173)**	–	**(197,173)**	(98,586)	(12,442)	**(111,028)**	–	**(111,028)**
Segment profit before tax	**377,521**	**29,620**	**(2,545)**	**404,596**	**(16,067)**	**388,529**	**361,177**	**1,090**	**362,267**	**393**	**362,660**
Segment assets at the end of the year	**1,940,641**	**1,800,405**	**127,578**	**3,868,624**	**259,298**	**4,127,922**	**1,775,511**	**155,340**	**1,930,851**	**1,543,181**	**3,474,032**
Segment liabilities at the end of the year	**221,067**	**221,656**	**16,570**	**459,923**	**705,549**	**1,164,842**	**192,896**	**18,266**	**211,162**	**654,856**	**866,018**
Other disclosures											
Capital expenditure	76,848	99,608	18,254	**194,710**	(1,361)	**193,349**	46,198	18,254	**64,452**	–	**64,452**
2022											
Revenue											
External customers	1,533,150	300,610	8,041	**1,841,801**	–	**1,841,801**	1,199,418	31,597	**1,231,015**	–	**1,231,015**
Inter-segment	26,421	578	50,823	**77,822**	(77,822)	**–**	2,175	29,192	**31,367**	(31,367)	**–**
TOTAL revenue	**1,559,571**	**301,188**	**58,864**	**1,919,623**	**(77,822)**	**1,841,801**	**1,201,593**	**60,789**	**1,262,382**	**(31,367)**	**1,231,015**
Results											
EBITDA	**275,216**	**71,268**	**13,725**	**360,209**	**–**	**360,209**	**266,131**	**14,194**	**280,325**	**–**	**280,325**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(73,208)	(81,087)	(11,953)	**(166,248)**	–	**(166,248)**	(69,418)	(12,095)	**(81,513)**	–	**(81,513)**
Segment profit before tax	**202,008**	**(9,819)**	**1,772**	**193,961**	**(9,416)**	**184,545**	**196,713**	**2,099**	**198,812**	**10,550**	**209,362**
Segment assets at the end of the year	**1,833,099**	**1,791,684**	**117,750**	**3,742,533**	**112,797**	**3,855,330**	**1,700,079**	**144,561**	**1,844,640**	**1,460,896**	**3,305,536**
Segment liabilities at the end of the year	**359,253**	**181,201**	**12,804**	**553,258**	**945,653**	**1,498,911**	**366,212**	**14,078**	**380,290**	**906,552**	**1,286,842**
Other disclosures											
Capital expenditure	20,659	84,633	16,374	**121,666**	–	**121,666**	13,666	16,374	**30,040**	–	**30,040**

The Group's and the Parent Company's revenue from external customers (Note 6)

EUR'000

	Group					Parent Company			
	Generation and trade	Distribution	Corporate functions	TOTAL segments	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	TOTAL Parent Company
2023									
Revenue from contracts with customers recognised over time:									
Trade of energy and related supply services	1,432,815	3,395	–	**1,436,210**	**1,436,210**	1,157,028	–	**1,157,028**	**1,157,028**
Distribution system services	–	319,643	–	**319,643**	**319,643**	–	–	**–**	**–**
Heat sales	213,540	136	–	**213,676**	**213,676**	193,224	–	**193,224**	**193,224**
Sales of goods and energy related solutions	31,652	–	–	**31,652**	**31,652**	10,842	–	**10,842**	**10,842**
Other revenue	5,887	19,209	6,670	**31,766**	**31,766**	1,708	31,307	**33,015**	**33,015**
Total revenue from contracts with customers	**1,683,894**	**342,383**	**6,670**	**2,032,947**	**2,032,947**	**1,362,802**	**31,307**	**1,394,109**	**1,394,109**
Other revenue:									
Lease of other assets	–	77	1,401	**1,478**	**1,478**	–	3,070	**3,070**	**3,070**
Total other revenue	**–**	**77**	**1,401**	**1,478**	**1,478**	**–**	**3,070**	**3,070**	**3,070**
TOTAL revenue, including	**1,683,894**	**342,460**	**8,071**	**2,034,425**	**2,034,425**	**1,362,802**	**34,377**	**1,397,179**	**1,397,179**
Latvia	948,591	342,447	7,844	**1,298,882**	**1,298,882**	969,462	30,531	**999,993**	**999,993**
Outside Latvia	735,303	13	227	**735,543**	**735,543**	393,340	3,846	**397,186**	**397,186**
2022									
Revenue from contracts with customers recognised over time:									
Trade of energy and related supply services	1,352,745	3,349	–	**1,356,094**	**1,356,094**	1,052,486	–	**1,052,486**	**1,052,486**
Distribution system services	–	278,169	–	**278,169**	**278,169**	–	–	**–**	**–**
Heat sales	150,548	146	–	**150,694**	**150,694**	133,634	–	**133,634**	**133,634**
Sales of goods and energy related solutions	25,252	–	–	**25,252**	**25,252**	12,247	–	**12,247**	**12,247**
Other revenue	4,600	18,874	6,141	**29,615**	**29,615**	1,051	28,240	**29,291**	**29,291**
Total revenue from contracts with customers	**1,533,145**	**300,538**	**6,141**	**1,839,824**	**1,839,824**	**1,199,418**	**28,240**	**1,227,658**	**1,227,658**
Other revenue:									
Lease of other assets	5	72	1,900	**1,977**	**1,977**	–	3,357	**3,357**	**3,357**
Total other revenue	**5**	**72**	**1,900**	**1,977**	**1,977**	**–**	**3,357**	**3,357**	**3,357**
TOTAL revenue, including	**1,533,150**	**300,610**	**8,041**	**1,841,801**	**1,841,801**	**1,199,418**	**31,597**	**1,231,015**	**1,231,015**
Latvia	884,723	300,610	7,726	**1,193,059**	**1,193,059**	890,216	29,470	**919,686**	**919,686**
Outside Latvia	648,427	–	315	**648,742**	**648,742**	309,202	2,127	**311,329**	**311,329**

Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets, interest rate swaps (derivative financial instruments) and deferred taxes are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities, including loans and borrowings are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of profit before tax

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
EBITDA		**601,769**	**360,209**	**473,295**	**280,325**
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets		(197,173)	(166,248)	(111,028)	(81,513)
Segment profit before tax		**404,596**	**193,961**	**362,267**	**198,812**
Finance income	11	9,226	1,414	24,747	10,767
Finance costs	11	(25,293)	(10,830)	(25,278)	(10,802)
Dividends received from subsidiaries	16	–	–	924	10,585
Profit before tax		**388,529**	**184,545**	**362,660**	**209,362**

Reconciliation of assets

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Segment operating assets		**3,868,624**	**3,742,533**	**1,930,851**	**1,844,640**
Non–current financial investments and joint ventures	16	42	40	671,720	647,320
Loans to related parties	29 e	–	–	624,298	713,308
Other current financial investments		140,000	–	140,000	–
Prepayment for income and other taxes		800	–	–	–
Cash and cash equivalents	19	118,456	112,757	107,163	100,268
Total assets		**4,127,922**	**3,855,330**	**3,474,032**	**3,305,536**

Reconciliation of liabilities

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Segment operating liabilities		**459,293**	**553,258**	**211,162**	**380,290**
Deferred income tax liabilities		5,475	667	–	–
Borrowings	23	629,696	875,918	618,179	863,938
Provisions and other payables		70,378	69,068	36,677	42,614
Total liabilities		**1,164,842**	**1,498,911**	**866,018**	**1,286,842**

Non–current assets that consist of intangible assets, property, plant and equipment and investment properties are located in the Group's country of domicile – Latvia.

Revenue from major customer in 2023 for the Group amounted to EUR 188,630 thousand and for the Parent Company EUR 188,918 thousand (2022: EUR 171,919 thousand and EUR 171,912 thousand) arising from sales by the generation and trade segment.

6. Revenue

Accounting policy

Revenue from contracts with customers (IFRS 15)

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the entity's ordinary activities.

In evaluating whether collectability of an amount of consideration is probable, the Group and the Parent Company use portfolio approach practical expedient for all energy and related supply services, distribution system services and heat sales customers. Group and the Parent Company reasonably expect that the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. Collectability is assessed individually for other customers.

The Group and the Parent Company consider only the customer's ability and intention to pay that amount of consideration when it is due.

Major distinct performance obligations identified in the contracts with customers by the Group and the Parent Company include sale of energy and related supply services, provision of distribution system services and sale of heat. The Group has assessed that connecting a customer to the distribution network as a separate performance obligation is not distinct within the context of the contract due to being highly interrelated to sales of distribution services (Note 4 c III).

Where contracts with customers include variable consideration, the Group and the Parent Company estimate at contract inception the variable consideration expected over the life of the respective contracts and update that estimate each reporting period. A constrained variable consideration is identified in relation to sales of distribution system services.

The Group and the Parent Company recognise revenue when (or as) it satisfies a performance obligation to transfer a promised good or service to a customer. Revenue is recognised when customer obtains control of the respective good or service.

The Group and the Parent Company use output method to measure progress towards complete satisfaction of a performance obligations. Revenue from sale of energy and related supply services, provision of distribution system services and sale of heat are recognised over time as a continuous delivery of these goods and services is made over the term of the respective contracts.

Payment terms for goods or services transferred to customers according to contract terms are within 20 to 45 days from the provision of services or sale of goods. Invoices are mostly issued monthly.

State support for trade of energy, sales of distribution services and heat

In accordance with state support regulations in Latvia, Lithuania, and Estonia for reducing energy prices are granted support for end-users for trade of energy, sales of distribution services and heat. These regulations do not change agreements on the scope of provided services and do not change the approved distribution system tariffs and energy prices, and respectively do not change the Group's and the Company's revenue recognition principles, but the process of receiving the transaction fees and the payer for the services. The Group and the Company has the right to receive the full fee for the provided services: from customer at a reduced price within the specified period of time and the payment for the reduction in price receive from the state.

Trade of energy and related supply services

Revenue from electricity and natural gas sales are recognised on the basis of meter readings. Revenue from other energy and related supply services are recognised on the basis of goods delivered or provided services and prices included in contracts with customers. Revenues from trade of electricity in Nord Pool power exchange are based on the calculated market prices in accordance with contract terms, therefore 'right to invoice' practical expedient is used to recognise revenue from such contracts as the amount corresponds directly with the value of the performance completed to date. NACE code – 35.11, 35.14 (Parent Company).

Sales of distribution system services (the Group)

Revenues from electricity distribution services are based on regulated tariffs that are subject to approval by the Public Utilities Commission and regulations by Cabinet of Ministers of the Republic of Latvia 'Regulations on electricity trade and usage'. The Group recognises revenue from sales of distribution system services at the end of each month based on the automatically made meter readings or customers' reported meter readings, on the period in which the services are rendered. Revenue is recognised in the amount for which the Group has right to invoice.

Heat sales

Revenue from sales of thermal energy is recognised at the end of each month based on the meter readings and corresponds to the invoiced amount. NACE code – 32.99 (Parent Company).

Sales of goods and energy related solutions

Revenue from sales of goods and completed customers' orders is recognised at the moment when the asset and property rights are transferred to the customer (e.g. sales and installation of solar panels and heat pumps). NACE code – 47.91 (Parent Company).

Sales of IT & telecommunication services

Revenues derived from information technology services (internet connection services, data communication services), open electronic communication network and telecommunication services to customers. Revenues are recognised upon usage of services listed in telecommunications billing system. Revenue is recognised in the amount for which the Group and the Parent Company have right to invoice. NACE code – 62.03 (Parent Company).

EUR'000

	IFRS applied	Group		Parent Company	
		2023	2022	2023	2022
Revenue from contracts with customers:					
Trade of energy and related supply services	IFRS 15	1,436,210	1,356,094	1,157,028	1,052,486
Distribution system services	IFRS 15	319,646	278,169	–	–
Heat sales	IFRS 15	213,676	150,694	193,224	133,634
Sales of goods and energy related solutions	IFRS 15	31,652	25,252	10,842	12,247
Other revenue	IFRS 15	31,763	29,615	33,015	29,291
TOTAL revenue from contracts with customers		**2,032,947**	**1,839,824**	**1,394,109**	**1,227,658**
Other revenue:					
Lease of other assets	IFRS 16	1,478	1,977	3,070	3,357
TOTAL other revenue		**1,478**	**1,977**	**3,070**	**3,357**
TOTAL revenue		**2,034,425**	**1,841,801**	**1,397,179**	**1,231,015**

In Latvia, Lithuania, and Estonia, according to the state support mechanism for reducing the prices of energy, end-users have been granted state support. This state support was provided for electricity, distribution system services, consumed natural gas and for heat. The support did not change tariffs and energy prices (and thus gross revenue is recognised for the Group and the Company) rather the process of receiving the transaction fees, part from the end-users and part from the state budget. Allocated state support for the end-users in 2023 is EUR 124,376 thousand for the Group (2022: EUR 179,707 thousand).

The Group's and the Parent Company's revenue from contracts with customers based on the timing of revenue recognition:

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Goods and services transferred over time	1,906,710	1,760,646	1,191,969	1,159,820
Goods and services transferred at a point in time	126,237	79,178	202,140	67,838
TOTAL revenue from contracts with customers	**2,032,947**	**1,839,824**	**1,394,109**	**1,227,658**

The Group and the Parent Company derive revenue from contracts with customers from Latvia and outside Latvia – Estonia, Lithuania, Nordic countries.

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Latvia	1,297,409	1,191,082	997,107	916,437
Outside Latvia	735,538	648,742	397,002	311,221
TOTAL revenue from contracts with customers	**2,032,947**	**1,839,824**	**1,394,109**	**1,227,658**

Accounting policy

The Group and the Parent Company have assessed that in providing Mandatory procurement PSO fees it is acting as an agent due to lack of control over PSO fee (Note 4 c I). The Parent Company has also concluded that it is acting as an agent in the provision of distribution system services and transmission system services because the Parent Company has no control over these services (Note 4 c II).

Mandatory procurement PSO fees

Revenue from mandatory procurement PSO fees in the Group is recognised on net (agent) basis. PSO fee is managed within the context of mandatory procurement process by subsidiary Enerģijas publiskais tirgotājs SIA (hereinafter – EPT) and is the difference (residual) between the revenue from the sale of electricity in Nord Pool power exchange by market price, received mandatory procurement PSO fee, received government grant for compensating the increase of mandatory procurement costs and the related costs – costs of purchased electricity under the mandatory procurement from electricity producers, as well as guaranteed fees for installed electrical capacity in cogeneration plants. EPT is acting as an agent in administration of the mandatory procurement process and receives revenue from mandatory procurement administration services (agent fee), which is recognised over time in the Group's Statement of Profit or Loss as other revenue from contracts with customers.

PSO fees are included in invoices issued by trader (Parent Company – Latvenergo AS) and by distribution system operator (Sadales tīkls AS) and are paid by customers together with unite invoice for electricity and distribution or transmission system services. System operators have the obligation to collect revenues of PSO fees from customers or traders and further to transfer these revenues to EPT. PSO fees are based on regulated tariffs that are subject to approval by the Public Utilities Commission. Due to lack of influence and control over PSO fees, the Group and the Parent Company consider themselves an agent in these transactions. Therefore, PSO fees received

from electricity end-users and transferred to EPT are recognised in the Statement of Profit or Loss in net amount by applying the agent accounting principles.

Distribution system and transmission system services (Parent Company)

The Parent Company on behalf of distribution system operator (DSO) and transmission system operator (TSO) issues unite invoice including the fees for the distribution system or transmission system services and transfers these fees to DSO or TSO accordingly.

Distribution system services and transmission system services are based on regulated tariffs that are subject to approval by the Public Utilities Commission. The Parent Company considers itself an agent in these transactions, therefore, the fees for distribution system and transmission system services received from customers and transferred to DSO and TSO are recognised in the Statement of Profit or Loss in net amount by applying the agent accounting principles.

Gross amounts invoiced to customers by applying agent accounting principle, recognised on net basis under trade of energy and related supply services

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Mandatory procurement PSO fees*	(152)	7,931	(4)	8,767
Distribution system services	46,049	30,780	154,873	90,892
Transmission system services	1,601	706	1,616	720
Insurance intermediation	1,775	1,468	1,674	1,440
TOTAL revenue recognised applying agent accounting principle	**49,273**	**40,885**	**158,159**	**101,819**

* Starting from 1 May 2023 the mandatory procurement PSO fees payment for electricity end–users has been cancelled. In 2022, in accordance with state support mechanism for reducing the prices of energy, the government granted support to all end–users for mandatory procurement PSO fees by 100% of the fee. In 2023, from distribution system operator received updated information regarding customers consumption in 2022, accordingly made recalculations of previous period.

Net effect in revenue from applying agent accounting principle is 0.

Accounting policy

Revenue from contracts with customers

Connection fees to distribution system (the Group)

Connection fees to distribution system are non-refundable upfront fees paid by customers to secure connection to the distribution network, such fees are not distinct performance obligations as are highly interrelated with distribution system services. Connection fees partly reimburse for the cost of infrastructure to be built needed to connect the respective customer to the network. Connection fees to distribution system fee is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology.

Revenue from connection fees to distribution system are initially recognised as deferred income (contract liabilities) and recognised over the estimated customer relationship period of 20 years (Note 4 c III).

Deferred income from contracts with customers

EUR'000

	Notes	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
Non–current deferred income from connection fees	28 I, a	137,838	132,381	–	–
Current deferred income from connection fees	28 II, a	16,510	15,386	–	–
Non-current other deferred income	28 I, a	668	735	668	735
Current other deferred income	28 II, a	4,794	13,944	67	13,714
TOTAL liabilities		**159,810**	**162,446**	**735**	**14,449**

Movement in deferred income from contracts with customers (non–current and current part)

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
At the beginning of the year		**162,446**	**152,050**	**14,449**	**869**
Received connection fees for connection to distribution system	28	23,015	11,840	–	–
Recognised deferred income	28	4,357	13,647	–	13,647
Credited to the Statement of Profit or Loss		(30,008)	(15,091)	(13,714)	(67)
At the end of the year		**159,810**	**162,446**	**735**	**14,449**

7. Other income

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
Compensation from the state on state support for the installed capacity of CHPPs	4 f	23,990	23,990	23,990	23,990
Fines and penalties		2,994	2,457	1,702	1,539
Net gain on sale of assets held for sale and property, plant and equipment		1,458	2,955	560	2,702
Compensations and insurance claims		2,463	816	1,898	294
Other operating income		991	956	193	165
TOTAL other income		**31,896**	**31,174**	**28,343**	**28,690**

8. Raw materials and consumables

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
Energy costs:					
Electricity and costs of related supply services		378,502	708,114	89,028	374,581
Electricity transmission services costs	29 a	82,376	72,583	2,834	2,999
Natural gas and other energy resources costs		774,012	517,052	761,061	492,537
(Gains) / losses on fair value changes on energy futures, forwards, and swaps	24 I	(23,198)	10,096	(23,198)	9,827
		1,211,692	**1,307,845**	**829,725**	**879,944**
Raw materials, spare parts and maintenance costs		36,628	25,863	17,261	11,194
TOTAL raw materials and consumables used		**1,248,320**	**1,333,708**	**846,986**	**891,138**

The decrease in electricity costs was significantly caused by lower Nord Pool spot prices (-58% in the LV price zone), while the increase in natural gas costs was influenced by the volume of delivered and used natural gas, which was more than a third higher than in 2022.

9. Personnel expenses

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Wages and salaries	111,418	89,184	48,413	39,838
State social insurance contributions	23,927	19,800	11,276	9,242
Expenditure of employment termination	1,435	3,044	710	846
Pension costs – defined contribution plan	4,647	4,892	2,233	2,219
Benefits defined in the Collective Agreement and other benefits system costs	2,916	1,572	1,158	667
Capitalised personnel expenses	(2,461)	(1,499)	(424)	–
TOTAL personnel expenses, including remuneration to the management	**141,882**	**116,993**	**63,366**	**52,812**
Remuneration to the management:				
Wages and salaries	2,925	2,694	1,158	1,047
State social insurance contributions	623	593	267	246
Expenditure of employment termination	14	–	–	–
Pension costs – defined contribution plan	21	18	10	6
Benefits defined in the Collective Agreement and other benefits system costs	21	22	–	–
TOTAL remuneration to the management*	**3,604**	**3,327**	**1,435**	**1,299**

* Remuneration to the Group's management includes remuneration to the members of the Management Boards of the Group entities, the Supervisory Board, and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board, and the Supervisory body (Audit Committee).

The Group and the Parent Company make monthly contributions to a closed defined contribution pension plan on behalf of their employees. The plan is managed by the non–profit public limited company Pirmais Slēgtais Pensiju Fonds, with the participation of the Group companies amounting for 48.15% (Parent Company – 46.30%) of its share capital. A defined contribution plan is a pension plan under which the Group and the Parent Company pay contributions into the plan. The Group and the Parent Company have no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5% of each pension plan member's salary. The Group and the Parent Company recognise the contributions to the defined contribution plan as an expense when an employee has rendered services in exchange for those contributions.

Number of employees

	Group		Parent Company	
	2023	2022	2023	2022
Number of employees at the end of the year	3,497	3,316	1,414	1,329
Average number of employees during the year	3,456	3,214	1,388	1,289

10. Other operating expenses

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Selling expenses and customer services	10,370	10,178	4,196	3,775
Information technology maintenance	6,838	5,726	6,343	5,371
Transportation expenses	6,845	6,483	1,884	1,823
Environment protection and work safety	11,121	8,893	10,112	7,771
Real estate maintenance and utilities expenses	5,461	5,740	4,275	3,775
Lease of real estate and property, plant and equipment	182	90	39	48
Telecommunications services	2,802	2,565	2,287	2,148
Real estate tax	928	941	619	651
Public utilities regulation fee	1,763	1,513	1,093	699
Audit fee	127	103	55	46
Expected credit losses (including reversals) on financial instruments	6,944	2,879	2,868	2,351
Net losses from disposal of PPE	6,855	5,379	147	41
Other expenses	14,114	11,575	7,957	6,931
TOTAL other operating expenses	**74,350**	**62,065**	**41,875**	**35,430**

In addition to audit services, in 2023 and 2022 auditors did not provide any other services.

11. Finance income and costs

a) Finance income

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
Interest income		6,146	27	5,913	27
Interest income on loans to related parties		3	–	15,757	9,353
Interest income on interest rate swaps		3,068	279	3,068	279
Gains on fair value changes on interest rate swaps	24	9	1,074	9	1,074
Net gain on issued debt securities (bonds)		–	34	–	34
TOTAL finance income		**9,226**	**1,414**	**24,747**	**10,767**

b) Finance costs

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
Interest expense on borrowings from financial institutions		21,340	7,989	21,439	8,066
Interest expense on issued debt securities (bonds)		4,786	2,679	4,786	2,679
Interest expense on assets lease		162	136	83	80
Losses on fair value changes on interest rate swaps		128	–	128	–
Capitalised borrowing costs	14 a	(1,328)	(310)	(1,328)	(310)
Net losses on redemption of other financial investments		21	–	21	–
Net losses on currency exchange rate fluctuations		4	29	–	5
Other finance costs		180	307	149	282
TOTAL finance costs		**25,293**	**10,830**	**25,278**	**10,802**

12. Income tax

Accounting policy

Corporate income tax

Latvia

Corporate income tax is paid on distributed profits. Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognised in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while as regards other deemed profit distribution items, at the time when expense is incurred in the reporting year.

Lithuania

Current corporate income tax is applied at the rate of 15% on taxable income generated by a company during the taxation period. Income tax expense for the period comprises current income tax and deferred income tax. Current income tax charges are calculated on current profit before tax using the tax rate 15% in accordance with applicable tax regulations as adjusted for certain non–deductible expenses/non–taxable income and are based on the taxable income reported for the taxation period.

Estonia

In accordance with the effective Estonian Income Tax Act, dividends are taxed at the rate of 20/80 of the amount distributed as the net dividend. From 2019, a lower tax rate on dividends of 14/86 were entered into force in Estonia for regular dividend payments – the more favourable tax rate can be applied to a dividend distribution that amounts to up to three preceding years' average dividend distribution that has been taxed. This means that a resident company will be able to both apply a lower tax rate of 14/86 and a standard tax rate of 20/80.

The income tax calculated on dividends is recognised as the income tax expense of the period in which the dividends are declared irrespective of the period for which the dividends are declared or the period in which the dividends are ultimately distributed.

Deferred income tax

Latvia and Estonia

Deferred tax liabilities are recognised in the consolidated financial statements on undistributed profits of the subsidiaries, which will be subject to taxation upon distribution in foreseeable future. No other deferred tax assets and liabilities are recognised.

Lithuania

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit of the respective Group entity will be available against which the temporary differences can be utilised.

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Current income tax	33,604	2,880	31,099	–
Deferred income tax	4,008	(2,209)	–	–
TOTAL income tax	**37,612**	**671**	**31,099**	**–**

EUR'000

	Group			
	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Deferred income tax at the beginning of the year	**–**	**667**	**79**	**2,955**
Deferred income tax on foreseeable profit distributions of subsidiaries	–	4,808	–	(2,288)
Deferred income tax relating to temporary differences	800	–	(79)	–
Deferred income tax at the end of the year	**800**	**5,475**	**–**	**667**

13. Intangible assets

a) Intangible assets

Accounting policy

Intangible assets are measured on initial recognition at historical cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Assets under development are recognised in Statement of Financial Position within intangible assets and measured at cost until the intangible assets are completed and received.

Usage rights, licenses and software are shown at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight–line method to allocate the cost of usage rights, licenses, and software over their estimated useful lives. Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of use defined in agreement or five years.

Connection usage rights are the payments for the rights to use the transmission or distribution system's power grid. Connection usage rights are measured at cost net of amortisation and accumulated impairment that is calculated on straight–line basis to allocate the cost of connection usage rights to the residual value over the estimated period of relationship with a supplier (connection installer).

Goodwill is initially measured at cost. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group and the Parent Company re–assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's and the Company's cash–generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

EUR'000

	Group					Parent Company			
	Goodwill	Usage rights and licences	Software	Assets under development	TOTAL	Usage rights and licences	Software	Assets under development	TOTAL
As of 31 December 2021									
Cost	2,546	60,617	56,449	683	**120,295**	10,817	53,370	500	**64,687**
Accumulated amortisation	–	(23,983)	(42,755)	–	**(66,738)**	(6,393)	(40,888)	–	**(47,281)**
Net book amount	**2,546**	**36,634**	**13,694**	**683**	**53,557**	**4,424**	**12,482**	**500**	**17,406**
Year ended 31 December 2022									
Additions	–	–	–	4,559	**4,559**	–	–	4,387	**4,387**
Transfers	–	253	3,998	(4,251)	**–**	48	3,960	(4,008)	**–**
Amortisation charge	–	(3,152)	(3,175)	–	**(6,327)**	(461)	(2,935)	–	**(3,396)**
Closing net book amount as of 31 December 2022	**2,546**	**33,735**	**14,517**	**991**	**51,789**	**4,011**	**13,507**	**879**	**18,397**
As of 31 December 2022									
Cost	2,546	60,871	59,252	991	**123,660**	10,865	56,135	879	**67,879**
Accumulated amortisation	–	(27,136)	(44,735)	–	**(71,871)**	(6,854)	(42,628)	–	**(49,482)**
Net book amount	**2,546**	**33,735**	**14,517**	**991**	**51,789**	**4,011**	**13,507**	**879**	**18,397**
Year ended 31 December 2023									
Additions	–	–	–	11,983	**11,983**	–	–	6,717	**6,717**
Transfers	–	10	5,406	(5,416)	**–**	10	5,065	(5,075)	**–**
Amortisation charge	–	(3,157)	(3,289)	–	**(6,446)**	(463)	(3,004)		**(3,467)**
Closing net book amount as of 31 December 2023	**2,546**	**30,588**	**16,634**	**7,558**	**57,326**	**3,558**	**15,568**	**2,521**	**21,647**
As of 31 December 2023									
Cost	2,546	60,878	63,729	7,558	**134,711**	10,875	60,270	2,521	**73,666**
Accumulated amortisation	–	(30,290)	(47,095)	–	**(77,385)**	(7,317)	(44,702)	–	**(52,019)**
Net book amount	**2,546**	**30,588**	**16,634**	**7,558**	**57,326**	**3,558**	**15,568**	**2,521**	**21,647**

As of 31 December 2023, cost of fully depreciated Intangible assets which are still in use for the Group amounted to EUR 21,721 thousand (31/12/2022: EUR 21,280 thousand) and for the Parent Company amounted to EUR 21,268 thousand (31/12/2022: EUR 21,025 thousand).

b) Current intangible assets (Greenhouse gas emission allowances)

Accounting policy

Emission rights for greenhouse gases (or allowances) are recognised at purchase cost when the Group or the Parent Company is able to exercise the control. Subsequently carried at cost less any impairment losses. Allowances received from the Government free of charge are recognised at zero cost. In those cases, when the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, the Group and the Parent Company purchase additional allowances.

The Group and the Parent Company has presented the assets related to purchased emission allowances net of the provisions for CO_2 emissions, given that historically the Group and the Parent Company has determined the CO_2 emissions precisely.

On 26 March 2024, the State Environmental Service of the Republic of Latvia made a decision, verifying the emissions for the prior year and the Group and the Parent Company surrendered the quantity of the emission allowances equivalent to their CO_2 emissions in 2023.

	Group		Parent Company	
	2023	2022	2023	2022
	Number of allowances	Number of allowances	Number of allowances	Number of allowances
At the beginning of the year	**1,116,363**	**1,248,869**	**1,099,264**	**1,231,852**
Allowances allocated free of charge*	79,673	145,019	70,737	137,074
Purchased allowances	479,000	632,966	479,000	632,966
Written off verified allowances	(654,694)	(906,491)	(653,604)	(902,628)
Sold allowances	–	(4,000)	–	–
At the end of the year	**1,020,342**	**1,116,363**	**995,397**	**1,099,264**
including estimated allowances used during the reporting year (unverified)	(699,297)	(653,800)	(699,297)	(653,800)
Allowances available at the end of the year	**321,045**	**462,563**	**296,100**	**445,464**

* The number of allowances received by the Group and the Parent Company from the Government free of charge, in accordance with the law "On Pollution" and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia. Therefore, their carrying amount as of 31 December 2023 was nil (31/12/2022: nil).

Current intangible assets

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Net book amount at the beginning of the year	**31,664**	**24,266**	**31,664**	**24,266**
Additions	37,624	46,643	37,624	46,643
Disposals	(46,237)	(39,245)	(46,237)	(39,245)
Closing net book amount at the end of the year	**23,051**	**31,664**	**23,051**	**31,664**

14. Property, plant and equipment

a) Property, plant and equipment

Accounting policy

Property, plant and equipment (PPE) are measured on initial recognition at cost. Following initial recognition PPE are stated at historical cost or revalued amount less accumulated depreciation and accumulated impairment loss, if any.

If an item of PPE consists of components with different useful lives and acquisition costs of such components are significant concerning the PPE value, these components are accounted as separate items.

Land is not depreciated. Depreciation on the other assets is calculated using the straight–line method to allocate their cost over their estimated useful lives, as follows:

Type of property, plant and equipment (PPE)	Estimated useful life, years
Buildings and facilities	15 – 100
Assets of Hydropower plants:	
- hydropower plants' buildings and facilities,	25 – 100
- hydropower plants' technology equipment and machinery	10 – 40
Distribution system electricity lines and electrical equipment:	
- electricity lines	30 – 50
- electrical equipment of transformer substations	30 – 35
Technology equipment and machinery	3 – 40
Other property, plant and equipment	2 – 25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. Those are included in the Statement of Profit or Loss. If revalued property, plant and equipment have been sold, appropriate amounts are reclassified from revaluation reserve to retained earnings.

All PPE under construction are stated at historical cost and comprise of costs of construction of assets. The initial cost includes construction and installation costs and other direct costs related to construction of PPE. General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are added to the cost of those assets, until such time as the assets is substantially ready for their intended use. Borrowing costs consist of interest and other costs that the Group or the Parent Company incur in connection with the borrowing of funds. Borrowing costs are capitalised to PPE proportionally to the part of the cost of PPE under construction over the period of construction. Assets under construction are not depreciated until the relevant assets are completed and ready for intended use, impairment test is performed when there is indication for impairment, either individually or at the cash-generating unit level. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the recoverable amount that is higher of the asset's the fair value less costs to sell and value in use.

The Group and the Parent Company classifies non–current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and sale is considered highly probable. Non–current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Transfers are made from (or to) property, plant and equipment to (or from) investment property only when there is a change in use and it does not change the carrying amount of the property transferred and do not change the cost measurement method of that property.

Impairment charge or reversed charge is included in the Statement of Profit or Loss under "Depreciation, amortisation and impairment of intangible assets, PPE and right–of–use assets".

Net book amounts and movements of property, plant and equipment by groups, including groups of revalued categories are as follows:

EUR'000

	Group							Parent Company					
	Land, buildings and facilities	Assets of Hydro Power Plant	Distribution system electricity lines and electrical equipment	Technology equipment and machinery	Other PPE	Assets under construction	Property, plant and equipment TOTAL	Land, buildings and facilities	Assets of Hydro Power Plant	Technology equipment and machinery	Other PPE	Assets under construction	Property, plant and equipment TOTAL
As of 31 December 2021													
Cost or revalued amount	427,180	2,044,719	3,031,424	661,828	168,431	63,334	**6,396,916**	346,175	2,044,719	630,116	101,775	48,075	**3,170,860**
Accumulated depreciation and impairment	(232,797)	(1,268,369)	(1,400,001)	(556,946)	(111,865)	(284)	**(3,570,262)**	(211,059)	(1,268,369)	(540,775)	(83,684)	–	**(2,103,887)**
Net book amount	**194,383**	**776,350**	**1,631,423**	**104,882**	**56,566**	**63,050**	**2,826,654**	**135,116**	**776,350**	**89,341**	**18,091**	**48,075**	**1,066,973**
Year ended 31 December 2022													
Additions	–	–	–	–	–	117,108	**117,108**	–	–	–	–	25,653	**25,653**
Transfers	7,343	23,237	68,872	1,366	14,037	(114,855)	**–**	2,225	23,237	1,021	8,563	(35,046)	**–**
Reclassified to investment property, net	(823)	–	–	–	–	–	**(823)**	(315)	–	–	–	–	**(315)**
Reclassified to non–current assets for sale	–	–	–	–	(8)	–	**(8)**	–	–	–	(8)	–	**(8)**
Disposals	(321)	(47)	(6,751)	(110)	(114)	(52)	**(7,395)**	(266)	(47)	(36)	(46)	(15)	**(410)**
Increase of assets as a result of revaluation	–	227,695	–	–	–	–	**227,695**	–	227,695	–	–	–	**227,695**
Reversed impairment charge as a result of revaluation	–	417	–	–	–	–	**417**	–	417	–	–	–	**417**
(Impairment)/reversed impairment charge (Note14 c I)	(2,567)	–	–	8,613	–	(8,459)	**(2,413)**	(2,567)	–	8,613	–	(8,410)	**(2,364)**
Depreciation	(13,395)	(29,562)	(68,887)	(30,915)	(13,106)	–	**(155,865)**	(9,648)	(29,562)	(29,688)	(6,083)	–	**(74,981)**
Closing net book amount as of 31 December 2022	**184,620**	**998,090**	**1,624,657**	**83,836**	**57,375**	**56,792**	**3,005,370**	**124,545**	**998,090**	**69,251**	**20,517**	**30,257**	**1,242,660**
As of 31 December 2022													
Cost or revalued amount	430,936	2,522,235	3,049,406	661,918	174,442	65,536	**6,904,473**	345,690	2,522,235	630,073	102,954	38,667	**3,639,619**
Accumulated depreciation and impairment	(246,316)	(1,524,145)	(1,424,749)	(578,082)	(117,067)	(8,744)	**(3,899,103)**	(221,145)	(1,524,145)	(560,822)	(82,437)	(8,410)	**(2,396,959)**
Net book amount	**184,620**	**998,090**	**1,624,657**	**83,836**	**57,375**	**56,792**	**3,005,370**	**124,545**	**998,090**	**69,251**	**20,517**	**30,257**	**1,242,660**
Year ended 31 December 2023													
Additions	–	–	–	–	–	181,108	**181,108**	–	–	–	–	57,735	**57,735**
Acquisition of a subsidiary	183	–	–	71	–	3	**257**	–	–	–	–	–	**–**
Transfers	6,611	6,889	84,967	6,937	16,697	(122,101)	**–**	1,653	6,889	1,975	10,559	(21,076)	**–**
Reclassified to investment property, net	(612)	–	–	–	–	–	**(612)**	(58)	–	–	–	–	**(58)**
Reclassified to non–current assets for sale	–	–	–	–	(39)	–	**(39)**	–	–	–	(18)	–	**(18)**
Disposals	(281)	(4)	(7,971)	(135)	(137)	(87)	**(8,615)**	(456)	(3)	(117)	(8)	(73)	**(657)**
Increase of assets as a result of revaluation	–	312,061	–	–	–	–	**312,061**	–	312,061	–	–	–	**312,061**
Reversed impairment charge as a result of revaluation	–	1,108	–	–	–	–	**1,108**	–	1,108	–	–	–	**1,108**
Impairment charge (Note14 c I)	(3,142)	–	–	(19,167)	–	(123)	**(22,432)**	(3,142)	–	(19,167)	–	(14)	**(22,323)**
Depreciation	(13,305)	(40,544)	(69,946)	(30,091)	(13,269)	–	**(167,155)**	(9,552)	(40,545)	(28,652)	(6,348)	–	**(85,097)**
Closing net book amount as of 31 December 2023	**174,074**	**1,277,600**	**1,631,707**	**41,451**	**60,627**	**115,592**	**3,301,051**	**112,990**	**1,277,600**	**23,290**	**24,702**	**66,829**	**1,505,411**
As of 31 December 2023													
Cost or revalued amount	436,256	2,842,752	3,080,841	668,461	182,656	124,459	**7,335,425**	346,561	2,842,752	631,707	105,830	75,254	**4,002,104**
Accumulated depreciation and impairment	(262,182)	(1,565,152)	(1,449,134)	(627,010)	(122,029)	(8,867)	**(4,034,374)**	(233,571)	(1,565,152)	(608,417)	(81,128)	(8,425)	**(2,496,693)**
Net book amount	**174,074**	**1,277,600**	**1,631,707**	**41,451**	**60,627**	**115,592**	**3,301,051**	**112,990**	**1,277,600**	**23,290**	**24,702**	**66,829**	**1,505,411**

The Group and the Parent Company have recognised impairment on capital expenditure projects for which operations have not taken place in the last 12 months and it is not known whether they will be completed within next 2 years, and a decision has not been taken on termination of the project.

As of 31 December 2023, cost of fully depreciated PPE which are still in use for the Group amounted to EUR 347,207 thousand (31/12/2022: EUR 231,622 thousand) and for the Parent Company amounted to EUR 307,910 thousand (31/12/2022: EUR 188,460 thousand).

In 2023 the Group and the Parent Company have capitalised borrowing costs in the amount of EUR 1,328 thousand (2022: EUR 310 thousand) (see Note 11). Rate of capitalised borrowing costs was of 2.23% (2022: 1.43%).

Information about the pledged property, plant and equipment is disclosed in Note 23 I

b) Property, plant and equipment revaluation

Accounting policy

Revaluations have been made with sufficient regularity to ensure that the carrying amount of property, plant and equipment items subject to valuation does not differ materially from that which would be determined using fair value at the end of reporting period.

The following hydropower plants and distribution system assets (property, plant and equipment) are revalued regularly but not less frequently than every five years:
a) Assets of Hydropower plants:
- hydropower plants' buildings and facilities,
- hydropower plants' technology equipment and machinery;

b) Distribution system electricity lines and electrical equipment:
- electricity lines,
- electrical equipment of transformer substations.

Increase in the carrying amount arising on revaluation is recognised in the Statement of Comprehensive income as "Non–current assets revaluation reserve" in shareholders' equity. Decrease in the carrying amount arising on revaluation primarily offset previous increases recognised in 'Comprehensive income' and if decrease exceeds revaluation reserve, it is recognised in the Statement of Profit or Loss.

At the date of revaluation, initial carrying amounts and accumulated depreciation are increased or decreased proportionately with the change in the carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount.

Non–current assets revaluation reserve is decreased and transferred to retained earnings at the moment, when revalued asset has been written off or disposed.

Revaluation reserve cannot be distributed in dividends, invested in share capital, used for indemnity, reinvested in other reserves, or used for other purposes.

Carrying amounts of revalued categories of property, plant and equipment groups at revalued amounts and their cost basis are as follows:

EUR'000

	Group		
	Revalued property, plant and equipment groups		
	Assets of Hydropower plants (the Parent Company)	Distribution system electricity lines and electrical equipment	TOTAL revalued PPE
At revalued amounts			
As of 31 December 2023			
Revalued	2,842,752	3,080,841	5,923,593
Accumulated depreciation	(1,565,152)	(1,449,134)	(3,014,286)
Revalued net book amount	**1,277,600**	**1,631,707**	**2,909,307**
As of 31 December 2022			
Revalued	2,522,235	3,049,406	5,571,641
Accumulated depreciation	(1,524,145)	(1,424,749)	(2,948,894)
Revalued net book amount	**998,090**	**1,624,657**	**2,622,747**
At amounts stated on historical cost basis			
As of 31 December 2023			
Cost	479,618	1,628,116	2,107,734
Accumulated depreciation	(209,160)	(569,891)	(779,051)
Net book amount	**270,458**	**1,058,225**	**1,328,683**
As of 31 December 2022			
Cost	474,331	1,575,174	2,049,505
Accumulated depreciation	(199,859)	(524,748)	(724,607)
Net book amount	**274,472**	**1,050,426**	**1,324,898**

Assets of Hydropower plants

Assets of Hydropower plants were revalued in 2023. The revaluation was performed by an independent, external and certified valuation expert by applying the income method or the replacement cost model. Income method is based on average perennial water inflow in each HPP, power exchange forecasts of electricity prices, analysis of historical generation and operating expenses, forecast of expenses based on publicly available state statistics, forecast of capital expenditure, forecast of net cash flows, as well as discount and capitalisation rate calculation based on market data.

Considering that the estimated replacement cost of the assets exceeded the value determined by using income method, the value of each of the hydropower plant assets item's estimated depreciated replacement cost was reduced to recognise the economic depreciation. The replacement cost was determined according to technical characteristics of property, plant and equipment, current technical requirements, and the cost of replacement of functional analogue less physical, functional, and economic depreciation.

As a result of revaluation in 2023 the carrying amounts of property, plant and equipment of hydropower plants increased by EUR 313,169 thousand. Increase of property, plant and equipment in the amount

of EUR 312,062 thousand is included in the equity as non-current assets revaluation reserve (see Note 21 a), while reversal of previously recognised impairment in the amount of EUR 1,108 thousand was recognised in the Statement of Profit or Loss.

The nominal pre–tax discount rate used in valuation was 8.88% (2022: 10.25%). If the pre-tax rate would have been increased by 1% then the value of the revalued assets of hydropower plants would have been decreased by EUR 174,063 thousand (2022: by EUR 119,182 thousand). If the pre–tax rate would have been decreased by 1%, the value of the revalued assets of hydropower plants would have been increased by EUR 228,159 thousand (2022: by EUR 146,219 thousand). If electricity price would have been increased by 5%, the value of assets would have been increased by EUR 127,937 thousand (2022: by EUR 114,722 thousand), if the prices would have been by 5% less, the value of assets would have been decrease by EUR 127,937 thousand (2022: by EUR 114,722 thousand).

Distribution system assets

Distribution system electrical equipment was revalued as of 1 April 2020 and distribution system electricity lines were revalued as of 1 January 2021.

External valuation expert used cost approach and assessed how components of the replacement or renewal costs of the same property, plant and equipment items have changed since the previous revaluation. The same approach was used in valuation of electricity lines, by assessing the control estimate values of cost items of the electricity lines construction used for the construction of Sadales tīkls AS electricity network. The control estimate is an estimate of the median object for the construction or reconstruction of electricity lines, which corresponds to the median value of the price for each group of electricity lines (property, plant and equipment), not considering the extreme costs of construction. In the calculation of replacement costs, cost items of construction control estimates are priced according to market prices as of 1 January 2021.

As of 31 December 2023, the management of Sadales tīkls AS has assessed internal and external indicators to assess whether revaluation would be needed. In this assessment, the increase in the price levels of general construction costs and electrical equipment costs accompanied with the increase of inflation and discount rates, which are exceeding criteria determined in the Group accounting policies, are indicators that revaluation of assets should be performed. After examining the recoverable value of the assets, the management of Sadales tīkls AS concluded that the fair value of the assets does not significantly differ from the assets book value on 31 December 2023. Such conclusion was mainly driven by the "Methodology of capital costs accounting and calculation" approved by the decision of the Public Utilities Commission as of 29 August 2022, which stipulates that the value of assets used in calculations of regulatory asset base are included without the effect of asset revaluations after 31 December 2021. Considering the above, revaluation of assets as of 31 December 2023 does not need to be carried out.

c) Impairment

Accounting policy

Assets that are subject to depreciation or amortisation, land and investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects the current market expectations regarding the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash–generating unit to which the asset belongs. Impairment losses are recognised in Other comprehensive income and reversed to the asset revaluation surplus in equity for the assets accounted at revalued amount and in the Statement of Profit or Loss within 'amortisation, depreciation and impairment charge expenses' for the assets that are accounted at cost, less depreciation and impairment, or for the assets accounted at revalued amount in case if impairment charge exceeds revaluation surplus previously recognised on individual asset.

The key assumptions used in determining recoverable amount of the asset are based on the Group entities' or the Parent Company's management best estimation of the range of economic conditions that will exist over the remaining useful life of the asset, on the basis of the most recent financial budgets and forecasts approved by the management for a maximum period of 10 years. Assets are reviewed for possible reversal of the impairment whenever events or changes in circumstances indicate that impairment must be reviewed. The reversal of impairment for the assets that are accounted at cost, less depreciation and impairment, is recognised in the Statement of Profit or Loss. Reversal of impairment loss for revalued assets is recognised in the Statement of Profit or Loss to the extent that an impairment loss on the same revalued asset was previously recognised in the Statement of Profit or Loss; the remaining reversals of impairment losses of revalued assets are recognised in Other comprehensive Income.

I) Latvenergo AS combined heat and power plants (Latvenergo AS CHPPs)

Impairment review performed for Latvenergo AS CHPPs is based on value in use calculations. The cash–generating unit is defined as the assets of Latvenergo AS CHPPs.

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP–1 and CHPP–2 (Note 4 f). The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one–off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants. Conditional grant part recognised as deferred income in the Group's and the Parent Company's statement of financial position (Note 28) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028. EUR 23,990 thousand were recognised as 'Other income' in the Group's and Parent Company's statement of profit or loss in 2023 (2022: EUR 23,990 thousand) (Note 7). Consequently, EUR 113,460 thousand remained recognised as deferred income as of 31 December 2023 (31/12/2022: EUR 137,450 thousand) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

As of 31 December 2023, the future discounted cash flows generated by the operation of Latvenergo AS CHPPs are evaluated in the amount of EUR 34,351 thousand (31/12/2022: EUR 28,607 thousand). More detailed information is given below. Consequently, the value of Latvenergo CHPPs assets is estimated equal to the sum of deferred income and future discounted cash flows as of 31 December 2023 – EUR 147,811 thousand (31/12/2022: EUR 166,057 thousand). The book value of Latvenergo AS CHPPs assets as on December 31, 2023 – EUR 170,120 thousand (31/12/2022: EUR 159,827 thousand).

EUR'000

	31/12/2023	31/12/2022
Deferred income	113,460	137,450
Future discounted cash flow value	34,351	28,607
True value of assets	**147,811**	**166,057**
Book value	170,120	159,827
Impairment	**(22,309)**	**6,230**

As a result of the above transactions, in 2023 additional impairment was recorded in the amount of EUR 22,309 thousand for Latvenergo AS CHPPs (2022: reversal of impairment EUR 6,230 thousand) and included within class of assets: 'Land, buildings and facilities' and 'Technology equipment and machinery'. The recognised impairment is included in the Statement of Profit or Loss position "Depreciation, amortisation and impairment of intangible assets, PPE and right–of–use assets". The accumulated impairment as of 31 December 2023 amounted to EUR 221,491 thousand (31/12/2022: EUR 199,181 thousand).

To ensure the carrying value is in line with recognised impairment, the future cash flows expected to be derived from the operation of Latvenergo AS CHPPs were evaluated. Forecasted period is 2024-2028 and the terminal value appraisal as of end of 2028, evaluated as a sum of backup fuel reserves of diesel, and the future value of heat water boilers, is included. Revenue stream forecast includes the income from electricity and heat generation, as well as the remaining intensity of electrical capacity payments and the support period for CHPP-2 till September 23, 2028, as it is set out in regulations by Cabinet of Ministers of the Republic of Latvia No. 561, dated 2 September 2020. The market prices of electricity, natural gas and emission allowances were forecasted by relying on the most recent third-party expert's estimates. The forecast of expenses is based on historical data, the budget approved by the management for 2024, the service maintenance agreements and assumed long-term inflation forecasted at 2%. Nominal pre–tax discount rate used to determine value in use of cash–generating unit by discounting cash flows is 8.875% (2022: 10.25%). The discount rate estimation has been impacted mainly by lower appraised value of risk-free rate, market risk premium, as well as EUROSWAP rate. As a result of calculation at the reporting year, the future discounted cash flows generated by Latvenergo AS CHPPs are evaluated as EUR 34,351 thousand (2022: EUR 28,607 thousand). The operation of Latvenergo AS CHPPs plants can be flexibly adjusted to the electricity market conditions and guarantees a significant baseload electricity capacity for Latvia. CHPPs can cover Latvian electricity consumption almost completely in circumstances where, due to certain factors, electricity imports from foreign countries are limited.

As of 31 December 2023, the Group and the Parent Company has performed a sensitivity analysis of the fair value test of Latvenergo AS CHPPs to changes in inputs:

EUR'000

	Discount rate		Electricity price*		Natural gas price*	
	1 pp increase	1 pp decrease	10% increase	10% decrease	10% increase	10% decrease
Possible changes of CHPPs assets value	(1,431)	1,497	34,187	(36,955)	(20,193)	19,465

*Natural gas and electricity commodity costs are historically closely correlated

II) Sadales tīkls AS distribution system assets

Impairment review performed for electricity distribution system assets in accordance with IAS 36 and based on value in use calculations. Distribution system assets defined as the cash–generating unit. The nominal after-tax discount market rate is used to determine the value in use of the cash flow generating unit by discounting the cash flow.

Key assumptions used in asset valuation	2023	2022
Discount rate	7.24%	5.92%
Long-term growth rate	2.29%	2.0%

In the reporting year, still tense geopolitical situation maintained high inflation rates, material price increases and interest rate hikes. The impairment assessment also considers price forecasts for the main revenue and cost streams as well as assumptions related to capital investment plans (also approved by the Regulator). With consideration of previously mentioned factors, the Company's management did not identify an impairment loss of the distribution power grid assets in 2023 (2022: no impairment loss identified). The assumptions of the Company's management are based on the information available at the time of approval of the financial statements. The impact of future events on Sadales tīkls AS future performance may differ from the current assessment.

As of 31 December 2023, the Group has performed a sensitivity analysis of the fair value test of Sadales tīkls AS distribution system assets to changes in inputs:

EUR'000

	Discount rate
	1 pp increase
Possible changes of distribution system assets value	no impairment

The Management of Sadales tīkls AS has assessed that other indicators are not sensitive as according to regulatory framework are completely recoverable either through new tariff project or through regulatory account during current regulatory period.

d) Investment property

Accounting policy

Investment properties are land, or a building or part of a building held by the Group or the Parent Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business. Investment property generates cash flows independently of the other assets held. The Group and the Parent Company apply the cost model in measurement of investment properties and subsequently measure at acquisition cost net of accumulated depreciation and impairment losses.

The applied depreciation rates are based on estimated useful life set for respective fixed asset categories – from 15 to 80 years.

EUR'000

	Group						Parent Company					
	Investment properties for lease*		Investment property held for capital appreciation		TOTAL Investment property		Investment properties for lease*		Investment property held for capital appreciation		TOTAL Investment property	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Cost at the beginning of the year	1,784	1,784	758	2,023	2,542	3,807	2,700	2,700	214	1,861	2,914	4,561
Accumulated depreciation and impairment at the beginning of the year	(211)	(199)	(34)	(292)	(245)	(491)	(691)	(674)	(1)	(285)	(692)	(959)
Net book amount at the beginning of the year	**1,573**	**1,585**	**724**	**1,731**	**2,297**	**3,316**	**2,009**	**2,026**	**213**	**1,576**	**2,222**	**3,602**
Reclassified from property, plant and equipment	–	–	612	823	612	823	–	–	58	315	58	315
Disposal	–	–	(7)	(31)	(7)	(31)	–	–	(1)	(1,678)	(1)	(1,678)
Sold	–	–	(581)	(1,799)	(581)	(1,799)	–	–	–	–	–	–
Depreciation	(12)	(12)	–	–	(12)	(12)	(18)	(17)	–	–	(18)	(17)
Net book amount at the end of the year	**1,561**	**1,573**	**748**	**724**	**2,309**	**2,297**	**1,991**	**2,009**	**270**	**213**	**2,261**	**2,222**
Cost at the end of the year	1,784	1,784	829	758	2,613	2,542	2,700	2,700	287	214	2,987	2,914
Accumulated depreciation and impairment at the end of the year	(223)	(211)	(81)	(34)	(304)	(245)	(709)	(691)	(17)	(1)	(726)	(692)
Net book amount at the end of the year	**1,561**	**1,573**	**748**	**724**	**2,309**	**2,297**	**1,991**	**2,009**	**270**	**213**	**2,261**	**2,222**

* leased property, plant and equipment and real estate related to distribution and transmission system assets

15. Leases

a) Right-of-use assets and lease liabilities

Accounting policy

At the time of conclusion of the contract, the Group and the Parent Company assess whether the contract is a lease or contains a lease. A contract is a lease, or contains a lease, when the contract gives the right to control the use of an identified asset throughout the period of time in exchange for consideration.

Leases and right–of–use assets are recognised for all long–term leases that meet the criteria of IFRS 16 (the remaining lease term exceeds 12–months at the date of implementation of the standard).

Low value leases are not accounted fully, applying the additional exemptions for leases of land under transformer substations and electric transport charging stations, which are considered immaterial according to IFRS 16 criteria, as well as the value of assets is immaterial.

Leases are recognised as right–of–use assets and the corresponding lease liabilities at the date when leased assets are available for use of the Group and the Parent Company. The cost of the right–of–use an asset consists of:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs.

The right–of–use the asset is recognised as a separate item in the composition of non–current assets and is classified according to groups of property, plant and equipment.

The Group and the Parent Company account for the right–of–use assets of land, buildings, and facilities.

The right–of–use asset is amortised on a straight–line basis from the commencement date to the end of the useful life of the underlying asset. Depreciation is calculated on a straight–line basis from the commencement date of the lease to the end of the lease term unless an asset is scheduled to be redeemed. The right–of–use asset is periodically reduced for impairment losses, if any, and adjusted for any remeasurement of the lease liabilities.

Assets and lease liabilities arising from leases at commencement date are measured at the amount equal to the present value of the remaining lease payments, discounted by the interest rate implicit in the lease.

Lease liabilities are subsequently measured when there is a change in future lease payments due to changes of an index or a rate used to determine these payments, when the Group's and the Parent Company's estimate of expected payments changes, or when the Group and the Parent Company change their estimates of the purchase option, lease term modification due to extension or termination. When a lease liability is subsequently remeasured, the corresponding adjustment is made to the carrying amount of the right–of–use asset or recognised in the statement of profit or loss if the carrying amount of the right–of–use asset decreases to zero.

Each lease payment is divided between the lease liability and the interest expense on the lease. Interest expense on lease is recognised in the statement of profit or loss over the lease term to form a constant periodic interest rate for the remaining lease liability for each period.

Lease payments related to short–term leases are recognised as an expense in the statement of profit or loss on a straight–line basis. Short–term leases are leases with a lease term of 12 months or less at the commencement date.

The Group and the Parent Company have recognised the right-of-use assets for land, buildings and facilities, and on a lease of the fiber of the combined optical cable (OPGW - optical ground wire with dual function).

Right–of–use assets

EUR'000

	Group	Parent Company
	Land, buildings and facilities	Land, buildings and facilities
As of 31 December 2021		
Cost	12,871	7,342
Accumulated depreciation	(4,559)	(2,199)
Net book amount	**8,312**	**5,143**
Year ended 31 December 2022		
Recognised changes in lease agreements	4,261	1,094
Depreciation	(2,047)	(1,171)
Closing net book amount as of 31 December 2022	**10,526**	**5,066**
As of 31 December 2022		
Cost	16,784	8,436
Accumulated depreciation	(6,258)	(3,370)
Net book amount	**10,526**	**5,066**
Year ended 31 December 2023		
Recognised changes in lease agreements	2,928	875
Depreciation	(2,235)	(1,231)
Closing net book amount as of 31 December 2023	**11,219**	**4,710**
As of 31 December 2023		
Cost	17,994	9,311
Accumulated depreciation	(6,775)	(4,601)
Net book amount	**11,219**	**4,710**

Lease liabilities

EUR'000

	Group	Parent Company
As of 31 December 2021	**8,428**	**5,226**
Of which are:		
- Non–current	6,540	4,085
- Current	1,888	1,141
Year ended 31 December 2022		
Recognised changes in lease agreements	4,261	1,094
Payments for lease liabilities	(2,150)	(1,234)
Recognised interest liabilities	136	80
As of 31 December 2022	**10,675**	**5,166**
Of which are:		
- Non–current	8,648	4,206
- Current	2,027	960
Year ended 31 December 2023		
Recognised changes in lease agreements	2,933	875
Payments for lease liabilities	(2,364)	(1,300)
Recognised interest liabilities	162	83
As of 31 December 2023	**11,406**	**4,824**
Of which are:		
- Non–current	9,015	3,607
- Current	2,391	1,217

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

b) Expenses from leases (IFRS 16)

The following amounts are recognised in profit or loss:

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Depreciation for the right-of-use assets (land buildings and facilities)	2,235	2,047	1,231	1,171
Interest expense on lease liabilities (included in finance costs)	162	136	83	80
Short–term and low value lease expenses	151	90	48	48
Variable lease payments not included in the lease liabilities	112	31	82	31
TOTAL expenses from leases	**2,660**	**2,304**	**1,444**	**1,330**

In the Statement of Cash Flows for the year ended 31 December 2023, lease payments of the Group in amount of EUR 370 thousand and the Parent Company in amount of EUR 534 thousand have been made by non–cash offsetting and included in cash flows from operating activities in working capital adjustments (2022: the Group in amount of EUR 372 thousand and the Parent Company in amount of EUR 505 thousand). Other lease payments of the Group in amount of EUR 1,886 thousand and the Parent Company in amount of EUR 731 thousand are included in the cash flows from financing activities (payments of principal on leases) and in cash flows from operating activities (payments of interest on leases) (2022: the Group EUR 1,671 thousand and the Parent Company EUR 649 thousand).

c) Income from leases

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
Income from leases (the Group and the Parent Company is the lessor)	6	1,478	1,977	3,070	3,357

Future minimum lease payments receivable under operating lease contracts by due dates (the Group and the Parent Company are the lessor)

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
< 1 year	1,489	1,969	3,070	3,357
1–5 years	2,219	2,198	8,520	7,794
> 5 years	1,486	1,486	1,486	1,486
TOTAL rental income	**5,194**	**5,653**	**13,076**	**12,637**

16. Non–current financial investments

The Parent Company's participating interest in subsidiaries (%) and other non–current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2023		31/12/2022	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Investments in subsidiaries:						
Sadales tīkls AS (18/09/2006)	Latvia	Electricity distribution	100%	641,450	100%	641,450
Enerģijas publiskais tirgotājs SIA (25/04/2014)	Latvia	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti OÜ (27/06/2007)	Estonia	Electricity and natural gas trade	100%	35	100%	35
Elektrum Lietuva, UAB (07/01/2008)	Lithuania	Electricity and natural gas trade	100%	25,000	100%	600
Latvijas vēja parki SIA (22/07/2022)	Latvia	Development of wind parks and generation of electricity	80%	1,600	80%	1,600
Liepājas enerģija SIA (06/07/2005)	Latvia	Thermal energy generation and trade, electricity generation	51%	3,556	51%	3,556
TOTAL				**671,681**		**647,281**
Other non–current financial investments:						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30%	36	46.30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				**39**		**39**
TOTAL non-current financial investments of the Parent Company				**671,720**		**647,320**

Subsidiaries' participating interest held (%)

Name of the company	Country of incorporation	Business activity held	31/12/2023	31/12/2022
			Interest held, %	Interest held, %
Subsidiaries of Elektrum Eesti OÜ:				
Elektrum Latvija, SIA (18/09/2012)	Latvia	Electricity trade	100%	100%
Energiaturu Võrguehitus OÜ (26/08/2021)	Estonia	Electricity microgrid services	100%	100%
HN põld ja mets 1 OÜ (31/05/2023)	Estonia	Development of renewable energy generation	100%	–
Subsidiaries of Elektrum Lietuva, UAB				
Klaipėda unlimited sun, UAB (27/01/2023)	Lithuania	Development of renewable energy generation	100%	–

The Group holds an 50% interest in a joint ventures, companies engaged in development of renewable energy generation in Lithuania, in total amount of EUR 2 thousand.

The Group's non–current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2023		31/12/2022	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Other non–current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15%	37	48.15%	37
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				**40**		**40**

The Group owns 48.15% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS – 46.30%). However, the Group and the Parent Company are only a nominal shareholder as the Pension Fund is a non-profit company, and all risks and benefits arising from company's activities and investments in the pension plan are taken and accrued by the members of the Pension Fund pension plan. For this reason, the investment in Pirmais Slēgtais Pensiju Fonds AS is valued at acquisition cost.

As of 31 December 2023 Enerģijas publiskais tirgotājs SIA and Sadales tīkls AS jointly own one share of Pirmais Slēgtais Pensiju Fonds AS with nominal value in the amount of EUR 1,422 (1.85% interest held in share capital) and consequently, each entity owns 1/2 of the notional shares in the amount of EUR 711 per share.

Accounting policy on investments in subsidiaries and non-current investments disclosed in Note 2.

Movement in non-current investments

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
At the beginning of the year	**40**	**40**	**647,320**	**645,218**
Invested in share capital	–	–	24,400	2,102
At the end of the year	**40**	**40**	**671,720**	**647,320**

Summarised financial information for subsidiaries

EUR'000

	Equity		Net profit / (loss) for the year		Dividends from subsidiaries*		Carrying amount of interest from investment	
Subsidiaries	**31/12/2023**	**31/12/2022**	**2023**	**2022**	**2023**	**2022**	**31/12/2023**	**31/12/2022**
Subsidiaries of the Parent Company:								
Sadales tīkls AS	985,972	970,630	16,906	(20,415)	–	10,429	641,450	641,450
Enerģijas publiskais tirgotājs SIA	40	40	–	–	–	–	40	40
Elektrum Eesti OÜ	1,031	1,127	359	455	455	156	35	35
Elektrum Lietuva, UAB	29,425	956	4,069	656	–	–	25,000	600
Latvijas vēja parki SIA	1,134	1,809	(675)	(191)	–	–	1,600	1,600
Liepājas enerģija SIA	16,793	14,469	3,243	1,276	469	–	3,556	3,556
Total Subsidiaries of the Parent Company	**1,034,395**	**989,031**	**23,902**	**(18,219)**	**924**	**10,585**	**671,681**	**647,281**
Subsidiaries of Elektrum Eesti OÜ:								
Total Elektrum Eesti OÜ interests	**3,593**	**2,936**	**657**	**541**	**–**	**–**	**6,204**	**4,754**
Subsidiaries of Elektrum Lietuva, UAB:								
Total Elektrum Lietuva, UAB interests	**3**	**–**	**–**	**–**	**–**	**–**	**3,932**	**–**

* in 2023 dividends from subsidiaries received in cash in the amount of EUR 924 thousand (2022: EUR 156 thousand received in cash and with non–cash offset in the amount of EUR 10,429 thousand)

Summarised financial information for non-controlling interests

EUR'000

	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
Non-controlling interest of subsidiaries	**31/12/2023**	**31/12/2022**	**31/12/2023**	**31/12/2022**	**31/12/2023**	**31/12/2022**	**31/12/2023**	**31/12/2022**
Latvijas vēja parki SIA (20%)	754	28	297	347	–	–	824	14
Liepājas enerģija SIA (49%)	14,632	14,232	3,815	5,651	14,815	9,223	2,959	3,571

Business combinations and acquisition of ownership interests

During 2022, Latvijas vēja parki SIA, a joint venture of Latvenergo AS and Latvijas valsts meži AS for the development of wind parks of strategic importance, was registered. Share capital of Latvijas vēja parki SIA is EUR 2,000 thousand, with the 80% of ownership interest held in joint venture by Latvenergo AS and 20% of ownership interest held by Latvijas valsts meži AS. In 2023, the shareholders' meeting of Latvijas vēja parki SIA decided that the company's share capital will be increased by EUR 5,000 thousand, and in 2023 the Parent Company made payment to the company for the unregistered shares in company's share capital in amount of EUR 4,000 thousand.

17. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using the weighted average method, except of natural gas inventory held per Inčukalns underground gas storage where cost is determined using FIFO method. Goods for sale are determined using FIFO or weighted average cost method, or specific identification method.

Purchase cost of inventories consists of the purchase price, import charges and other fees and charges, freight–in and related costs as well as other costs directly incurred in bringing the materials and goods to their present location and condition. The value of inventories is assigned by charging trade discounts, reductions, and similar allowances. Existence of inventories as of the end of reporting period is verified during stock–taking.

At the end of each reporting year the inventories are reviewed for any indications of obsolescence. When obsolete or damaged inventories are identified, allowances are recognised to their recoverable amount. Additionally, during the reporting year at least each month inspection of idle inventories is performed with the purpose to identify obsolete and damaged inventories. Allowances for an impairment loss are recognised for those inventories.

The following basic principles are used in determining impairment losses for idle inventories:

a) Maintenance inventories for machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 12 months are impaired in amount of 90%, while inventories haven't turned over during last 6 months are impaired in amount of 45%

b) Inventories that haven't turned over during last 12 months are fully impaired, while inventories that haven't turned over during last 6 months are impaired in amount of 50%,

c) Allowances are not calculated for the fuel necessary to ensure uninterrupted operations of hydropower and combined heat and power plants, for natural gas and scraps.

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Natural gas (at lower of cost and net realisable value)	119,250	241,588	119,250	241,588
Raw materials and materials (at cost)	23,377	18,888	1,205	1,084
Goods for sale (at lower of cost and net realisable value)	13,809	12,802	3,916	3,259
Other inventories (at cost)	19,359	16,585	18,900	16,055
Unfinished products and orders (at cost)	6,490	5,128	88	–
Prepayments for natural gas and other inventories	4,603	2,027	4,026	469
Allowances for impaired inventories	(3,090)	(1,380)	(1,340)	(869)
TOTAL inventories	**183,798**	**295,638**	**146,045**	**261,586**

Changes in the allowance for raw materials and materials at warehouses in amount of EUR 1,710 thousand (2022: EUR 270 thousand) for the Group and in amount of EUR 471 thousand (2022: EUR 134 thousand) for the Parent Company are included in the Statement of Profit or Loss position 'Raw materials and consumables used'.

18. Receivables from contracts with customers and other receivables

Accounting policy

Receivables from contracts with customers and other receivables are classified in groups:

a) Energy (electricity and natural gas) and related services sales, including distribution system services,

b) Heating sales,

c) Other sales (IT & telecommunication services, connection service fees and other services),

d) Receivables from subsidiaries,

e) Other financial receivables.

Receivables from contracts with customers are recognised initially when they originated. Receivables without a significant financing component are initially measured at the transaction price and subsequently are measured at amortised cost.

The Group and the Parent Company consider the evidence of impairment for the receivables from contracts with customers and other receivables at both an individual and a collective level. All individually significant receivables and receivables of energy industry companies and related parties are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Receivables that are not individually significant are collectively assessed for impairment using the portfolio model. Collective assessment is carried out by grouping together receivables with similar risk characteristics and the days past due. The Group and the Parent Company have applied two expected credit loss models: portfolio model and counterparty model.

The expected loss rates used for portfolio model are based on the payment profiles of sales over a period of 3 years and the corresponding historical credit losses experienced within this period and are adjusted to reflect current and forward-looking information. The Group and the Parent Company apply the IFRS 9 simplified approach to measuring expected credit losses of the collectively assessed receivables (portfolio model) using lifetime expected loss allowance.

For individually significant other receivables and other receivables of energy industry companies and related parties' receivables the Group and the Parent Company apply the IFRS 9 general approach to measuring expected credit losses (counterparty model) using expected credit loss allowance on assessment of significant increase of credit risk. The expected credit losses according to this model are based on assessment of the individual counterparty's risk of default based on Moody's corporate default and recovery rates for the Latvenergo group's and the relevant industry's entities (Note 4 b).

a) Receivables from contracts with customers, net

Receivables from contracts with customers grouped by the expected credit loss (ECL) assessment model, net

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Individually assessed receivables with lifetime ECL assessment (counterparty model)	28,381	59,630	30,943	46,609
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	196,541	254,479	130,731	186,583
TOTAL receivables from contracts with customers	**224,922**	**314,109**	**161,674**	**233,192**

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Receivables from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	194,928	214,542	128,213	152,285
- Electricity and related services customers (counterparty model)	8,273	36,133	–	14,953
- Heating customers (portfolio model)	23,907	54,228	20,289	49,237
- Other receivables from contracts with customers (portfolio model)	4,418	5,622	1,279	1,444
- Other receivables from contracts with customers (counterparty model)	20,165	23,541	19,936	18,181
- Subsidiaries (counterparty model)	–	–	11,057	13,503
	251,691	**334,066**	**180,774**	**249,603**
Allowances for expected credit loss from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	(24,752)	(17,642)	(18,682)	(15,938)
- Electricity and related services customers (counterparty model)	(17)	(18)	–	–
- Heating customers (portfolio model)	(360)	(448)	(348)	(422)
- Other receivables from contracts with customers (portfolio model)	(1,600)	(1,823)	(20)	(23)
- Other receivables from contracts with customers (counterparty model)	(40)	(26)	(40)	(20)
- Subsidiaries (counterparty model)	–	–	(10)	(8)
	(26,769)	**(19,957)**	**(19,100)**	**(16,411)**
Receivables from contracts with customers, net:				
- Electricity, natural gas trade and related services customers (portfolio model)	170,176	196,900	109,531	136,347
- Electricity and related services customers (counterparty model)	8,256	36,115	–	14,953
- Heating customers (portfolio model)	23,547	53,780	19,941	48,815
- Other receivables from contracts with customers (portfolio model)	2,818	3,799	1,259	1,421
- Other receivables from contracts with customers (counterparty model)	20,125	23,515	19,896	18,161
- Subsidiaries (counterparty model)	–	–	11,047	13,495
	224,922	**314,109**	**161,674**	**233,192**

Receivables from contracts with customers with lifetime expected credit losses (ECL) assessed on the portfolio model basis and grouped by past due days

EUR'000

		Group						Parent Company					
		31/12/2023			31/12/2022			31/12/2023			31/12/2022		
Late payment delay in days	ECL rate	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net
On time	0.20%	186,282	(389)	**185,893**	248,926	(543)	**248,383**	123,163	(267)	**122,896**	183,322	(418)	**182,904**
Less than 30 days	3%	6,693	(201)	**6,492**	3,601	(108)	**3,493**	5,136	(154)	**4,982**	1,843	(55)	**1,788**
Past due 30 - 59 days	20%	1,154	(231)	**923**	1,930	(386)	**1,544**	795	(159)	**636**	1,493	(299)	**1,194**
Past due 60 - 89 days	50%	3,337	(1,668)	**1,669**	722	(361)	**361**	2,809	(1,405)	**1,404**	462	(231)	**231**
Past due 90 - 179 days	60%	1,806	(1,084)	**722**	1,079	(648)	**431**	426	(255)	**171**	713	(428)	**285**
Past due 180 - 359 days	75%	1,668	(1,251)	**417**	994	(745)	**249**	900	(675)	**225**	652	(489)	**163**
Past due more than 360 days	100%	10,049	(10,049)	**–**	10,179	(10,179)	**–**	7,366	(7,366)	**–**	7,929	(7,929)	**–**
Individually assessed	90%	10,763	(10,338)	**425**	5,691	(5,673)	**18**	7,776	(7,359)	**417**	5,691	(5,673)	**18**
Insolvent debtors*	100%	1,501	(1,501)	**–**	1,270	(1,270)	**–**	1,410	(1,410)	**–**	861	(861)	**–**
TOTAL		**223,253**	**(26,712)**	**196,541**	**274,392**	**(19,913)**	**254,479**	**149,781**	**(19,050)**	**130,731**	**202,966**	**(16,383)**	**186,583**

* receivables under insolvency process and with an established payment schedule

The expected loss rates used for portfolio model are based on the payment profiles of sales over a period of 3 years and the corresponding historical credit losses experienced within this period. Adjusting by forward–looking information is disclosed in Note 4 b.

Receivables from contracts with customers with lifetime expected credit losses (ECL) assessed on the counterparty model basis

EUR'000

	Notes	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
Receivables of electricity and related services customers		8,273	36,133	–	14,953
Allowances for expected credit loss on receivables of electricity and related services customers		(17)	(18)	–	–
Other receivables from contracts with customers		20,165	23,541	19,936	18,181
Allowances for expected credit loss on other receivables from contracts with customers		(40)	(26)	(40)	(20)
Receivables from subsidiaries	29 b	–	–	10,779	11,070
Accrued income from subsidiaries	29 c	–	–	278	2,433
Allowances for expected credit loss on subsidiaries receivables	29 b	–	–	(10)	(8)
TOTAL		**28,381**	**59,630**	**30,943**	**46,609**

Allowances for impairment loss are calculated based on Moody's credit rating agency corporate default and debt recovery rate assigned for credit rating level - Baa2 (stable) (for receivables from related parties) and corporate default and debt recovery rate assigned for energy utilities industry.

There is no significant concentration of credit risk with respect to receivables from contracts with customers as the Group and the Parent Company have large number of customers except major heating customer the net debt of which as of 31 December 2023 amounted to EUR 25,757 thousand (31/12/2022: EUR 48,768 thousand).

The Management assumptions and methodology for estimation of impairment for receivables from contracts with customers and evaluation of impairment risk are described in Note 4.

Movements in loss allowances for impaired receivables from contracts with customers

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
At the beginning of the year	**19,957**	**17,028**	**16,411**	**14,009**
Receivables written off during the year as uncollectible	(2,048)	(2,372)	(1,789)	(2,284)
Allowances for expected credit losses	8,860	5,301	4,478	4,686
At the end of the year	**26,769**	**19,957**	**19,100**	**16,411**

b) Other financial receivables (assessed on the counterparty model basis)

EUR'000

	Level of SICR	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
Current financial receivables:					
Uncovered costs of mandatory procurement and guaranteed fee for the installed electrical capacity of cogeneration power plants recognised as assets*	Stage 1	32,286	108	–	–
Receivables for lease	Stage 1	15	34	9	31
	Stage 3	3	1	2	1
Other current financial receivables	Stage 1	12,289	16,084	2,589	9,347
	Stage 3	4,429	2,098	3,854	4,606
Other accrued income	Stage 1	586	280	586	280
Allowances for expected credit loss	Stage 1	(102)	(73)	(50)	(66)
	Stage 3	(1,534)	(1,443)	(1,237)	(1,132)
Receivables for lease from subsidiaries (Note 29 b)	Stage 1	–	–	26	13
Other financial receivables from subsidiaries (Note 29 b)	Stage 1	–	–	30,837	21,037
Other accrued income from subsidiaries (Note 29 c)	Stage 1	–	–	14,630	2,150
Allowances for expected credit loss on subsidiaries receivables (Note 29 b)	Stage 1	–	–	(21)	(14)
TOTAL other financial receivables		**47,972**	**17,089**	**51,225**	**36,253**

* by applying agent principle, uncovered costs of mandatory procurement and guaranteed fee for the installed electrical capacity of cogeneration power plants are recognised as assets in net amount, as difference between revenue and costs recognised under the mandatory procurement

As of 31 December 2023 the Group and the Parent Company have no significant concentration of credit risk with respect to other financial receivables except the Group's receivable from State for uncovered costs of mandatory procurement and guaranteed fee for the installed electrical capacity of cogeneration power plants recognised as assets – EUR 32,286 thousand (31/12/2022: EUR 108 thousand) and as of 31 December 2022 the commodities exchange – Nasdaq Commodities – the net debt of which to the Group as of 31 December 2022 amounted to EUR 9,178 thousand. Loss allowance for other financial receivables assessed individually and based on counterparty's model (Note 4).

c) Other non-financial receivables

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Non–current non–financial receivables	447	482	447	482
Current non–financial receivables	2,109	432	1,055	198
TOTAL non–financial receivables	**2,556**	**914**	**1,502**	**680**

None of the receivables are secured with pledges or otherwise. The carrying amounts of other receivables are assumed to approximate their fair values.

19. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash balances on bank accounts, demand deposits at bank and other short–term deposits with original maturities of three months or less.

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Cash at bank	78,373	112,673	67,080	100,184
Short–term bank deposits	40,000	–	40,000	–
Other cash equivalents	83	84	83	84
TOTAL cash and cash equivalents	**118,456**	**112,757**	**107,163**	**100,268**

Cash at bank balances earns daily interest for the Group mostly based on floating interbank deposit rates. Short–term deposits are placed by the Group for different periods between three and six months depending on the immediate cash needs of the Group and cash flow forecasts. During 2023 the average annual effective interest rate earned on short–term cash deposits was 3.60 % (in 2022: 0%).

As of 31 December 2023, the Group and the Parent Company had deposits at banks in amount of EUR 140,000 thousand with maturity date longer than 3 months that does not comply with the principles of recognition as cash equivalents (31/12/2022: EUR 0 thousand). These deposits are disclosed as 'Other current financial investments' in the Statement of Financial Position.

The carrying amounts of cash are assumed to approximate their fair values.

20. Share capital

As of 31 December 2023, the registered share capital of the Latvenergo AS is EUR 790,368 thousand (31/12/2022: EUR 790,368 thousand) and consists of 790,368 thousand ordinary shares (31/12/2022: 790,368 thousand) with the nominal value of EUR 1 per share (31/12/2022: EUR 1 per share). All shares have been fully paid.

21. Reserves, dividends and earnings per share

a) Reserves

EUR'000

	Notes	Group					Parent Company			
		Non–current assets revaluation reserve	Hedge reserve	Defined benefit plan revaluation reserve	Other reserves	TOTAL	Non–current assets revaluation reserve	Hedge reserve	Defined benefit plan revaluation reserve	TOTAL
As of 31 December 2021		**1,157,825**	**19,218**	**(1,798)**	**110**	**1,175,355**	**778,049**	**19,218**	**(1,536)**	**795,731**
Increase of non–current assets revaluation reserve as a result of revaluation	14 a	227,695	–	–	–	**227,695**	227,695	–	–	**227,695**
Disposal of revaluation reserve	14 a	(11,529)	–	–	–	**(11,529)**	(3,470)	–	–	**(3,470)**
Gains on re–measurement of defined benefit plan	27 a	–	–	645	–	**645**	–	–	210	**210**
Losses from fair value changes of derivative financial instruments	24 l	–	(109,483)	–	–	**(109,483)**	–	(109,483)	–	**(109,483)**
As of 31 December 2022		**1,373,991**	**(90,265)**	**(1,153)**	**110**	**1,282,683**	**1,002,274**	**(90,265)**	**(1,326)**	**910,683**
Increase of non–current assets revaluation reserve as a result of revaluation	14 a	312,061	–	–	–	**312,061**	312,061	–	–	**312,061**
Disposal of revaluation reserve	14 a	(9,613)	–	–	–	**(9,613)**	(561)	–	–	**(561)**
Losses on re–measurement of defined benefit plan	27 a	–	–	(2,709)	–	**(2,709)**	–	–	(1,144)	**(1,144)**
Gains from fair value changes of derivative financial instruments	24 l	–	99,380	–	–	**99,380**	–	99,380	–	**99,380**
Formed statutory reserves		–	–	–	50	**50**	–	–	–	**–**
As of 31 December 2023		**1,676,439**	**9,115**	**(3,862)**	**160**	**1,681,852**	**1,313,774**	**9,115**	**(2,470)**	**1,320,419**

Non–current assets revaluation reserve, post–employment benefit plan revaluation and hedge reserves cannot be distributed as dividends. Other reserves are maintained with the aim to maintain stability in the operations of the Group entities.

b) Dividends

Accounting policy

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Parent Company's shareholders.

In May 2023, Latvenergo AS paid dividends to the State in amount of EUR 133,991 thousand for reporting year 2022 profit. On 18 October 2023, Extraordinary Shareholder Meeting of Latvenergo AS took decision to pay additional dividends to the State in the amount of EUR 18,547 thousand from the undistributed profit of the reporting year 2022.

The total amount of dividends paid for year 2022 was EUR 152,539 thousand or EUR 0.232 per share (in 2022 for 2021: EUR 70,160 thousand or EUR 0.089 per share).

According to the Law "On state budget for 2024 and budgetary framework for 2024, 2025 and 2026" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2024 (for the reporting year 2023) is 64% of the profit for the reporting year, but not less than EUR 199.3 million, corporate income tax calculated and paid in accordance with the laws and regulations. The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

c) Earnings per share

Accounting policy

The Group's share capital consists of the Parent Company's ordinary shares. All shares have been fully paid.

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding (Note 20). As there are no potential ordinary shares, diluted earnings per share are equal to basic earnings per share in all comparable periods.

	Group		Parent Company	
	2023	2022	2023	2022
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	349,749	183,443	331,561	209,362
Weighted average number of shares (thousand)	790,368	790,368	790,368	790,368
Basic earnings per share (in euros)	0.443	0.232	0.420	0.265
Diluted earnings per share (in euros)	0.443	0.232	0.420	0.265

22. Changes in liabilities arising from financing activities

The changes in lease liabilities (Note 15):

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Net book amount at the beginning of the year	**10,675**	**8,428**	**5,166**	**5,226**
Recognised changes in lease agreements	2,928	4,261	875	1,094
Paid lease payments in cash	(1,886)	(1,671)	(731)	(649)
Paid lease payments by non-cash offset	(370)	(372)	(534)	(505)
Change in accrued liabilities	(108)	(107)	(35)	(80)
Recognised interest liabilities	162	136	83	80
Closing net book amount at the end of the year	**11,401**	**10,675**	**4,824**	**5,166**

In 2023, the movement for borrowings (Note 23) relates to cash flows, except the effect of accrued but not yet paid interest – for the Group increase in the amount of EUR 2,868 thousand and for the Parent company increase in the amount of EUR 2,834 thousand (2022: the Group – increase of EUR 2,161 thousand, the Parent Company – increase of EUR 2,087 thousand).

In 2023, deferred income on financing from European Union funds (Note 28) consists of movement in cash, except the credited amount to Statement of Profit or Loss – for the Group in the amount of EUR 909 thousand and for the Parent company in the amount of EUR 142 thousand (2022: the Group – EUR 896 thousand, the Parent Company – EUR 144 thousand).

23. Borrowings

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Non-current portion of non-current borrowings from financial institutions	336,408	424,867	327,174	411,664
Non-current portion of issued debt securities (bonds)	199,908	149,887	199,908	149,887
Total non-current borrowings from financial institutions	**536,316**	**574,754**	**527,082**	**561,551**
Current portion of non-current borrowings from financial institutions	86,625	177,778	84,491	175,798
Overdraft from financial institutions	–	119,478	–	119,478
Accrued interest on non-current borrowings from financial institutions	2,891	2,161	2,742	2,047
Accrued coupon interest on issued debt securities (bonds)	3,864	1,747	3,864	1,747
Total current borrowings from financial institutions	**93,380**	**301,164**	**91,097**	**299,070**
TOTAL borrowings from financial institutions	**629,696**	**875,918**	**618,179**	**860,621**
Current borrowings from related parties*	–	–	–	3,317
Total current borrowings	**93,380**	**301,164**	**91,097**	**302,387**
TOTAL borrowings	**629,696**	**875,918**	**618,179**	**863,938**

Movement in borrowings

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
At the beginning of the year	**875,918**	**795,029**	**863,938**	**782,322**
Received borrowings from financial institutions	2,000	207,846	–	200,013
Repaid borrowings from financial institutions	(301,090)	(129,118)	(295,276)	(123,801)
Proceeds from issued debt securities (bonds)	50,000	100,000	50,000	100,000
Borrowings received from related parties*	–	–	(3,317)	3,317
Repayment of issued debt securities (bonds)	–	(100,000)	–	(100,000)
Change in accrued interest on borrowings from financial institutions	2,847	2,195	2,813	2,121
Changes in outstanding value of issued debt securities (bonds)	21	(34)	21	(34)
At the end of the year	**629,696**	**875,918**	**618,179**	**863,938**

Borrowings by categories of lenders

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
International Financial Institutions	224,186	273,306	224,186	273,306
Commercial banks	201,738	450,978	190,221	435,681
Issued debt securities (bonds)	203,772	151,634	203,772	151,634
Total borrowings from financial institutions	**629,696**	**875,918**	**618,179**	**860,621**
Related parties*	–	–	–	3,317
TOTAL borrowings	**629,696**	**875,918**	**618,179**	**863,938**

* Within the framework of the Agreement ´On Provision of Mutual Financial Resources´, as of 31 December 2023, Parent Company didn't have current borrowing from Enerģijas publiskais tirgotājs SIA (31/12/2022: in the amount of EUR 3,317 thousand), (the information is disclosed in the Note 29. II).

Borrowings from financial institutions by contractual maturity, excluding the impact of derivative instruments to the interest rate

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Fixed rate non–current and current borrowings:				
- < 1 year (current portion of non–current borrowings)	3,864	1,747	3,864	1,747
- 1–5 years	149,908	100,000	149,908	100,000
- > 5 years	50,000	49,887	50,000	49,887
Total fixed rate borrowings	**203,772**	**151,634**	**203,772**	**151,634**
Floating rate non–current and current borrowings:				
- < 1 year (current borrowings)	–	119,692	–	119,692
- < 1 year (current portion of non–current borrowings)	89,495	179,704	87,212	177,610
- 1–5 years	246,228	303,329	239,433	293,199
- > 5 years	90,201	121,559	87,762	118,486
Total floating rate borrowings	**425,924**	**724,284**	**414,407**	**708,987**
TOTAL borrowings	**629,696**	**875,918**	**618,179**	**860,621**

Borrowings from financial institutions by repricing of interest, including the impact of derivative instruments

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
- < 1 year	344,074	606,983	332,557	591,686
- 1–5 years	235,622	219,048	235,622	219,048
- > 5 years	50,000	49,887	50,000	49,887
TOTAL borrowings	**629,696**	**875,918**	**618,179**	**860,621**

As of 31 December 2023, and as of 31 December 2022 all of the Group's and the Parent Company's borrowings were denominated in euros.

The fair value of current and non–current borrowings with floating interest rates approximate their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group and the Parent Company, i.e., the floating part of the interest rate corresponds to the money market price while the added part of the interest rate corresponds to the risk premium the lenders in financial and capital markets require from companies of similar credit rating level; therefore, the effect of fair value revaluation is not significant.

Lease liabilities of the Group and the Parent Company are disclosed in Note 15.

I) Pledges

As of 31 December 2023, the Group's and the Parent Company's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Enerģija SIA of maximum secured claims in the amount of EUR 19 million (31/12/2022: EUR 28 million) to secure its current and non–current borrowings. As of the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 15 million and the claims on the receivable's accounts in the amount of EUR 4 million (31/12/2022: EUR 21 million and EUR 7 million, respectively).

II) Un–drawn borrowing facilities

As of 31 December 2023, the un–drawn committed non–current credit facilities amount to EUR 200 million (31/12/2022: EUR 200 million).

As of 31 December 2023, the Group had entered into six overdraft agreements with total notional amount of EUR 236 million (31/12/2022: seven overdraft agreements of EUR 296 million) of which four overdraft agreements were entered by the Parent Company with total notional amount of EUR 230 million (31/12/2022: five overdraft agreements of EUR 290 million). In respect of all the overdraft agreements all conditions precedent have been met.

At the end of the reporting year of total credit lines limits were used EUR 16.1 million in a form as bank issued bank guarantee by the Group and by the Parent Company (31/12/2022: used EUR 123.3 million, of which EUR 119.5 million EUR used by the Parent Company).

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate of the Group (including interest rate swaps) on non–current borrowings was 3.2% (2022: 1.2%), weighted average effective interest rate for current borrowings from financial institutions was 0.48% (2022: 0.48%). As of 31 December 2023, interest rates for non–current borrowings in euros were 6 months EURIBOR + 0.87% (31/12/2022: + 0.69%) for the Group and 6 months EURIBOR+ 0.86% (31/12/2022: + 0.68%) for Latvenergo AS. As of 31 December 2023, the total notional amount of interest rate swap agreements concluded by the Group amounted to EUR 105 million (31/12/2022: EUR 133 million) and the interest rate was fixed for the initial periods from 7 to 10 years.

IV) Issued and outstanding debt securities (bonds)

In 2015 and in 2016 the Parent Company (Latvenergo AS) issued green bonds in the total amount of EUR 100 million with the maturity date 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. In 2021 Latvenergo AS issued green bonds in the total amount of EUR 50 million with the maturity date 17 May 2028 (ISIN code – LV0000802460) with the annual coupon rate of 0.5% under the third bond programme in the total amount of EUR 200 million. Continuing bond issuance within the framework of the third bond programme, on May 5, 2022, Latvenergo AS issued five-year green bonds with a total nominal value of EUR 100 million, a maturity date of 5 May 2027, a fixed annual interest rate (coupon) and a yield of 2.42% (ISIN code – LV0000870129). On February 22, 2023, Latvenergo AS concluded the bond program by issuing six-year green bonds with a total nominal value of EUR 50 million with a maturity date of February 22, 2029, and a fixed interest rate (coupon) and yield of 4.952% per year (ISIN code – LV0000802684). The total nominal amount of outstanding bonds as of 31 December 2023 was EUR 200 million (31/12/2022: EUR 150 million). All issued bonds are quoted in NASDAQ Baltic Stock Exchange. The issued debt securities (bonds) are measured at amortised cost at the end of reporting year.

As of 31 December 2023, the carrying amount of issued debt securities (bonds) exceeds their fair value by EUR 15.1 million (31/12/2022: by EUR 22.7 million). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor (Level 2).

24. Derivative financial instruments

Accounting policy

The Group and the Parent Company use derivatives such as interest rate swaps, electricity forwards and futures, natural gas forwards and currency exchange forwards to hedge risks associated with the interest rate and purchase price fluctuations, respectively. The Group and the Parent Company have decided to continue to apply hedge accounting requirements of IAS 39 for derivatives.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re–measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature / content of the item being hedged. Other derivatives are accounted for at fair value through profit or loss.

The Group and the Parent Company designate certain derivatives as hedges of a particular risk associated with highly probable forecasted transactions or variable rate borrowings. The Group and the Parent Company document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group and the Parent Company also document their assessment, both at hedge inception and on an on–going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of the derivative instruments is presented as current or non–current based on settlement date. Derivative instruments that have maturity of more than twelve months and have been expected to be hold for more than twelve months after the end of the reporting year are classified as non–current assets or liabilities, by separating current part of the derivative instrument. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity within 'Hedging reserve'. The gain or loss relating to the ineffective portion, if such arise, is recognised immediately in the Statement of Profit or Loss.

Amounts accumulated in equity are recognised in the Statement of Profit or Loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Profit or Loss.

I) Outstanding fair values of derivatives and their classification

EUR'000

	Notes	Group				Parent Company			
		31/12/2023		31/12/2022		31/12/2023		31/12/2022	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	24 II	5,872	–	10,279	–	5,872	–	10,279	–
Energy forwards, futures, and swaps	24 III	5,297	–	450	(120,520)	5,297	–	450	(120,520)
Currency exchange forwards	24 IV	–	–	–	(1,499)	–	–	–	(1,499)
Total outstanding fair values of derivatives		**11,169**	**–**	**10,729**	**(122,019)**	**11,169**	**–**	**10,729**	**(122,019)**

EUR'000

	Group				Parent Company			
	31/12/2023		31/12/2022		31/12/2023		31/12/2022	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non–current	3,210	–	8,131	–	3,210	–	8,131	–
Current	7,959	–	2,598	(122,019)	7,959	–	2,598	(122,019)
TOTAL fair values of derivative financial instruments	**11,169**	**–**	**10,729**	**(122,019)**	**11,169**	**–**	**10,729**	**(122,019)**

Gains / (losses) on fair value changes as a result of realised hedge agreements

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
Included in the Statement of Profit or Loss	**8**				
Interest rate swaps	11 a	(119)	1,074	(119)	1,074
Energy forwards, futures, and swaps	8	23,198	(10,096)	23,198	(9,827)
		23,079	**(9,022)**	**23,079**	**(8,753)**
Included in the other comprehensive income	**21 a**				
Interest rate swaps	24 II	(4,288)	13,517	(4,288)	13,517
Energy forwards, futures, and swaps	24 III	102,169	(121,501)	102,169	(121,501)
Currency exchange forwards	24 IV	1,499	(1,499)	1,499	(1,499)
		99,380	**(109,483)**	**99,380**	**(109,483)**
Total loss on fair value changes		**122,459**	**(118,505)**	**122,459**	**(118,236)**

II) Interest rate swaps

As of 31 December 2023, the Group and the Parent Company had interest rate swap agreements with total notional amount of EUR 105 million (31/12/2022: EUR 133 million). Interest rate swaps are concluded with 7–to–10–year initial maturities and hedged floating rates are 6 months EURIBOR. As of 31 December 2023, fixed interest rates vary from 0.087% to 0.809% (31/12/2022 from 0.087% to 1.979%).

As at the end of the year all the outstanding interest rate swap agreements with total notional amount of EUR 105 million were eligible for hedge accounting and were assessed prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2022: 100% with notional amount of EUR 133 million). All contracts are designed as cash flow hedges. During the prospective and retrospective testing, in 2023 an ineffective portion in the amount of EUR 0.12 million (2022: EUR 1.1 million) has been identified and recognised in the Statement of Profit or Loss.

Fair value changes of interest rate swaps

EUR'000

	Group				Parent Company			
	2023		2022		2023		2022	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**10,279**	**–**	**–**	**(4,312)**	**10,279**	**–**	**–**	**(4,312)**
Included in Statement of Profit or Loss	(128)	9	–	1,074	(128)	9	–	1,074
Included in other comprehensive Income	(4,279)	(9)	10,279	3,238	(4,279)	(9)	10,279	3,238
Outstanding fair value at the end of the year	**5,872**	**–**	**10,279**	**–**	**5,872**	**–**	**10,279**	**–**

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 1 to 4 years and fixed rate portion at more than 35% of borrowings. As of 31 December 2023, 46 % (31/12/2022: 36%) of the Group's and 47 % (31/12/2022: 36%) of the Parent Company's borrowings had fixed interest rates (considering the effect from the interest rate swaps), and average remaining time to interest re–pricing was 2.1 years for the Group and 2.1 years for the Parent Company (2022: 1.8 years for the Group and 1.9 years for the Parent Company).

III) Energy forwards, futures, and swaps

As of 31 December 2023, the Group and the Parent Company have not entered into any electricity future contract (31/12/2022: 12 contracts with total outstanding electricity purchase volume of 70,080 MWh and notional value of EUR 8 million). As of 31 December 2023 the Group and the Parent Company have entered into 48 natural gas price swap contracts (31/12/2022: 48 contracts) with total outstanding natural gas purchase volume of 2,850 MWh (31/12/2022: 1,162,000 MWh) and notional value of EUR 139 million (31/12/2022: EUR 218 million). Natural gas swap contracts are concluded with the maturities for one month or one quarter and with termination date during the period of 1 January to 30 April 2024.

The Group and the Parent Company conclude natural gas price swap contracts with financial institutions and other counterparties. Natural gas swap contracts are intended for hedging of the natural gas price risk and are used for fixing the price of natural gas purchased in wholesale gas market.

34 natural gas swap contracts with total outstanding volume of 2,020,806 MWh as of 31 December 2023 are designated to comply with hedge accounting treatment (31/12/2022: 31 contracts of 934,000 MWh) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period. All contracts are designed as cash flow hedges. For the contracts which are fully effective contracts fair value gains are included in other comprehensive income.

Fair value changes of energy forwards, futures, and swaps EUR'000

	Notes	Group				Parent Company			
		2023		2022		2023		2022	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year		**450**	**(120,520)**	**25,735**	**(14,208)**	**450**	**(120,520)**	**25,466**	**(14,208)**
Included in the Statement of Profit or Loss	8	333	22,865	181	(10,277)	333	22,865	450	(10,277)
Included in other comprehensive income		4,514	97,655	(25,466)	(96,035)	4,514	97,655	(25,466)	(96,035)
Outstanding fair value at the end of the year		**5,297**	**–**	**450**	**(120,520)**	**5,297**	**–**	**450**	**(120,520)**

IV) Currency exchange forwards

During 2023, five EUR/USD forward foreign currencies exchange contracts in the amount of USD 153,482 thousand with an execution date of 22 February and 26 April 2023 were fulfilled, which concluded in 2022 in order to limit the currency risk of the payments in USD dollars planned in the natural gas purchase agreement concluded in 2022. As of 31 December 2023 there were no outstanding foreign exchange forward contracts.

Fair value changes of forward currencies exchange contracts EUR'000

	Group				Parent Company			
	2023		2022		2023		2022	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**(1,499)**	**–**	**–**	**–**	**(1,499)**	**–**	**–**
Included in other comprehensive income	–	1,499	–	(1,499)	–	1,499	–	(1,499)
Outstanding fair value at the end of the year	**–**	**–**	**–**	**(1,499)**	**–**	**–**	**–**	**(1,499)**

25. Fair values and fair value measurement

Accounting policy

The Group and the Parent Company measure financial instruments, such as, derivatives, at fair value at each balance sheet date. Non–financial assets such as investment properties are measured at amortised cost, but some items of property, plant and equipment at revalued amounts.

The 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. Fair values are estimated based on market prices and discounted cash flow models as appropriate.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market prices used for financial assets held by the Group and the Parent Company are the actual closing prices.

The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. The Group and the Parent Company use a variety of methods and make assumptions that are based on market conditions existing at end of reporting period. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

In this Note are disclosed the fair value measurement hierarchy for the Group's and the Parent Company's financial assets and liabilities and revalued PPE.

Methods and assumptions used to estimate the fair values are disclosed in Note 4 i).

Quantitative disclosures of fair value measurement hierarchy for assets at the end of the year

EUR'000

Type of assets	Notes	Group – Fair value measurement using: Quoted prices in active markets (Level 1)	Group – Significant observable inputs (Level 2)	Group – Significant unobservable inputs (Level 3)	Group – TOTAL	Parent Company – Fair value measurement using: Quoted prices in active markets (Level 1)	Parent Company – Significant observable inputs (Level 2)	Parent Company – Significant unobservable inputs (Level 3)	Parent Company – TOTAL
As of 31 December 2023									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	–	–	2,909,307	**2,909,307**	–	–	1,277,600	**1,277,600**
Non-current financial investments	16	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:									
Interest rate swaps	24	–	5,872	–	**5,872**	–	5,872	–	**5,872**
Energy forwards, futures, and swaps	24	–	5,297	–	**5,297**	–	5,297	–	**5,297**
Assets for which fair values are disclosed									
Investment properties	14 b	–	–	2,309	**2,309**	–	–	2,261	**2,261**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	263,182	–	**263,182**
- Fixed rate loans	29 e	–	863	–	**863**	–	361,116	–	**361,116**
Current financial receivables	18 a, b	–	–	272,894	**272,894**	–	–	212,899	**212,899**
Cash and cash equivalents	19	–	118,456	–	**118,456**	–	107,163	–	**107,163**
As of 31 December 2022									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	–	–	2,622,747	**2,622,747**	–	–	998,090	**998,090**
Non-current financial investments	16	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:									
Interest rate swaps	24	–	10,279	–	**10,279**	–	10,279	–	**10,279**
Energy forwards, futures, and swaps	24	–	450	–	**450**	–	450	–	**450**
Assets for which fair values are disclosed									
Investment properties	14 b	–	–	2,297	**2,297**	–	–	2,222	**2,222**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	266,737	–	**266,737**
- Fixed rate loans	29 e	–	–	–	**–**	–	446,571	–	**446,571**
Current financial receivables	18 a, b	–	–	331,198	**331,198**	–	–	269,445	**269,445**
Cash and cash equivalents	19	–	112,757	–	**112,757**	–	100,268	–	**100,268**

There have been no transfers for assets between Level 1, Level 2 and Level 3 during the reporting year.

Quantitative disclosures of fair value measurement hierarchy for liabilities at the end of the year

EUR'000

Type of liability	Notes	Group: Fair value measurement using – Quoted prices in active markets (Level 1)	Group: Significant observable inputs (Level 2)	Group: Significant unobservable inputs (Level 3)	Group: TOTAL	Parent Company: Fair value measurement using – Quoted prices in active markets (Level 1)	Parent Company: Significant observable inputs (Level 2)	Parent Company: Significant unobservable inputs (Level 3)	Parent Company: TOTAL
As of 31 December 2023									
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	203,772	–	**203,772**	–	203,772	–	**203,772**
Borrowings from financial institutions	23	–	425,924	–	**425,924**	–	414,407	–	**414,407**
Trade and other financial current payables	26	–	–	136,014	**136,014**	–	–	87,078	**87,078**
As of 31 December 2022									
Liabilities measured at fair value									
Derivative financial instruments, including:									
Energy forwards, futures, and swaps	24	–	120,520	–	**120,520**	–	120,520	–	**120,520**
Forward currencies exchange contracts	24	–	1,499	–	**1,499**	–	1,499	–	**1,499**
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	151,634	–	**151,634**	–	151,634	–	**151,634**
Borrowings from financial institutions	23	–	724,284	–	**724,284**	–	708,987	–	**708,987**
Borrowings from related parties	23	–	–	–	**–**	–	3,317	–	**3,317**
Trade and other financial current payables	26	–	–	107,811	**107,811**	–	–	99,902	**99,902**

There have been no transfers for liabilities between Level 1, Level 2, and Level 3 during the reporting year.

The fair value hierarchy for the Group's and the Parent Company's financial instruments that are measured at fair value, by using specific valuation methods, is disclosed above.

Set out below, is a comparison by class of the carrying amounts and fair values of the Group's and the Parent Company's financial instruments, other than those with carrying amounts which approximates their fair values:

EUR'000

	Group: Carrying amount 31/12/2023	Group: Carrying amount 31/12/2022	Group: Fair value 31/12/2023	Group: Fair value 31/12/2022	Parent Company: Carrying amount 31/12/2023	Parent Company: Carrying amount 31/12/2022	Parent Company: Fair value 31/12/2023	Parent Company: Fair value 31/12/2022
Financial assets								
Fixed rate loans to related parties	863	–	863	–	361,116	446,571	343,998	414,187
Financial liabilities								
Issued debt securities (bonds)	203,772	151,634	188,678	128,948	203,772	151,634	188,678	128,948

Management assessed that cash and short–term deposits, receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short–term maturities of these instruments.

26. Trade and other payables

EUR'000

	Notes	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
Financial liabilities:					
Payables for suppliers		94,389	59,392	56,524	19,283
Payables to related parties	29 b	9,795	8,191	16,800	24,026
Accrued expenses		21,212	27,204	7,139	21,351
Accrued expenses from related parties	29 d	–	–	3,321	31,191
Other financial current payables		10,618	13,024	3,294	4,051
TOTAL financial liabilities		**136,014**	**107,811**	**87,078**	**99,902**
Non–financial liabilities:					
Taxes other than income tax		33,681	38,418	19,055	27,159
Contract liabilities		28,907	15,539	7,547	5,368
Other current payables		4,131	3 506	1,620	1,339
TOTAL NON–FINANCIAL LIABILITIES		**66,719**	**57,463**	**28,222**	**33,866**
TOTAL trade and other current payables		**202,733**	**165,274**	**115,300**	**133,768**

Contract liabilities include current advances received from the customers before the transfer of related goods or services, transferred in less than 12 months.

The carrying amounts of trade and other payables are assumed to approximate their fair values.

27. Provisions

Accounting policy

Provisions are recognised when the Group or the Parent Company have a present obligation as a result of past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required for settling the obligation by using pre–tax rate that reflects current market assessments of the time value of the money and the risks specific to the obligation as a discount rate. The increase in provisions due to passage of time is recognised as interest expense.

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Non-current:				
- post–employment benefits (recognised in profit or loss)	14,378	14,413	6,265	6,395
- post–employment benefits (recognised in equity)	3,862	1,153	2,300	1,157
TOTAL post–employment benefits	**18,240**	**15,566**	**8,565**	**7,552**

Provisions for post–employment benefits

Accounting policy

The Group and the Parent Company provide certain post–employment benefits to employees whose employment conditions meet certain criteria. Obligations for benefits are calculated considering the current level of salary and number of employees eligible to receive the payment, historical termination rates as well as number of actuarial assumptions.

The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

The liability recognised in the Statement of Financial Position in respect of post–employment benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using weighted average discount rate of EIOPA risk-free interest rate, interest rates of Latvian government bonds (maturity of 5 years) and EURBMK BBB electricity industry rate. The discount rate used is determined by reference to market yields on government bonds due to lack of deep market on high quality corporate bonds. The Group and the Parent Company use projected unit credit method to establish the present value of fixed benefit obligation and related present and previous employment expenses. According to this method it has been stated that each period of service gives rise to an additional unit of benefit entitlement and the sum of those units comprises total Group's and the Parent Company's obligations of post–employment benefits. The Group and the Parent Company use objective and mutually compatible actuarial assumptions on variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts).

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Comprehensive Income in the period in which they arise. Past service costs are recognised immediately in the Statement of Profit or Loss.

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
At the beginning of the year		**15,566**	**15,421**	**7,552**	**7,407**
Current service cost		253	1,029	153	497
Interest cost		492	511	225	246
Post–employment benefits paid		(780)	(750)	(508)	(388)
Losses / (gains) on remeasurement on defined benefit plan	21 a	2,709	(645)	1,143	(210)
At the end of the year		**18,240**	**15,566**	**8,565**	**7,552**

Total charged / (credited) provisions are included in the Statement of Profit or Loss position 'Personnel expenses' within state social insurance contributions and other benefits defined in the Collective agreement (Note 9):

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
At the beginning of the year		**15,566**	**15,421**	**7,552**	**7,407**
(Credited) / charged to the Statement of Comprehensive Income	21 a	2,709	(645)	1,143	(210)
Charged to the Statement of Profit or Loss		(35)	790	(130)	355
At the end of the year		**18,240**	**15,566**	**8,565**	**7,552**

Weighted average discount rate used for discounting benefit obligations was 2.98% (2022: 3.32%), considering EIOPA risk-free interest rate, interest rates of Latvian government bonds and EURBMK BBB electricity industry rate at the end of the reporting year. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long–term inflation determined at the level of 5.0% (2022: 6.0%) when calculating long–term post–employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

A quantitative sensitivity analysis for significant assumptions on provisions for post–employment benefits as of the end of the year is as shown below:

EUR'000

Assumptions	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Retirement probability changes		Discount rate		Future salary changes		Retirement probability changes	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post–employment benefits	31/12/2023	2,107	(1,754)	2,065	(1,754)	2,279	(1,912)	943	(782)	924	(781)	1,019	(851)
	31/12/2022	1,779	(1,483)	1,737	(1,477)	1,936	(1,625)	799	(664)	780	(661)	869	(727)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on post-employment benefits obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Contributions are monitored on an annual basis and the current agreed contribution rate is 5%. The next valuation is due to be completed as of 31 December 2024.

Expected contributions to post–employment benefit plan for the year ending 31 December 2023 is EUR 4.9 million.

In 2023 the weighted average duration of the defined benefit obligation is 19.58 years (2022 – 19.94 years).

EUR'000

		Group				Parent Company			
		Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL
Defined benefit obligation	31/12/2023	2,831	3,209	12,200	**18,240**	1,896	1,394	5,275	**8,565**
	31/12/2022	2,454	2,780	10,332	**15,566**	1,755	1,340	4,457	**7,552**

28. Deferred income

Accounting policy

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Government grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. For grants received as part of a package of financial or fiscal aid to which a number of conditions are attached, those elements which have different costs and conditions are identified. Treatment of the different elements determine the periods over which the grant will be earned.

In Latvia, Lithuania, and Estonia, according to the state support mechanism for reducing the prices of energy, end-users have been granted state support. This state support was provided for electricity, distribution system services, consumed natural gas and for heat. These regulations do not change agreements on the scope of provided services and do not change the approved distribution system tariffs and energy prices, and respectively do not change the Group's and the Parent Company's revenue recognition principles, but the process of receiving the transaction fees and the payer for the services. The Group or the Parent Company are not considered to be a grant receiver because the provision of services and sales of goods are still provided in full, and revenues are recognised in accordance with IFRS 15 (Note 6).

Grants related to expense items

When a grant relates to an expense item, and it has a number of conditions attached, it is initially recognised at fair value as deferred income. Grants are credited to income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Management judgements related to the measurement of government grants is disclosed in Note 4.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to a company with no future related costs are recognised in profit or loss of the period in which it becomes receivable. Related income is recognised in the Statement of Profit or Loss as 'Other income' (Note 7).

Grants related to assets

Property, plant and equipment received at nil consideration are accounted for as grants. Those grants are recognised at fair value as deferred income and are credited to the Statement of Profit or Loss on a straight–line basis over the expected lives of the related assets.

Accounting policy on recognition of deferred income from connection fees to distribution and transmission system disclosed per Note 6.

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
I) Non-current deferred income					
a) contracts with customers					
From connection fees	6	137,838	132,381	–	–
Other deferred income		668	735	668	735
		138,506	**133,116**	**668**	**735**
b) operating lease					
Other deferred income		300	321	300	321
		300	**321**	**300**	**321**
c) other					
On grant for the installed electrical capacity of CHPPs		89,470	113,460	89,470	113,460
On financing from European Union funds		22,702	7,329	4,456	1,973
Other deferred income		37	70	37	44
		112,209	**120,859**	**93,963**	**115,477**
TOTAL non-current deferred income		**251,015**	**254,296**	**94,931**	**116,533**
II) Current deferred income					
a) contracts with customers					
From connection fees	6	16,510	15,386	–	–
Other deferred income		4,794	13,944	67	13,714
		21,304	**29,330**	**67**	**13,714**
b) operating lease					
Other deferred income		20	20	20	20
		20	**20**	**20**	**20**
c) other					
On grant for the installed electrical capacity of CHPPs		23,990	23,990	23,990	23,990
On financing from European Union funds		963	891	142	142
		24,953	**24,881**	**24,132**	**24,132**
TOTAL current deferred income		**46,277**	**54,231**	**24,219**	**37,866**
TOTAL deferred income		**297,292**	**308,527**	**119,150**	**154,399**

In 2023, received financing in the amount of EUR 12,570 thousand as part of the agreement with the Ministry of Economics of the Republic of Latvia on the financing of the European Union Recovery and Resilience Facility by Sadales tīkls AS, financing in the amount of EUR 2,625 thousand from Connecting Europe Facility (CEF) for the development of electric vehicles charging network received by the Parent Company and received European Union financing in the amount of EUR 1,050 thousand for fossil fuels substitution in Liepāja by Liepājas Enerģija SIA.

The Group and the Parent Company ensure the management, application of internal controls and accounting for the Group's and the Parent Company's projects financed by the European Union funds, according to the guidelines of the European Union and legislation of the Republic of Latvia.

Accounting of the transactions related to the projects financed by the European Union is ensured using separately identifiable accounts. The Group and the Parent Company ensure separate accounting of financed projects with detailed income and expense, non–current investments and value added tax in the relevant positions of the Statement of Profit or Loss and Statement of Financial Position.

Movement in deferred income (non-current and current part)

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
At the beginning of the year		**308,527**	**323,071**	**154,399**	**164,981**
Received connection fees for connection to distribution system	6	23,015	11,840	–	–
Received deferred income (financing and other income)		20,606	13,647	2,625	13,647
Other deferred income credited to the Statement of Profit or Loss		(24,933)	(24,920)	(24,139)	(24,142)
Deferred income from contracts with customer and operating lease credited to the Statement of Profit or Loss		(29,923)	(15,111)	(13,735)	(87)
At the end of the year		**297,292**	**308,527**	**119,150**	**154,399**

29. Related party transactions

Accounting policy

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Group and the Parent Company are Shareholder of the Company who controls the Company in accepting operating business decisions, members of Latvenergo Group entities' management boards, members of the Supervisory board of the Company, members of Supervisory body of the Company – the Audit Committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state–controlled entities and providers of public utilities are excluded from the scope of related party quantitative disclosures. The Group and the Parent Company enter into transactions with many of these bodies on an arm's length basis. Transactions with government related entities include sales of energy and related services and does not contain individually significant transactions and quantitative disclosure of transactions with those related parties is impossible due to broad range of the Latvenergo Group's and the Parent Company's customers, except for transactions with transmission system operator – Augstsprieguma tīkls AS.

a) Sales/purchases of goods, PPE and services to/from related parties

EUR'000

	Group		Parent Company			
	2023	2022	2023		2022	
	Other related parties*	Other related parties*	Subsidiaries	Other related parties*	Subsidiaries	Other related parties*
Sales of goods, PPE and services, finance income:						
- Sales of goods and services	54,759	54,528	183,807	54,665	69,136	54,223
- Sales of property, plant and equipment	–	–	–	–	27	–
- Lease of assets	882	1,034	1,669	882	1,457	1,034
- Interest income	–	–	15,757	–	9,353	–
TOTAL	**55,641**	**55,562**	**201,233**	**55,547**	**79,973**	**55,257**
Purchases of goods, PPE, and services:						
- Purchases of goods and services	122,209	123,151	149,371	39,274	268,123	50,380
- *including gross expenses from transactions with Sadales tīkls AS recognised in net amount*	–	–	*145,236*	–	*92,691*	–
- Purchases of property, plant and equipment and construction services	7,774	3,313	1,408	830	76	715
- Lease of assets	1,049	1,114	150	669	168	788
TOTAL	**131,032**	**127,578**	**150,929**	**40,773**	**268,367**	**51,883**

* Other related parties included transmission system operator – Augstsprieguma tīkls AS and its subsidiary Conexus Baltic Grid AS, Latvijas valsts meži AS, Pirmais Slēgtais Pensiju Fonds AS and other entities controlled by the management members of Latvenergo Group, if any

EUR'000

	Notes	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
b) Receivables and payables at the end of the year arising from sales/purchases of goods, PPE, and services::					
Receivables from related parties:					
- Subsidiaries	18 a, b	–	–	41,642	35,120
- Other related parties*		15,506	17,245	15,172	16,810
- Loss allowances for expected credit loss from receivables of subsidiaries	18 a, b	–	–	(31)	(22)
- Loss allowances for expected credit loss from receivables of other related parties*		(33)	(20)	(33)	(20)
		15,473	**17,225**	**56,750**	**51,888**
Payables to related parties:	26				
- Subsidiaries		–	–	15,214	22,369
- Other related parties*		14,864	12,511	6,176	5,439
		14,864	**12,511**	**21,390**	**27,808**
c) Accrued income raised from transactions with related parties:					
- For goods sold / services provided for subsidiaries	18 a, b	–	–	11,425	2,483
- For interest received from subsidiaries	18 a, b	–	–	3,483	2,100
		–	**–**	**14,908**	**4,583**
d) Accrued expenses raised from transactions with related parties:	26				
- For purchased goods / received services from subsidiaries		–	–	3,321	31,191
		–	**–**	**3,321**	**31,191**

* Other related parties included transmission system operator – Augstsprieguma tīkls AS and its subsidiary Conexus Baltic Grid AS, Latvijas valsts meži AS, Pirmais Slēgtais Pensiju Fonds AS and other entities controlled by the management members of Latvenergo Group, if any

The Group and the Parent Company have not incurred write–offs of trade payables and receivables from transactions with related parties, as all debts are recoverable.

Receivables and payables with related parties are current balances for services and goods. None of the amounts at the end of the reporting year are secured.

Remuneration to the Latvenergo Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board, and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board, and the Supervisory body (Audit Committee). Information disclosed in Note 9.

Dividend payments to Shareholder of the Parent Company and share capital contributions are disclosed in Note 20 and Note 21 b, respectively.

Dividends received from subsidiaries are disclosed in Note 16.

e) Loans to related parties

Non-current and current loans to related parties

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Non–current loans to subsidiaries				
Sadales tīkls AS	–	–	445,553	494,979
Elektrum Eesti OÜ	–	–	6,960	7,260
Elektrum Lietuva, UAB	–	–	10,888	8,535
Allowances for expected credit loss	–	–	(371)	(306)
Non-current loans to other related parties				
UAB Geniva	432	–	–	–
UAB Vėjo miestas	431	–	–	–
TOTAL non–current loans	**863**	**–**	**463,030**	**510,468**
Current portion of non–current loans				
Sadales tīkls AS	–	–	105,839	95,312
Elektrum Eesti OÜ	–	–	300	300
Elektrum Lietuva, UAB	–	–	1,555	904
Allowances for expected credit loss	–	–	(85)	(57)
Current loans to subsidiaries				
Sadales tīkls AS	–	–	1,961	10,000
Elektrum Eesti OÜ	–	–	18,965	41,700
Elektrum Lietuva, UAB	–	–	3,731	54,746
Enerģijas publiskais tirgotājs SIA	–	–	29,046	–
Allowances for expected credit loss	–	–	(44)	(65)
TOTAL current loans	**–**	**–**	**161,268**	**202,840**
TOTAL loans to related parties	**863**	**–**	**624,298**	**713,308**

Counterparty model is used on individual contract basis for assessment of expected credit risk for non-current and current loans to subsidiaries. The expected credit losses according to this model are based and impairment for expected credit loss is recognised on assessment of the individual counterparty's risk of default and recovery rate assigned by Moody's credit rating agency for 12 months expected losses (Note 4 b). Credit risk of subsidiaries is assessed at the same level as Latvenergo AS credit risk considering that they are 100% controlled by Latvenergo AS – 'Baa2 level' credit rating. Since the initial recognition of loans, credit risk has not increased significantly that matches Stage 1.

All current loans to related parties as of 31 December 2023 will be settled in 2024.

Movement in loans issued to related parties

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
At the beginning of the year	**–**	**–**	**713,308**	**706,378**
Change in current loans in cash (net)	–	–	(68,272)	225,482
Change in current loans by non–cash offsetting of operating receivables and payables (net)	–	–	76,311	(120,831)
Issued non–current loans in cash	863	–	–	–
Repaid non–current loans by non–cash offset	–	–	(96,977)	(97,746)
Impairment for expected credit loss	–	–	(72)	25
At the end of the year	**863**	**–**	**624,298**	**713,308**
incl. loan movement through bank account				
Issued loans to subsidiaries	863	–	719,798	921,687
Repaid loans issued to subsidiaries	–	–	(788,070)	(696,205)
(Repaid) / issued loans, net	**863**	**–**	**(68,272)**	**225,482**

Interest received from related parties

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Interest received	3	–	15,812	9,378
TOTAL interest paid	**3**	**–**	**15,812**	**9,378**

l) Non–current loans, including current portion

Concluded non–current loan agreements with Sadales tīkls AS

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2023	31/12/2022		
29/09/2011	316,271	4,156	12,538	6 months EURIBOR + floating rate	01/09/2025
18/09/2013	42,686	–	4,269	fixed rate	10/08/2023
29/10/2014	90,000	10,000	20,000	fixed rate	10/09/2024
20/10/2015	90,000	20,000	30,000	fixed rate	21/10/2025
22/08/2016	60,000	20,000	26,667	fixed rate	22/08/2026
22/08/2016	50,000	20,000	25,000	fixed rate	14/06/2027
14/12/2018	260,000	147,750	175,811	fixed rate	31/01/2030
03/03/2020	200,000	154,136	177,067	fixed rate + floating rate	25/03/2030
08/03/2022	175,000	175,350	118,939	6 months EURIBOR + floating rate	31/03/2032
31/08/2023	175,000	–	–	6 months EURIBOR + floating rate	31/01/2034
TOTAL	**1,458,957**	**551,392**	**590,291**		

As of 31 December 2023, total outstanding amount of non–current loans with Sadales tīkls AS amounted to EUR 551,392 thousand (31/12/2022: EUR 590,291 thousand), including current portion of the loan repayable in 2023 – EUR 105,839 thousand (31/12/2022: EUR 95,312 thousand). As of 31 December 2023, 34.46% of non–current loans issued to Sadales tīkls AS (31/12/2022: 24.3%) was bearing floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2023 the effective average interest rate of non–current loans was 2.22% (2022: 1.42%).

As of 31 December 2023, for non–current floating rate loans issued to Sadales tīkls AS 6-month EURIBOR ranged from 4.000% to 4.125% (31/12/2022: 6M EURIBOR ranged from 1.763% to 2.726%). As of 31 December 2023, impairment for expected credit loss of non–current loans to Sadales tīkls AS in the amount of EUR 441 thousand EUR (31/12/2022: EUR 354 thousand) was recognised. Non–current loans are not secured with a pledge or otherwise.

Non–current loans to Sadales tīkls AS by maturity

EUR'000

	Parent Company	
	31/12/2023	**31/12/2022**
Non–current loan:		
- < 1 year (current portion)	105,839	95,312
- 1 – 5 years	326,443	334,109
- > 5 years	119,110	160,870
	551,392	**590,291**

Concluded non–current loan agreements with Elektrum Eesti OÜ

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 31/12/2023	Outstanding loan amount 31/12/2022	Interest rate	Maturity date
25/08/2021	**7,860**	**7,260**	**7,560**	6 months EURIBOR + fixed rate	24/08/2031

As of 31 December 2023, total outstanding amount of non–current loans with Elektrum Eesti OÜ amounted to EUR 7,260 thousand (31/12/2022: EUR 7,560 thousand), including current portion of the loan repayable in 2023 – EUR 300 thousand (31/12/2022: EUR 300 thousand). The annual interest rate according to the loan agreement is 6 (six) months EURIBOR (Euro Interbank Offer Rate) plus margin 0.74% (2022: 0.74%). If the Base rate is negative, it is equal to zero. The final repayment date of the loan is 24 August 2031.

Non–current loans to Elektrum Eesti OÜ by maturity

EUR'000

	Parent Company	
	31/12/2023	**31/12/2022**
Non–current loan:		
- < 1 year (current portion)	300	300
- 1 – 5 years	600	900
- > 5 years	6,360	6,360
	7,260	**7,560**

Concluded non–current loan agreements with Elektrum Lietuva, UAB

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 31/12/2023	Outstanding loan amount 31/12/2022	Interest rate	Maturity date
31/10/2021	**22,280**	**12,443**	**9,439**	6 months EURIBOR + fixed rate	29/09/2031

As of 31 December 2023, total outstanding amount of non–current loans with Elektrum Lietuva, UAB amounted to EUR 12,443 thousand (31/12/2022: EUR 9,439 thousand), including current portion of the loan repayable in 2023 – EUR 1,555 thousand (31/12/2022: EUR 904 thousand). The annual interest rate according to the loan agreement is 6 (six) months EURIBOR (Euro Interbank Offer Rate) plus margin 0.68% (2022: 0.68%). If the Base rate is negative, it is equal to zero. The final repayment date of the loan is 29 September 2031.

Non–current loans to Elektrum Lietuva, UAB by maturity

EUR'000

	Parent Company	
	31/12/2023	**31/12/2022**
Non–current loan:		
- < 1 year (current portion)	1,555	904
- 1 – 5 years	6,222	4,340
- > 5 years	4,666	4,195
	12,443	**9,439**

II) Current loans / borrowings

To ensure efficiency and centralised management of Latvenergo Group companies' financial resources and using the functionality of Group accounts and possibility for non–cash offsetting of mutual invoices between the parties, current loans / borrowings are provided. In the reporting period Latvenergo AS issued loans to subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources', allowing the subsidiaries to borrow and to repay the loan according to daily operating needs and including non-cash offsetting of operating receivables and payables. In 2023 the effective average interest rate was 3.70% (2022: 0.74%). Within the framework of the agreement, as of 31 December 2023, Parent Company issued loans to subsidiaries in the amount of EUR 53,703 (31/12/2022: EUR 106,446 thousand), as of 31 December 2023 Latvenergo AS had no current borrowings from subsidiaries (31/12/2022: there was current borrowing from Enerģijas publiskais tirgotājs SIA in the amount of EUR 3,317 thousand).

As of 31 December 2023 impairment for expected credit loss of current loans to related parties is recognised in the amount of EUR 44 thousand (31/12/2022: EUR 65 thousand).

f) Interest paid to related parties

Financial transactions between related parties have been carried out by using current loans / borrowings with a target to manage Latvenergo Group companies' financial resources effectively and centrally, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement "On provision of mutual financial resources". In 2023 the effective average interest rate was 3.70% (2022: 0.74%).

EUR'000

	Parent Company	
	2023	**2022**
Interest paid	12	18
TOTAL interest paid	**12**	**18**

30. Commitments and contingent liabilities

As of 31 December 2023, the Group had commitments amounting to EUR 112.2 million (31/12/2022: EUR 82.4 million) and the Parent Company had commitments amounting to EUR 57.1 million (31/12/2022: EUR 49.6 million) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has issued support letters to its subsidiaries – on 16 February 2024 to Sadales tīkls AS and on 22 February 2024 Elektrum Eesti OÜ acknowledging that its position as the shareholder is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

31. Events after the reporting year

Accounting policy

Events after the reporting period that provide significant additional information about the Group's and the Parent Company's position at the balance sheet 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.

After the end of the reporting year, at the beginning of 2024, Renewable energy generation capacity portfolio of Latvenergo AS has been expanded by seven solar power plant projects in Latvia, with a total capacity of 40 MW and which are planned to be built by the end of the year 2024. Also has been starter the development of a new wind station project in Lithuania, Akmenes district, with a capacity of up to 15 MW. The project is planned to be completed in the second half of the year 2025.

Latvijas valsts meži AS was permitted to terminate its participation in Latvijas vēja parki SIA, the joint venture of Latvijas valsts meži AS and Latvenergo AS, by alienating all shares (20%) of Latvijas vēja parki SIA owned by Latvijas valsts meži AS for the benefit of Latvenergo AS.

There have been no other significant events after the end of the reporting year that might have a material effect on the Latvenergo Consolidated and Latvenergo AS Annual Financial Statements for the year ending 31 December 2023.

This document is signed with a secure digital signature and contains a time stamp

Mārtiņš Čakste
Chairman of the Management Board of Latvenergo AS

Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Liāna Ķeldere
Accounting director of Latvenergo AS

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INDEPENDENT AUDITORS' REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the Shareholder of Latvenergo AS

Report on the audit of the financial statements

Opinion

We have audited the accompanying consolidated financial statements of Latvenergo AS and its subsidiaries (the Group) and the accompanying financial statements of Latvenergo AS (the Parent Company) contained in file latvenergo-2023-12-31-en.zip (SHA-256-checksum: 5b45c6c219f9a57ccf0970db9f4d4eb03340cef4f5a43b997d4c891eb7107d7b), which comprise the statements of financial position as at 31 December 2023, and the statements of comprehensive income, statements of changes in equity and statements 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 give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2023, and of their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Parent Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Parent Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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 of the Group and the Parent Company. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Parent Company.

Key audit matter	How we addressed the key audit matter
Revenue recognition from contracts with customers with focus on periodization (the Group and the Parent Company)	
The Group and the Parent Company in 2023 have recognized in the statement of profit or loss revenue from contracts with customers amounting to EUR 2 032 947 thousand and EUR 1 394 109 thousand, respectively, as disclosed in Note 6. Accurate revenue recognition is inherently more complex in the energy sector when compared to some other industries due to the large number of the customers, including both residential and corporate customers, and various pricing arrangements included in the range of products and services provided to different groups. Given the variety of contractual terms with the customers, as well as different revenue streams and product types included in each stream, appropriate periodization of revenue recognition is considered to be relatively complex and requires, among other things, continual operating effectiveness of controls over the various categories of revenue streams.	In relation to revenue recognition, we performed the following procedures, among others: • we updated our understanding of the revenue recognition and measurement for electricity supply, and distribution system services revenue streams; • we updated our understanding and tested the relevant key controls implemented over revenue recognition and measurement for electricity supply and distribution system services revenue streams. Our test covered key controls over revenue recording, calculation of amounts billed to the Group's and Parent Company's customers and matching of cash receipts to the customers' accounts; • we obtained external customer confirmations for selected largest trade receivables balances; • we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into consideration the number and composition of the Group's and Parent Company's customers, electricity supply volumes, changes in electricity prices and also comparing the results of our analysis against the prior reporting period; • we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period.

Revenue recognition, including its proper periodization, was significant to our audit due to the materiality of revenue to the financial statements and the variety of products and components included in revenue.	We also assessed the adequacy of the revenue related disclosures contained in Note 2, Note 5 and Note 6. In addition, we evaluated the sufficiency of disclosures made regarding significant judgements made by the management in relation to revenue recognition Note 4 c).
Impairment assessment of property, plant and equipment (the Group and the Parent Company)	
As at 31 December 2023, the Group and the Parent Company have recognized property plant and equipment (PPE) amounting to EUR 3 301 051 thousand and EUR 1 505 411 thousand, respectively, as reported in the statements of the financial position and disclosed in Note 14 a). Certain PPE categories are carried at revalued amounts, as disclosed in the accounting policies. The Group performed impairment tests based on the value in use estimation. In addition, the Parent Company performed impairment tests for certain Hydro power plants (HPPs) (combined impairment test for Riga, Plavinu and Keguma HPPs) and assets of Riga Combined Heat and Power Plant (CHP). Each of the above in the judgement of the management represents a separate cash generating unit (CGU). In relation to the impairment tests for the assets of the distribution system assets, significant assumptions used by the management include the selection of the discount rate, pricing forecast for major revenue streams, which are contingent on regulatory approvals, assumptions related to capital investment plans, as well as terminal value calculation. HPPs impairment test is based on significant assumptions in relation to the selection of the discount rate, electricity price and operating expenses forecasts, as well as terminal value calculation. Riga Combined Heat and Power Plant CGU impairment test is based on significant assumptions in relation to the selection of the discount rate, variable revenue stream forecast in view of legislation regulating the cogeneration unit capacity component payments and the terminal value calculation.	In relation to impairment assessment of property, plant and equipment, we performed the following procedures: • we updated our understanding of the revaluation and impairment assessment process; • for distribution system CGU impairment test we involved our valuation specialists to assist us with the assessment of the impairment test model, • we assessed discount rates applied in each model and other significant management assumptions; • we held discussions with management regarding the significant assumptions, management judgments, and data utilized in the impairment tests for all cash-generating units. • we compared the most significant inputs to the source data. We also compared the amounts used by the management in the cash flow forecasts with the historical results and compared the estimated cash flows with the long-term budgets approved by the management. Finally, we evaluated the adequacy of the disclosures in relation to the impairment tests and the outcome of these tests as disclosed in Note 4 a) II) and in Note 14 c).

Impairment test was significant to our audit as it involves significant management estimates and material judgements.	

Revaluation of Daugava hydropower plants (HPPs) (the Group and the Parent Company)	
Property, plant and equipment (PPE), as disclosed in Note 14 a), is carried at historical cost or revalued amounts less accumulated depreciation and accumulated impairment loss. As per accounting policy outlined in Note 14 b) certain groups of PPE are revalued regularly but not less frequently than every five years. During the financial year HPPs recognized by the Parent Company and the Group were revalued by applying the income approach model (Note 14 b). The management used an external appraisal to carry out the revaluation of this PPE group with the revaluation date of 1 April 2023. As a result of upward revaluation of HPPs as at the revaluation date in the Group's and Parent Company's financial statements, a gross revaluation reserve of EUR 312 061 thousand was recognized in equity and a reversal of previously recognised impairment of EUR 1 108 thousand was recorded to the Statement of Profit or Loss in the year 2023. Revaluation of this PPE group involves significant estimates and assumptions, such as the selection of appropriate valuation method, estimation of remaining useful lifetime and condition of PPE items, determination of the discount rate, market knowledge and data on the historical transactions provided by the management to the external experts. Revaluation was significant to our audit as it involves significant estimates.	We involved our valuation specialists to assist us assessing the revaluation model, assumptions and methods used by the management in the revaluation. We discussed the revaluation model with the management and the external appraiser. We also tested the data used in the revaluation models on sample basis to the source data. We evaluated the measurement of the results of the revaluation as presented in the financial statements Note 14 b) and compared the accounting treatment applied to the requirements of IFRS. For a sample of revalued PPE items, we tested that the revaluation results have been properly accounted on the individual transaction level in the Group's accounting system. Finally, we also evaluated the disclosures relating to the revaluation model, revaluation outcome and the assumptions used as disclosed in Note 4 a) III) and in Note 14 b).

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Reporting on other information

Management is responsible for the other information. The other information comprises:

- the Latvenergo Group Key Figures, Latvenergo AS Key Figures, as set out on pages 123 to 124 of the accompanying Annual Report;
- the Management Report, as set out on pages 125 to 131 of the accompanying Annual Report;
- the Statement of Corporate Governance, as set out in a separate statement provided by the Parent Company management and available on the Parent Company's website https://latvenergo.lv/en section *Investors*,
- the Non-financial Statement, as included in the Management Report set out on page 129 of the accompanying Annual Report,

Other information does not include the financial statements and our auditors report thereon.

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 described in the other reporting responsibilities in accordance with the legislation of the Republic of Latvia section of our report.

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 and in light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of our audit, 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.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, the Statement of Corporate Governance, the Non-financial Statement. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^2, paragraph three of the Financial Instruments Market Law.

Based solely on the work undertaken in the course of our audit, in our opinion, the Statement of Corporate Governance includes the information required in Article 56^2, paragraph three of the Financial Instruments Market Law.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement our responsibility is to report whether the Company has prepared the Non-financial Statement
and whether the Non-financial Statement is included in the Management Report or prepared as a separate element of the Annual Report.

We hereby report that the Group has prepared a Non-financial Statement, and it is included in the Management Report.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 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 Group's and the Parent 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 Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent 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 Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Group and the Parent Company in the year 2021 by Shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Parent Company;
- as stipulated in paragraph 37[6] of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Parent Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014 Article 5(1). We also remained independent of the audited entity in conducting the audit.

Report on the auditors examination of the European Single Electronic Format (ESEF) Report

Report on the compliance of format of the Group and the Parent Company financial statements with the requirements for European Single Electronic Reporting Format

Based on our agreement we have been engaged by the management of the Parent Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the European Single Electronic Reporting format of the Group and the Parent Company financial statements, including Group and the Parent Company financial statements for the year ended 31 December 2023 (the Single Electronic Reporting Format of the Group and the Parent Company financial statements) contained in file latvenergo-2023-12-31-en.zip (SHA-256-checksum: 5b45c6c219f9a57ccf0970db9f4d4eb03340cef4f5a43b997d4c891eb7107d7b).

Description of a subject and applicable criteria

The Single Electronic Reporting Format of the Group and the Parent Company financial statements has been applied by the management of the Parent Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a Single Electronic Reporting Format (the ESEF Regulation). The applicable requirements regarding the Single Electronic Reporting Format of the Group and the Parent Company financial statements are contained in the ESEF Regulation.

The requirements described in the preceding paragraph determine the basis for application of the Single Electronic Reporting Format of the Group and the Parent Company financial statements and, in our view, these requirements constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibilities of management and those charged with governance

Management is responsible for the application of the Single Electronic Reporting Format of the Group and the Parent Company financial statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Single Electronic Reporting Format of the Group and the Parent Company financial statements which is free from material non-compliance with the requirements of the ESEF Regulation.

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

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Auditor's responsibility

Our responsibility is to express a reasonable assurance conclusion whether the Single Electronic Reporting Format of the Group and the Parent Company financial statements complies with the ESEF Regulation.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (the ISAE 3000 (R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Single Electronic Reporting Format of the Group and the Parent Company financial statements is prepared, in all material aspects, in accordance with the applicable requirements. Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance ISAE 3000 (R) will always detect a material misstatement when it exists.

We apply International Standard on Quality Management 1 (ISQM 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Single Electronic Reporting Format of the Group and the Parent Company financial statements was applied, in all material aspects, in accordance with the applicable requirements and such application is free from material errors or omissions.

Our procedures include in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Single Electronic Reporting Format of the Group and the Parent Company financial statements, including the preparation of the XHTML format and marking up the Group and the Parent Company financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the Group and the Parent Company financial statements using the iXBRL markup language according to the requirements of the implementation of Single Electronic Reporting Format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of iXBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

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Opinion

In our opinion, the Single Electronic Reporting Format of the Group and the Parent Company financial statements for the year ended 31 December 2023 complies, in all material respects, with the ESEF Regulation.

The responsible certified auditor on the audit resulting in this independent auditors' report is Diāna Krišjāne.

ERNST & YOUNG BALTIC SIA
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga,

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP