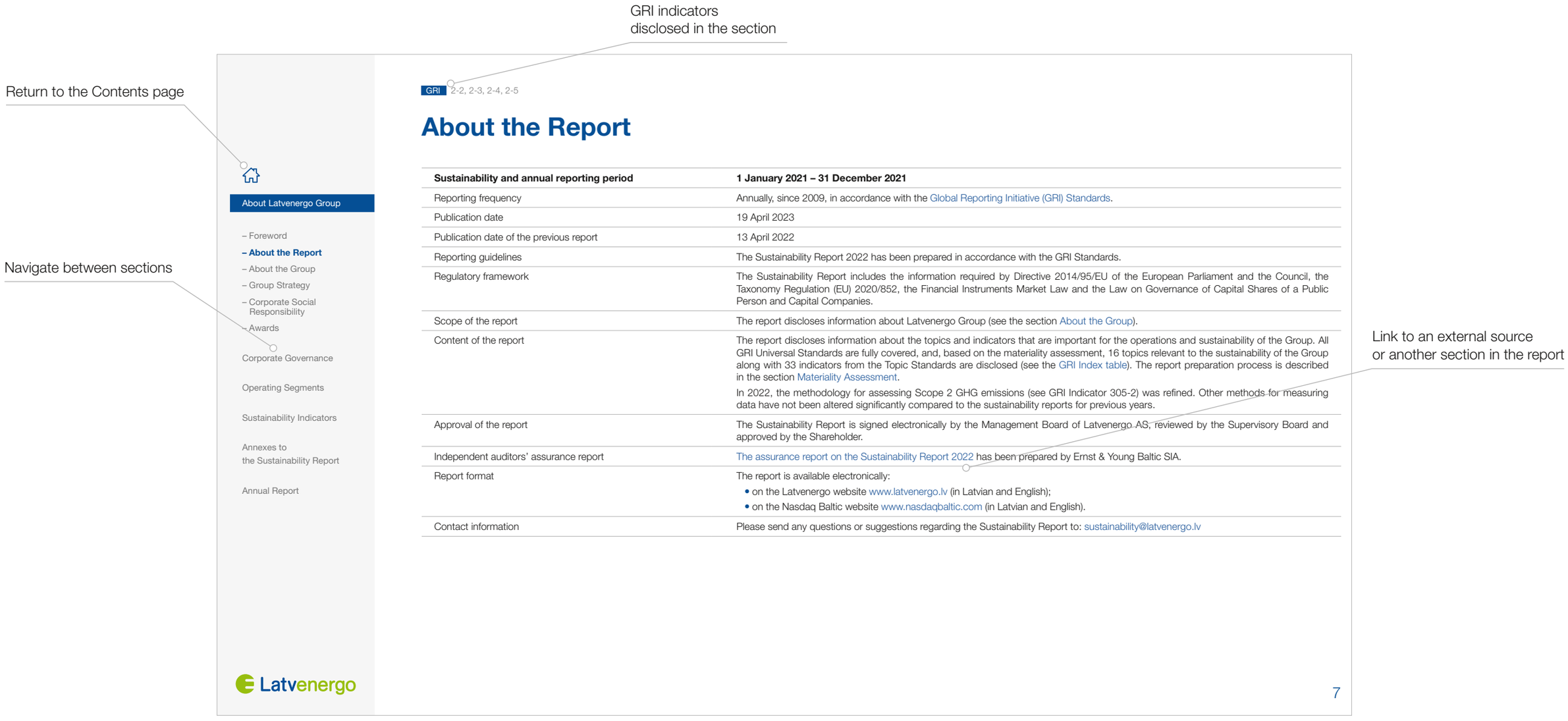
Latvenergo

Sustainability and Annual Report

2022

How to Use the Report



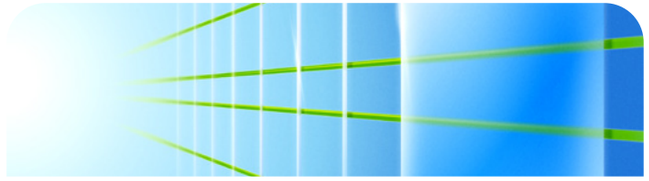
CONTENTS

About Latvenergo Group

Corporate Governance

Operating Segments

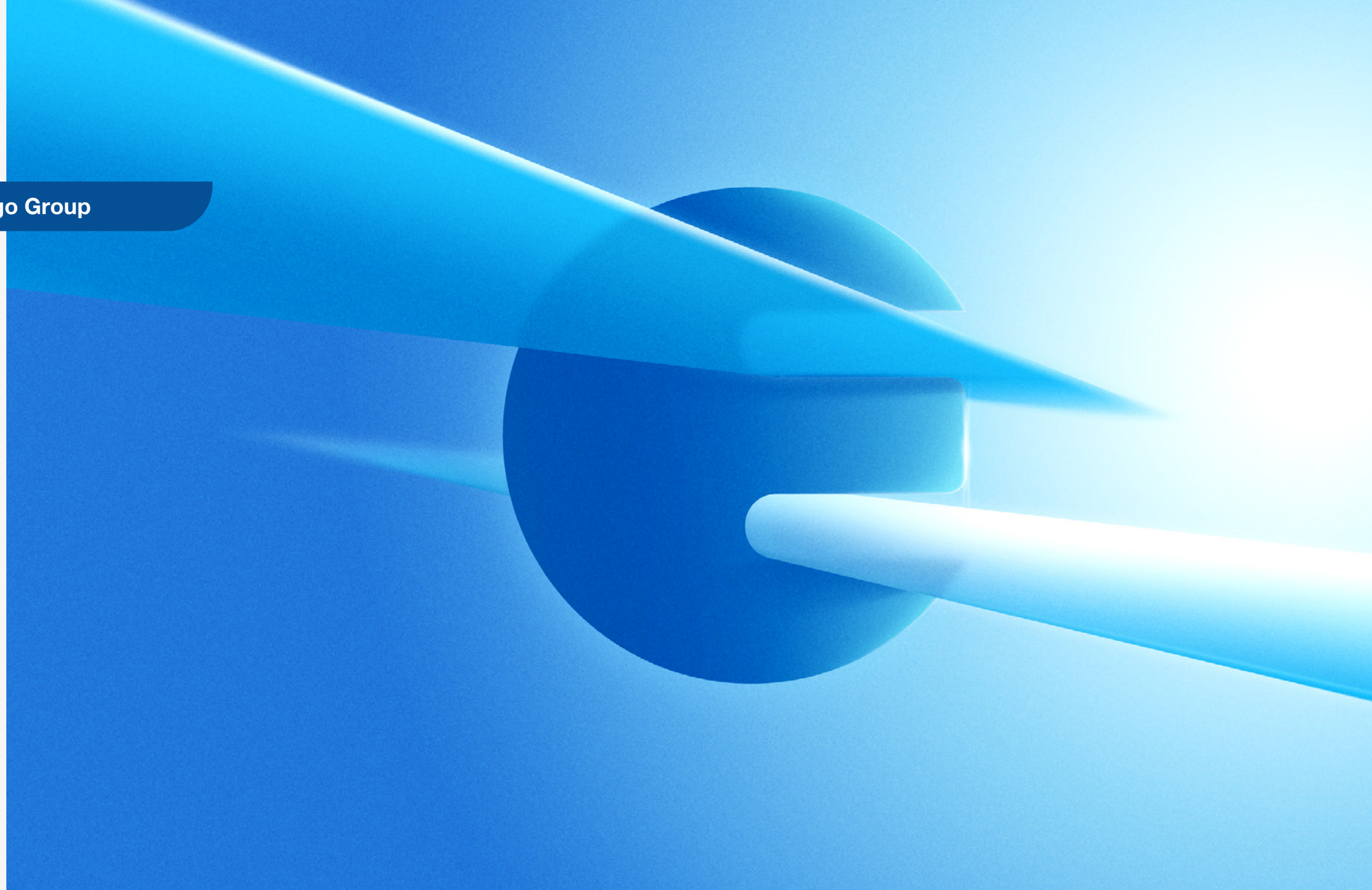
Sustainability Indicators



Annexes to the Sustainability Report

Latvenergo Group Consolidated and Latvenergo AS Annual Report

About Latvenergo Group



Foreword

Mārtiņš Čakste
Chairman of the Management Board of Latvenergo AS

2022 was a pivotal year that divided the development of the Latvian energy sector into two phases: before and after the war started by Russia. The full-scale war in Ukraine shook the world and was quickly followed by a sharp reaction in financial and energy markets. This was reflected in rising electricity prices, changes in commodity prices and increased demand for LNG on the global market. Thus, the past year has been dedicated to laying a sustainable foundation for the future development of Latvenergo Group, the energy independence of Latvia and the purposeful transition from fossil fuels to RES, renewable energy sources.

In February 2022, Latvenergo AS stopped purchasing natural gas from Russia altogether, quickly switching to supplies from other countries and significantly reducing its consumption. With the timely purchase of gas reserves from Norway, the US and Qatar, the company has successfully secured electricity and thermal energy generation at its CHPPs, as well as the amount of natural gas needed for state reserves. Last year, the average price of natural gas was 2.8 times higher than in 2021, which also significantly impacted electricity prices. They reached new all-time highs with electricity prices in the Baltics 2.4 times higher on average, reaching the Nord Pool price ceiling in the summer.

In the context of these events, the priorities of the EU on issues of climate change and environmental challenges remain the same. These issues are addressed in the European Green Deal, which focuses heavily on the use of RES and the path towards climate neutrality by 2050. Although Latvenergo Group is already the largest generator of green electricity in the Baltics, it is moving purposefully towards the development of RES generation capacity, which is in line with the long-term development goals for the energy sector set by the EU.

Last year, the Strategy of Latvenergo Group for 2022-2026 was approved. It aims to achieve a high share of RES in electricity generation by supplementing existing generation capacity substantially with solar and wind power plants. Increasing RES generation capacity will help prevent high energy price hikes in the future, which have a direct impact on consumer prices. In addition, the development of RES capacity will strengthen the energy independence of Latvia. To ensure that operational and financial targets are met in an environmentally and socially responsible way, and to foster innovation, the Strategy also sets a sustainability target. The Group is committed to developing innovative products, services and processes that contribute to the UN Sustainable Development Goals, with sub-targets and anticipated results for the climate, corporate social responsibility, and innovation.

To promote the potential of RES, a joint venture between Latvenergo AS and Latvijas valsts meži AS, Latvijas vēja parki SIA, was registered in June 2022 to develop new wind farms of strategic importance. The plan is to build wind parks with a total capacity of at least 800 MW by 2030. This will ensure a significant increase in electricity generation capacity from RES and contribute to progress towards the energy independence, security, and climate neutrality of Latvia. In September, a memorandum of understanding was signed with RWE, a world leader in renewable energy, for the development of large-scale offshore wind farm projects.

The planned capacity may also lead to cooperation opportunities with the Group for Latvian businesses, primarily those that have started wind farm projects, as well as for related industries, such as technology and infrastructure provision. The Group is open to offers and negotiations with local businesses. In addition, the protection of habitats is already being ensured during the project planning and environmental impact assessment, with certified species and habitat experts, thus preventing negative impacts as far as possible. The positioning of wind turbines also takes into account how the wind park will fit into the landscape. A responsibly designed wind park does not degrade, but rather complements the overall landscape and demonstrates green thinking.

At the same time, the development of solar parks continues. Four *Elektrum* solar parks with a total capacity of 11 MW are currently operational, while 12 solar parks with a total capacity of around 200 MW are in the design or construction stage and are expected to be commissioned gradually from 2023-2025.

The introduction of state support programmes for renewable energy has significantly increased the demand for solar panels. The number of contracts for the installation of solar panels and for shares of solar parks for customers concluded by the Group in the Baltics has increased almost five times, exceeding 6,200. As a result, the total installed solar panel capacity for retail customers of Latvenergo Group reached 38 MW at the end of the year,

making the Group the leader in microgeneration in the Baltics, with two-thirds of the total capacity installed for customers outside Latvia.

The *Elektrum Drive* EV charging network has grown significantly, with almost 200 charging points at the end of 2022, and since the cooperation agreement with the *e-mobi* network was concluded, *Elektrum Drive* customers can charge at more than 300 charging points in Latvia. The development dynamics of the *Elektrum Drive* network will continue to increase.

In a year full of turbulence, Latvenergo Group has managed to increase its number of customers in both the electricity and natural gas segments. The total number of electricity customers of the Group is 818 thousand, of which more than 175 thousand are outside Latvia, while the number of natural gas customers is more than 20 thousand. In 2023, the natural gas market for households will be opened in Latvia, so the number of these customers is expected to increase.

In 2022, Latvenergo Group generated 3.8 TWh of electricity. The generation of the Daugava HPPs was at the 2021 level of 2.7 TWh. Due to the high prices of natural gas and emission allowances, CHPP electricity generation was reduced by around 40%, with 1.1 TWh of electricity generated at both plants in the reporting year. Renewable electricity accounted for 70% of the generation portfolio, which is one of the highest levels historically. The amount of thermal energy generated was 1.8 TWh, which is 14% less than in 2021 due to warmer weather during the heating season.

As a result of the record-high electricity and natural gas market prices, the revenue of the Group in 2022 was EUR 1,841.8 million, EBITDA was EUR 360.2 million and the profit reached EUR 183.9 million, resulting in at least EUR 129.5 million in dividends to the state budget. Latvenergo AS dividends are earmarked for the social budget, for support to protected users in paying their electricity bills, for covering the costs of mandatory procurement, and for paying subsidies to electricity distribution and transmission system operators to mitigate the expected increase in transmission and distribution tariffs in 2023.

Total investments in the reporting year amounted to almost EUR 122 million, of which EUR 84.6 million was invested in distribution network assets. These investments contribute to a high-quality and reliable energy supply, reducing the frequency and duration of power outages and ensuring adequate voltage quality. Last year, SAIDI and SAIFI figures were affected by both intense storms and supply delays due to the Russian invasion, but apart from cases of massive damages, the reliability and quality of the electricity supply in the distribution system are improving year by year. The reconstruction of the Daugava HPPs' hydropower units continued – the last of the six hydropower units of Riga HPP was put into operation.

At the end of 2022, the five-year programme to improve the operational efficiency of Sadales tīkls AS was completed. As part of this programme, the workforce of Sadales tīkls AS has been reduced by almost 900 jobs, and other significant efficiency improvement projects have been implemented. The number of smart electricity meters installed in customers' homes now accounts for almost 98% of the total number of electricity meters.

An external sustainability maturity assessment was carried out in the reporting year, which positively assessed the performance of the Group to date and made recommendations to improve the management of sustainability issues in the future. Following the recommendations, the Sustainability Committee of Latvenergo AS was established at the end of 2022. One of the tasks of the committee is to coordinate sustainability-related activities at the interdepartmental and Group levels and to formulate and recommend environmental, social and governance targets to be achieved.

In 2022, Latvenergo Group, as a socially responsible company, continued to implement social responsibility activities, including support to Ukraine. The Group donated special machinery, generators and a 110 kV transformer for the restoration of the power system. In cooperation with the Embassy of Ukraine in Latvia, the employees of the Group have provided extensive assistance to the war-torn country by donating private funds for the purchase of external batteries for mobile devices and other items needed by the defenders of Ukraine. The employees of Sadales tīkls AS have also been involved in relocating families of energy engineers from war-affected areas to Latvia, and in cooperation with local municipalities, around 200 people have been accommodated. In May and June of last year, Sadales tīkls AS helped almost 100 people return to Ukraine by providing transport.

Overall, everyone experienced a very difficult year. Therefore, I would like to thank all our customers, employees and business partners for being with us during this trying time. I am confident that we have already overcome the most challenging period and will continue to grow together through innovative achievements.

About the Report

Sustainability and annual reporting period	**1 January 2021 – 31 December 2021**
Reporting frequency	Annually, since 2009, in accordance with the Global Reporting Initiative (GRI) Standards.
Publication date	19 April 2023
Publication date of the previous report	13 April 2022
Reporting guidelines	The Sustainability Report 2022 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, 16 topics relevant to the sustainability of the Group along with 33 indicators from the Topic Standards are disclosed (see the GRI Index table). The report preparation process is described in the section Materiality Assessment. In 2022, the methodology for assessing Scope 2 GHG emissions (see GRI Indicator 305-2) was refined. 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 2022 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.

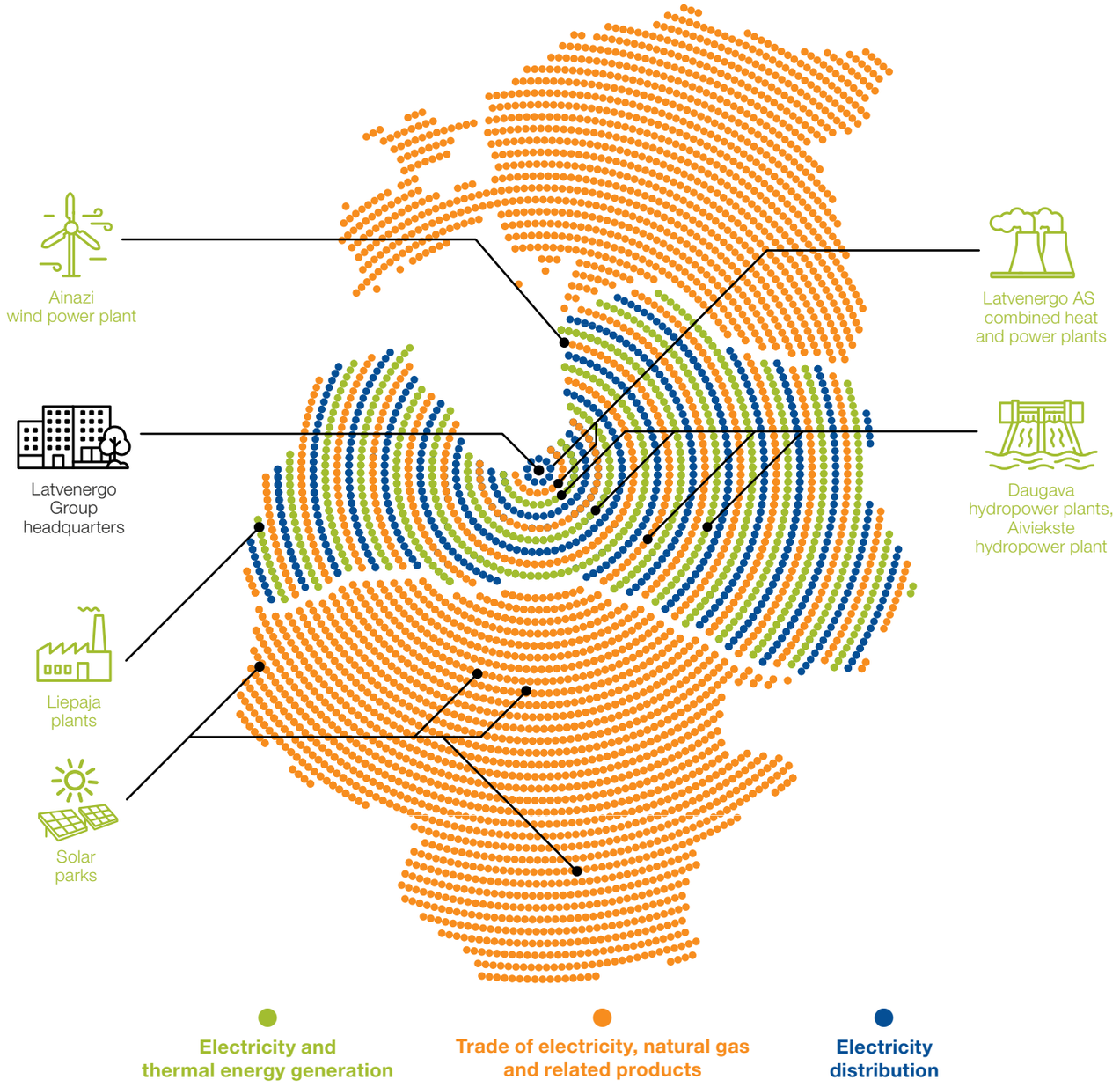
The Group's operations have been organised into two operating segments. One segment covers generation and trade, while the other comprises the distribution of electricity. For more information, see the section Operating Segments.

The Group comprises the parent company Latvenergo AS, with decisive influence, and, at the end of 2022, six 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

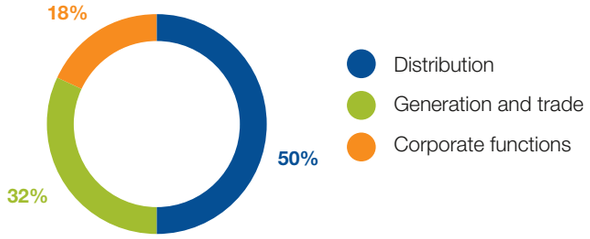
With heart	With mind	With energy	With a future outlook
We are open and passionate	We do the right things and learn continuously	We are brave and persistent	We do good for clients and society



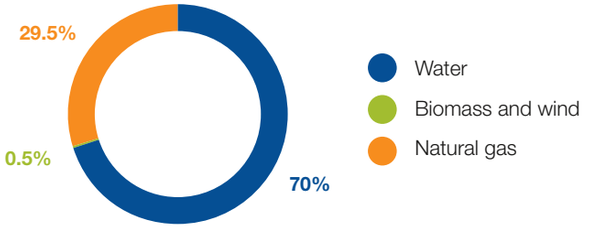
Facts 2022

		2022	2021
Financial figures			
Revenue	MEUR	**1,841.8**	1,065.2
Profit	MEUR	**183.9**	71.6
Assets	MEUR	**3,855.3**	3,475.9
Investments	MEUR	**121.7**	126.7
Moody's credit rating		**Baa2**	Baa2
Moody's ESG credit impact score		**CIS-2**	CIS-2
Generation and trade			
Installed electrical capacity	MW	**2,606**	2,606
Installed thermal capacity	MW	**1,793**	1,797
Electricity output	GWh	**3,822**	4,517
Thermal energy output	GWh	**1,777**	2,072
Generation efficiency of the Daugava HPPs	m^3/kWh	**17.8**	17.9
Generation efficiency of the Latvenergo AS CHPPs	%	**83**	81
CO_2 emission intensity	t/MWh_{el}	**0.08**	0.12
Electricity market share in the Baltics	%	**20**	23
Retail electricity supply	GWh	**5,452**	6,706
Retail natural gas supply	GWh	**930**	1,026
Electricity retail customers	thsd.	**818**	755
Distribution			
SAIDI	min	**240**	208
SAIFI	number	**2.5**	2.3
Length of distribution lines	km	**92,407**	92,430
Transformer capacity	MVA	**5,971**	5,951

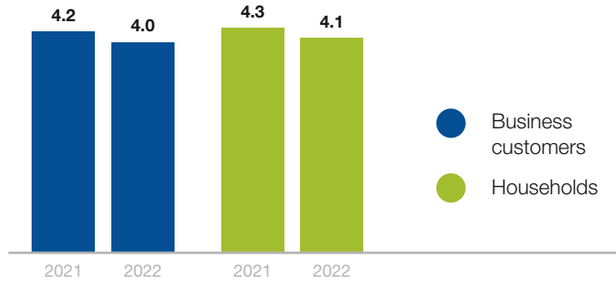
Employees **3,316**



Share of renewable resources in the electricity output **70%**



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



Highlights 2022

THE STRATEGY OF LATVENERGO GROUP FOR 2022–2026 HAS BEEN APPROVED

As part of the new strategy, Latvenergo Group plans to develop generation capacities using renewable energy sources, strengthen its position as the most valuable energy trader in the Baltic market, promote sustainable and intelligent electromobility, and ensure a sustainable and flexible distribution system.

LATVENERGO GROUP IS AMBITIOUSLY MOVING TOWARDS THE DEVELOPMENT OF WIND ENERGY IN LATVIA

At the end of July, Latvenergo AS established a joint venture – Latvijas vēja parki SIA – together with Latvijas valsts meži AS whose purpose is to build new wind energy parks of strategic importance in Latvia. In September, a cooperation agreement was signed with RWE, a global leader in renewable energy, to develop, build and manage offshore wind projects near the Latvian coast.

DOUBLING THE *ELEKTRUM DRIVE* CHARGING NETWORK

The *Elektrum Drive* EV charging network has grown significantly, and, by the end of 2022, it already had almost 200 charging ports. In November, an agreement was signed with the *e-mobi* network, enabling *Elektrum Drive* customers to charge at more than 300 ports in Latvia.

THE TOTAL CAPACITY OF SOLAR PARKS AND PANELS INSTALLED FOR *ELEKTRUM* CUSTOMERS HAS INCREASED SIGNIFICANTLY

At the end of the reporting year, the total capacity of *Elektrum* solar parks was 11 MW, while there were solar parks with a total capacity of around 200 MW in the process of design or construction.

More and more solar panels are also being installed in customer facilities. At the end of the year, the total capacity of the panels installed by *Elektrum* for their customers in the Baltics reached 38 MW.

THE NUMBER OF SOLAR PANELS CONNECTED TO THE DISTRIBUTION GRID IS GROWING RAPIDLY

At the end of the reporting year, a total of 220 solar power plants with a combined capacity of 18 MW were already connected to the distribution network, which is about 3 times more than in 2021. Nearly 12,000 micro-generators – mostly solar panels to generate electricity for households' own consumption – have also been connected to the grid. They have a total capacity of 94 MW.

GREEN BONDS WORTH EUR 100 MILLION ISSUED

In May, Latvenergo AS issued its five-year green bonds. The funds obtained will be invested in environmentally friendly generation and distribution projects.

LATVENERGO AS PROVIDES NATURAL GAS TO ITS GENERATION PLANTS AND CUSTOMERS, AS WELL AS TO STATE RESERVES

In 2022, Latvenergo AS played an important role in securing natural gas reserves for the Latvian state. Latvenergo AS has stopped purchasing natural gas from Russia as of 24 February 2022, switching to LNG supplies from other countries. The timely purchase of gas and the right to use 6 TWh of liquefaction capacity at the Klaipėda LNG terminal for the next 10 years have significantly reduced the risks to the natural gas supply.

LATVENERGO GROUP WAS ACTIVELY INVOLVED IN VARIOUS INITIATIVES TO SUPPORT UKRAINE

The companies of the Group have provided both technical and financial support for the reconstruction of the Ukrainian energy system. A three-phase 110 kV transformer, 49 transformers of Sadales tīkls AS and 10 quadricycles were delivered to Ukraine.

Employees have donated money for external batteries, helped to make trench candles, and coordinated the arrival and accommodation in Latvia of Ukrainian energy engineers and their families.

LATVENERGO AS RECEIVED THE LATVIAN CORPORATE GOVERNANCE AWARD

Latvenergo AS was awarded in the category Stakeholder Engagement Practitioner. The efforts of the company to implement good governance practices and the principles of the Latvian Corporate Governance Code were appreciated.

TOP RATING IN THE SUSTAINABILITY INDEX

Latvenergo AS was awarded the new Diamond category for the first time in the Latvian Sustainability Index, while Sadales tīkls AS was awarded the Platinum category and received the Special Award for Innovation Leader 2022 of the Sustainability Index. Liepājas enerģija SIA was awarded the Gold category.

Group Strategy

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

To promote the competitiveness and growth of 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.

Last year brought geopolitical turmoil – a large-scale war being waged by Russia in Ukraine. This has had a significant impact on the energy sector and the economy as a whole, highlighting the importance of critical infrastructure and energy independence for the existence of the state. The war in Ukraine and the international sanctions imposed in response have put enormous pressure on the prices of energy and electricity. As a result, strengthening the energy security of the state, including the task given by the Latvian government to acquire the necessary gas reserves for the needs of the state, became an absolute priority.

The priorities of the EU on climate change and environmental challenges remain unchanged. These issues are addressed in the European Green Deal, which focuses heavily on the use of RES and on the path towards climate neutrality by 2050. Although Latvenergo Group is already the largest producer of green electricity in the Baltics, it is moving purposefully towards the development of RES production capacity, which is in line with the long-term development goals for the energy sector set by the EU.

In March of the reporting year, the Medium-Term Operational Strategy of Latvenergo Group for 2022–2026 was approved. It aims to achieve a high share of RES in electricity generation by significantly complementing existing generation capacity with solar and wind power plants. Increased RES production capacity will help prevent record energy price rises in the future, which have a direct impact on consumer prices. In addition, the development of RES capacity will strengthen the energy independence of Latvia.

The strategy of the Group 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 and considering 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 goals, providing a trajectory for the development of the Group towards the indicative goals in 2030 and beyond
- Financial targets – ambitious but realistic targets that can ensure the sustainable development of the company

Sustainability issues in the strategy of the Group

Sustainability is a fundamental principle of the strategy of Latvenergo Group. Sustainability and related issues are perceived by the Group not only as an important part of the business model and strategy but also in terms of opportunities and risks. The stakeholders of the Group also recognise that the practice of sustainability aspects in the operation of state-owned companies should be among the main priorities.

To ensure that operational and financial targets are met in an environmentally and socially responsible way, and to foster innovation, the strategy also sets a sustainability target with three sub-targets. The Group is committed to developing innovative products, services and processes that contribute to the UN Sustainable Development Goals, with sub-targets and expected results for the climate, corporate social responsibility, and innovation.

An external sustainability maturity assessment was carried out in the reporting year, which assessed the performance of the company to date as good and made recommendations on how to improve the management of sustainability issues in the future. In accordance with the recommendations, at the end of 2022, the Sustainability Committee of Latvenergo AS was established. Its activities are supervised by the Management Board of the company, and it is chaired by the chief financial officer (CFO). One of the tasks of the committee is to coordinate sustainability-related activities at inter-departmental and Group levels and to formulate and recommend environmental, social and governance targets to be achieved.

Commitments in company 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. International legal norms that are binding in Latvia and 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 related external documents, i.e., legal acts. Policies are regularly reviewed and updated, typically at least 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 and the Corporate Social Responsibility Policy is publicly available on the Latvenergo website.

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.

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 WPP and SPP:

- 2026: constructed or acquired WPP and SPP with total capacity of 600 MW
- 2030: constructed or acquired WPP and SPP 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; and launch operations in Poland.

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 2022

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, guaranteeing 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 is the largest producer of green electricity in the Baltics, having generated 3.8 TWh of electricity and 1.8 TWh of thermal energy in the reporting year. The electricity generated by the Group accounted for 24% of the electricity generated in the Baltics. With the lower output at Latvenergo AS CHPPs, the share of electricity generated from RES reached 70%, which is one of the highest levels in history.

In the reporting year, the renewal of Daugava HPP hydropower units continued, which will ensure their operation for the next 40 years. The reconstruction of the hydropower units of the Riga HPP has been fully completed. For the reconstruction of two hydropower units at the Pļaviņas and Ķegums HPPs, a new procurement procedure has been launched to continue the reconstruction work. At the same time, work is continuing on the preparation of the Pļaviņas HPP spillway project.

To develop new wind energy parks of strategic importance in Latvia, Latvijas vēja parki SIA, a joint venture between Latvenergo AS and Latvijas valsts meži AS, has been established. By combining the experience and resources of both companies, an onshore wind farm project with a total capacity of 800 MW will be added to the Group's power generation portfolio. In the reporting year, potential land plots for the wind farm were identified and necessary studies were launched with the participation of experts. Wind measurements were launched as well, and the business plan was updated. In addition to this large-capacity onshore wind farm project, Latvenergo Group is preparing to participate in auctions for offshore wind farms in the Baltics. A cooperation agreement with RWE Renewables GmbH has been signed and work has begun on establishing a joint project team to bid for potential offshore wind farm sites.

At the same time, work is underway to develop solar power plants (SPPs) in the Baltics. At the end of 2022, the total installed capacity of the Baltic SPPs was 11 MW, with projects in various stages of development with a total capacity of around 200 MW.

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

This target envisages increasing the customer portfolio; promoting microgeneration, electrification, energy efficiency and product innovation; and launching operations in Poland.

The number of electricity customers of Latvenergo Group increased by 8% in the reporting year. It increased in both the business and household segments, and at the end of the year, the Group had more than 818 thousand electricity customers in the Baltic states, of which more than 175 thousand were outside Latvia. The growth was significantly driven by the opening of the household market in Lithuania, where during the year, the number of household customers increased by approximately 81,000 to nearly 120,000. The number of natural gas customers at the end of 2022 exceeded 21,000, which is 15% more than in the previous year. The significant growth in the number of customers occurred in the strategically important segments of small businesses and households. Although the considerable increase in energy prices 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.

In 2022, active efforts were made to develop new products and business lines based on revenue diversification – to increase the share of revenues from energy-related products. The highest growth was achieved in the solar panel segment.

The microgeneration market experienced explosive growth in 2022, driven by rapidly rising energy prices as well as government support programmes for solar panels. At the end of the year, the total installed capacity of solar panels for retail customers reached 38 MW, making Latvenergo Group one of the leading providers of the service in the Baltics. More than 6,200 new contracts were signed for the installation of solar panels and for the purchase of remote shares in solar parks, which is almost five times more than in 2021. To meet the huge demand for the service, employees were redeployed from other business areas to service solar panel customers, additional jobs were created, processes were streamlined and digitised, new assembly partners were recruited, and the company set up its own assembly teams.

Electromobility target:
To develop electrification of the transport sector

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

The *Elektrum Drive* EV charging network was significantly expanded in the reporting year. With 195 publicly available charging ports by the end of 2022, it is one of the largest charging networks in Latvia. Some charging ports are installed together with cooperation partners. In July, the most powerful EV charging station in the Baltic states was opened in Riga, with 11 charging ports, four of which are particularly fast, with a charging capacity of up to 150 kW. Charging ports have also been built in Estonia, thus extending the *Elektrum Drive* network beyond the territory of Latvia. Compared to 2021, the volume of charging has increased about threefold to almost 500 MWh.

In November, an agreement was signed with the *e-mobi* network, enabling *Elektrum Drive* customers to charge at more than 300 ports in Latvia.

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, to develop a two-way grid appropriate for microgeneration, and to implement digital transformation and efficiency measures.

The key performance indicators for quality of 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 modernisation of electricity distribution networks. Although in 2022 the overall figures were negatively affected by both natural disasters and delays in material deliveries due to geopolitical factors, SAIFI has been reduced by 22% and SAIDI by 17% over the last five years, excluding mass damage situations.

Microgeneration developed rapidly in the reporting year. Nearly 10,000 new micro-generators (mostly solar panels to generate electricity for households' own consumption) have also been connected to the grid. The total capacity of micro-generators connected to the distribution network is 94 MW. There are also 220 solar power plants with a total capacity of around 18 MW connected to the distribution network; of these, 124 were connected in 2022. In addition, 31 EV charging points were built for customers in the reporting year.

Digitisation of the distribution network has also continued successfully, with more than one million smart meters installed for customers by the end of 2022, representing 98% of the total meter fleet and accounting for 98% of all distributed energy.

For the convenience of customers and to improve the efficiency of service processes, the e-environment of Sadales tīkls AS is regularly improved. Customers are informed about these opportunities in a targeted way, and on average 98% of customer transactions took place in the e-environment in the reporting year.

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

Research and innovation

During the strategy period, research and innovation expenditures are focused on the development of three directions:

- Modernising production and improving efficiency
- Development and introduction of new, innovative products and services to strengthen and expand the position of the Group in the Baltic market
- Improving the efficiency of the Group's internal processes

During the reporting year, particular attention was paid to the research, development, and application of storage technologies, mainly hydrogen or Power-to-X, within the Group. In addition, technologies to reduce CO_2 emissions and technologies to meet the needs of prosumers are being explored. The main activities implemented in 2022 to develop the abovementioned areas are as follows:

- In cooperation with the Latvian Hydrogen Association, the prospects for hydrogen production and its practical use in the operations of Latvenergo Group were assessed. The concept for the Power-to-X hydrogen pilot project was developed and its implementation was approved. The pilot project will be an important step towards the generation and use of green hydrogen and will have an invaluable positive impact on maintaining the competitiveness of the Group in the future.
- Cooperation was continued with the Latvian cement producer SCHWENK Latvija SIA and Ventspils naftas terminmāls SIA on CO_2 capture, storage, and utilisation technologies and on solutions for hydrogen and synthetic fuel extraction. The development and deployment of these technologies offer the opportunity to reduce CO_2 emissions and move towards climate neutrality.
- Together with the Latvia University of Life Sciences and Technologies, an autonomous microgrid solution for an individual household was studied. The development of this area is important for meeting the needs of prosumers.
- In search of answers to questions that concern Latvenergo Group, an energy hackathon was organised. Participants came up with solutions to manage inverters from multiple manufacturers by integrating customer solar module data on the *Elektrum* website and mobile app. Ideas were also proposed for a parking control tool for charging stations.

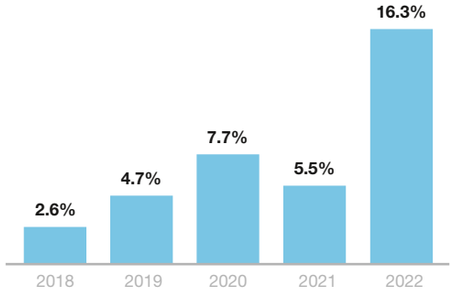
The Group's financial targets for 2026

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%



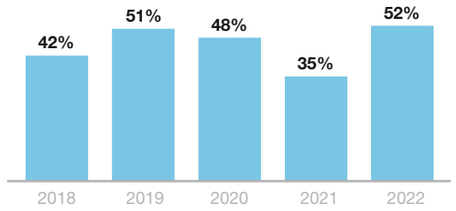
The profit of Latvenergo Group for 2022 amounted to EUR 183.9 million, which is EUR 112.3 million more than in 2021. The increase in profits was driven by higher revenues from the sale of energy, due to higher market prices for electricity and natural gas. In comparison to 2021, the market price of electricity in Latvia increased two and a half times and the market price of natural gas was almost three times higher. 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 52% in 2022, which is the highest in the last five years. The same factors that affected profitability had a positive impact on the ratio.

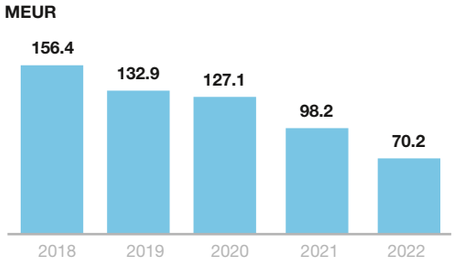
Considering the unbundling of transmission assets from Latvenergo Group in June 2020, the discontinued operation (transmission system assets) was removed from historical capital structure ratios.

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 larger than the industry average. Over the last five years, the average dividend payout ratio has been above 80%. For more information, see the section Key Figures of the Annual Report.

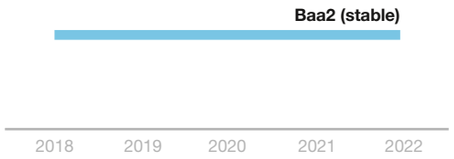
The dividend policy defined in the Strategy for 2022–2026 sets the dividend payout ratio at more than 64% of the profit, while each year's dividend payment is set by the Shareholder Meeting upon evaluation of the actual results. For more information, see the section Dividend Policy.

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.

Corporate social responsibility (CSR) principles and activities are set in the Group's CSR Policy. These activities promote the involvement of large groups of society and ensure a considerable long-term impact and public benefit, and they are implemented in the following directions:

- science and education
- raising public awareness of electrical safety
- environmental protection
- culture and energy heritage
- social support and responsibility towards employees

According to a corporate reputation survey conducted by TNS Latvia in 2022, the majority of industry experts and media representatives, as well as about half of the Latvian population, know or have heard about the CSR activities of the Group. More than 95% of those who know about the activities rate them positively.

Integrating environmental, social and governance considerations into the day-to-day operations of companies is essential for implementing the European Green Deal and the Sustainable Finance Strategy. In the reporting year, an international team of Deloitte experts conducted a sustainability maturity assessment of Latvenergo AS, which highly evaluated the performance of the company in the implementation of green technologies, social responsibility and other areas. In addition, recommendations were made for improving sustainability performance and managing sustainability issues in the future. In line with the recommendations, the Sustainability Committee of Latvenergo AS was established at the end of 2022 to further improve performance in all sustainability areas.

Latvenergo AS was awarded the new Diamond (highest) category in the 2022 Latvian Sustainability Index. Sadales tīkls AS was awarded the Platinum category and received the Special Award for Innovation Leader 2022 of the Sustainability Index. Liepājas enerģija SIA was awarded the Gold category. This rating is due to the new growth strategy, effective corporate governance, stakeholder engagement, disclosure of non-financial information, investment in community development, voluntary implementation of environmental and energy management standards, customer-friendly and modern solutions, and other sustainable development activities of the Group.

In the reporting year, Latvenergo Group was also actively involved in various initiatives to support Ukraine:

- in cooperation with Ziedot.lv, a project tender for summer camps for the integration of Ukrainian children in Latvia was implemented
- Sadales tīkls AS donated transformers, generators, vehicles and electrical materials, while Latvenergo AS donated an 11/110 kV transformer for the reconstruction of the Ukrainian electricity supply system
- the Group's employees donated money for the acquisition of external batteries for mobile devices and fuel and made trench candles and camouflage netting
- Employees of Sadales tīkls AS helped to coordinate the arrival and accommodation in Latvia of Ukrainian energy engineers and their families

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*, E*lektrum 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 the Daugava HPPs' hydropower units and Aiviekste HPP	Generation
	Renewal and digitization 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, energy and climate hackathons, organisation of the Innovation Forum AC/DC Tech	Stakeholder Engagement
	Innovation lab for developing and testing new product ideas, development of a culture of innovation within the Group	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 75 GWh or 23% in the last five years	Distribution
	An energy management system corresponding to the international standard ISO 50001	Environmental Topics

Science and education

Priority direction of CSR, which promotes young people's interest in science 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

27 years
FIZMIX Eksperiments knowledge contest

In 2022, 192 teams or 960 students from 122 Latvian schools took part in the contest. Teachers took part in an experiment masterclass and were awarded *FIZMIX Teacher 2022*

25 years
Energy Efficiency Centre

In 1997, the Energy Efficiency Centre was launched, demonstrating that energy efficiency is one of the waypoints for sustainability. Over 25 years, the Centre has become a platform where industry professionals come together to discuss the latest developments in energy efficiency and where experts from the Centre share their expertise. The research and proven energy efficiency recommendations of the Centre are used daily by *Elektrum* customers.

10 years
FIZMIX

The Group has developed and regularly improves the physics portal FIZMIX for young people. In 2022, the portal was updated with educational materials on electricity generation, consumption, and market principles. The materials include videos, exercises, and answers/explanations for teachers.

15 years
Graduation contest

15 years
Scholarship contest

24 years
Annual Science Award

1 year
Support for the RTU Curiosity Centre Futurimo Riga

The Centre aims to introduce children and young people to the world of STEM (Science, Technology, Engineering and Mathematics) through interactive and educational exhibitions.

8 years
Donation of used computer equipment to educational institutions

6 years
Support for the participation of the Latvian team in the 6th European Physics Olympiad

2 years
Project contest for the improvement of physics classrooms

In cooperation with *Mission Possible*, the project competition continued, with 12 schools from all regions of Latvia receiving equipment to improve their modern physics classrooms.

2 years
Project contest for the development of team sports for children and young people

Culture and energy heritage

Activities that strengthen Latvian cultural traditions and promote public knowledge about the Latvian energy sector

28 years
Energy Museum

Since 2022, the entire museum collection has been available in one location – Ķegums. The Virtual Energy Museum is complemented by an animation on energy generation in a wind power plant and an educational game on the development of the Group. Photographs of the construction of the Ķegums HPP are included in the exhibition *100 Years of the Presidential Institution* of the Chancellery of the President of Latvia.

15 years
Participation in Museum Night

Raising public awareness of electrical safety

Electrical safety projects aimed at reducing the number of electrical injuries caused by a lack of knowledge

17 years
Educating children and young people on electrical safety

In 2022, employees of Sadales tīkls AS – electrical safety ambassadors – conducted 268 classes both onsite and remotely, educating more than 7,000 children and young people. Electrical safety education was also implemented in the *Zelta Zivtiņa Championship*.

Social support and responsibility towards employees

Support for the promotion of social care and additional social guarantees for employees.

12 years
Employee Christmas charity event

5 years
Contest for projects to improve the quality of life of children and adults with special needs

1 year
Summer camps for the integration of Ukrainian children in Latvia

The project competition is organised in cooperation with Ziedot.lv. The camps include training in the Latvian language, history, culture, and traditions, as well as attractive FIZMIX and electrical safety classes.

9 years
Educating people engaged in building, logging, and agricultural work on electrical safety

Sadales tīkls AS implemented a campaign on working safely near power lines and reminded farmers about electrical safety at *Traktordiena 2022*.

2 years
Educating households on electrical safety

Environmental protection

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

13 years
Fish protection projects

12 years
White stork monitoring

6 years
River cleaning

In September 2022, together with local environmental activists, employees of the Group took part in the clean-up of the River Bērzene to improve the habitats of fish species protected by the EU Habitats Directive. Spawning is livestreamed to educate the public.

Awards

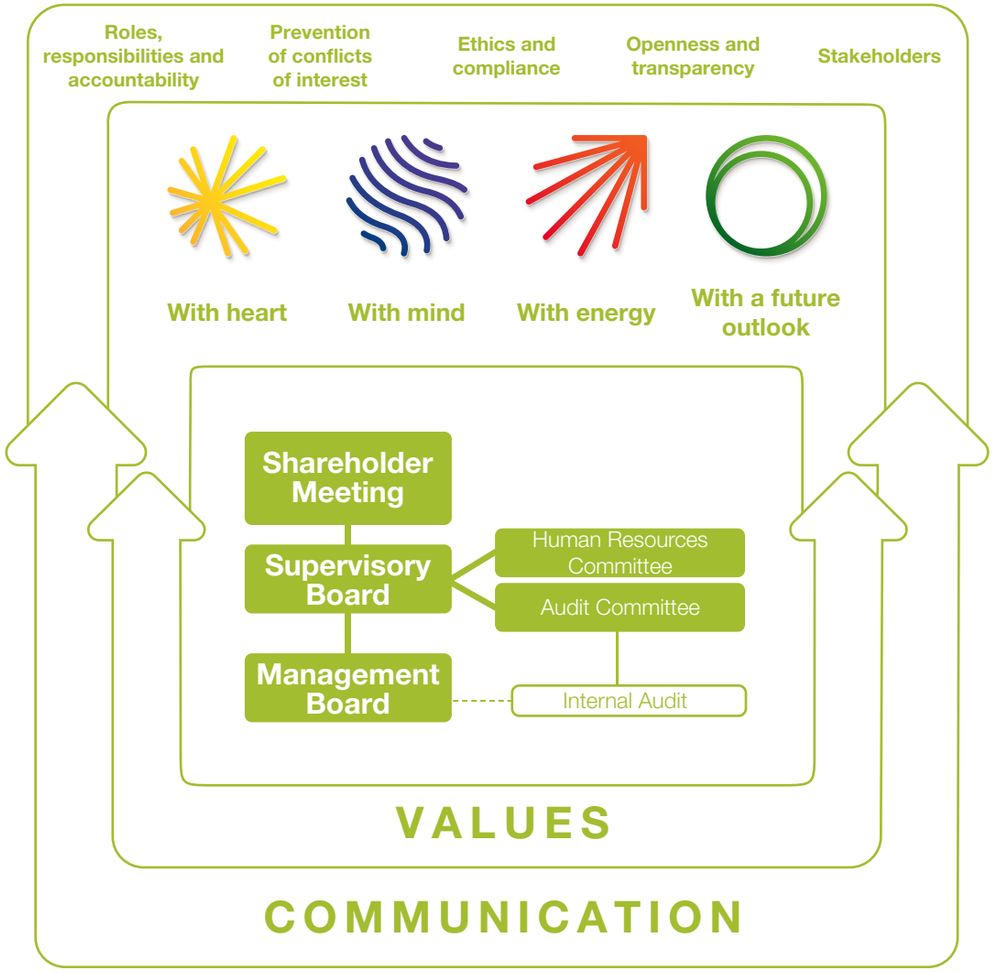
Latvenergo Group – a leader in sustainability

- Latvenergo AS was awarded the new Diamond (highest) category in the Latvian Sustainability Index, while Sadales tīkls AS was awarded the Platinum category and received the Special Award for Innovation Leader 2022 of the Sustainability Index. Liepājas enerģija SIA was awarded the Gold category.
- Latvenergo AS received an award from the Latvian Corporate Governance Advisory Board in the category Stakeholder Engagement Practitioner.
- In the European Sustainable Brands Index, the brand *Elektrum* of Latvenergo AS was recognised as the second most sustainable brand in Latvia for the second year in a row.
- Sadales tīkls AS received three awards in the annual Baltic communication industry competition *Mi:t&Links 2022*.
- In its anniversary year, the Safest Company Fleet competition honoured the top-ranked fleets from the previous decade. Latvenergo AS received the Diamond Award of the Decade and a special award from the Ministry of Transport of the Republic of Latvia. The Recognition Award was also conferred to Sadales tīkls AS.
- In the competition *Golden Helmet* of the State Labour Inspectorate for best practice in labour protection, Sadales tīkls AS received recognition from the Free Trade Union Confederation of Latvia for labour protection measures in the electricity distribution network.

Latvenergo Group companies – top companies in the energy sector

- Latvenergo AS was ranked as the second most valuable company in Latvia in the TOP 101 most valuable companies in Latvia. Latvenergo AS was recognised as the most valuable energy company for the fifth time in the TOP 30 most valuable companies in the Baltics.
- Latvenergo AS was recognised as the largest state-owned company, the largest energy company and the third largest EBITDA earner in the TOP 500 Latvian Companies. Sadales tīkls AS was rated as the third largest energy company and the third largest state-owned company.
- In the Latvian Business Annual Report 2022, Latvenergo AS was assessed as the largest company in the energy sector. Sadales tīkls AS ranked third among Latvian electricity and gas companies.
- At the beginning of 2023, Latvenergo AS received the Nasdaq award for best investor relations on the bond market in the Baltic states for the third time.

Corporate Governance Model



The corporate governance model of Latvenergo Group has been developed in compliance with governance best practice based on the regulatory framework and corporate governance guidelines. The elements included in the model are a prerequisite for achieving the Group's goals and increasing its value.

Ethics and compliance

Latvenergo Group follows high standards of professional ethics, ensures the compliance of its operation with legislative requirements and does not engage in anti-competitive, corrupt or discriminatory transactions. For more information, see the topic General compliance and fair business.

Roles, responsibilities and accountability

The roles, responsibilities and accountability of the governance bodies are defined by laws and regulations of the Republic of Latvia and by the Group's internal documents. The most important of these are the companies' Articles of Association and regulations of the governance bodies, which are published on the Group's website. For more information, see the section Governance Bodies.

Openness and transparency

Latvenergo Group publishes financial and non-financial information on the Latvenergo website and the Nasdaq Baltic website. The Sustainability and Annual Report and the Corporate Governance Report are published by the Group on a yearly basis. The Interim Financial Reports of the Group, Latvenergo AS and its subsidiaries are published on a quarterly basis. Virtual conferences on the Group's financial results and business developments are held every six months.

Prevention of conflicts of interest

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 their activities. Members of supervisory boards and management boards are obliged to submit annual asset declarations as public officials. The Group's Code of Ethics defines the types of conflict of interest and the measures for the prevention of conflicts of interest situations. For more information, see the topic General compliance and fair business.

Stakeholders

Latvenergo Group assesses and takes into consideration its impact on stakeholders and vice versa and handles issues of material importance to its stakeholders with a sense of responsibility. For more information, see the section Stakeholder Engagement.

Every year, Latvenergo AS prepares a corporate governance report according to the requirements of the Law on the Financial Instruments Market and the Law on Governance of Capital Shares of a Public Person and Capital Companies. The report for 2022 has been prepared evaluating the compliance of the capital company with the Corporate Governance Code, which was published in 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice. In 2022, 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. The report is available on the Latvenergo website and on the Nasdaq Baltic website.

Since 2021, Sadales tīkls AS also prepares a corporate governance report. In 2022, Latvenergo AS complies in all material aspects with all the principles set out in the Code, except for the criterion about providing information in at least one additional language that is understandable to most of the company's foreign shareholders and other stakeholders. The report is available on the website of Sadales tīkls 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.

Six Shareholder Meetings took place in 2022. The main decisions passed in the reporting year:

- use of profits for 2021 and payment of dividends in the amount of 70.2 million EUR
- election of the auditor of the Annual Report for 2022
- civil liability insurance for the members of the Supervisory Board and Audit Committee of Latvenergo AS
- reviewed information on bond issue and a report on the joint wind park project with Latvijas valsts meži AS

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 Supervisory Board of Latvenergo AS 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.

14 meetings of the Supervisory Board took place in 2022. The most important issues addressed at the meetings:

- approval of the Strategy for 2022–2026
- evaluation of conditions of establishing joint ventures related to strategy implementation
- analysis of the measures related to the supply security of energy and natural gas
- analysis of the most significant events and trends in the energy sector, assessment of the impact of the extraordinary rise in energy prices and related operational risks
- quarterly evaluation of the Group's financial and non-financial results and its fulfilment of strategic objectives
- attracting medium-term funding
- approval of the amendments in the Group's Code of Ethics and Internal Audit Policy

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 was established to prepare proposals for the selection, remuneration, performance assessment and combination of positions of employees of the Management Board, the Audit Committee and the Internal Audit.

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

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. The members of the Management Board are elected by the Supervisory Board, assessing their compliance with the required competencies, experience, and planned area of responsibility. The Management Board operates in compliance with the Articles of Association and the Regulations of the Management Board and reports to the Supervisory Board. All members of the Management Board 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 2022, 75 Management Board meetings were convened. Number of Management Board meetings attended: M. Čakste (Chairman of the Management Board) – 65; G. Baļčūns – 65; K. Cikmačs – 72; D. Juskovecs – 64; H. Teteris – 65. The overall attendance rate was 88%.

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

Audit Committee

The principal duties

- to supervise the financial reporting process
- to supervise efficiency 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 2022. The Regulations of the Audit Committee are available on the Latvenergo website.

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 has informed the Supervisory Board of its conclusions and recommendations based on the Committee's work.

In 2022, in addition to its principal duties, the Audit Committee:

- assessed operational risks and mitigating measures related to energy and natural gas supply security, cybersecurity, sanctions, and procurements
- provided its proposals for revision of risk management
- 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 preparing the Annual Report 2022.

We submit our activity report and assessments to the Supervisory Board of Latvenergo AS in April 2023.

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 on it. The legislation provides for uniform regulation regarding remuneration of members of supervisory 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 capital company's reference criteria (turnover, assets and number of employees). According to the regulations of the Cabinet of Ministers, the maximum coefficient for determining the monthly remuneration for a chairman of a supervisory board is 3. The maximum monthly remuneration coefficient for a 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 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 payment of bonuses to the Management Board members once a year following the approval of the Annual Report. Three main criteria are taken into account when determining the payment of bonuses:

- results of the operation of the capital company in the previous reporting year (fulfilment of the 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

For Management Board members, bonuses may not exceed double their monthly salary. In accordance with legislation of the Republic of Latvia, bonuses are not paid to members of the Supervisory Board, and linking their remuneration to 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 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 Bargaining Agreement do not apply to them.

Remuneration for 2022

Chairman of the Management Board and Chief Executive Officer M. Čakste – EUR 151,776.86; Member of the Management Board and Chief Financial Officer G. Baļčūns – EUR 189,105.07; Member of the Management Board and Chief Development Officer K. Cikmačs – EUR 186,472.44; Member of the Management Board and Chief Commercial Officer D. Juskovecs – EUR 139,353.73; Member of the Management Board and Chief Operating Officer H. Teteris – 139,500.60 EUR. The remuneration of G. Baļčūns and K. Cikmačs includes bonuses for 2021; other Members of the Management Board started working on 3 January 2022.

Chairman of the Audit Committee T. Pedersens – 14,535.15 EUR; Members of the Audit Committee S. Dinsdorfs and I. Grūba – EUR 13,314.00 each.

Chairman of the Supervisory Board I. Golsts – EUR 39,942; Member of the Supervisory Board K. Rokens – EUR 32,498; Members of the Supervisory Board T. Siliņš, A. Laizāns and G. Ruža – EUR 35,946 each.

The annual total compensation ratio in 2022 was 6 to 1. The indicator is calculated as follows: annual total compensation for the organization's highest paid individual / annual total compensation for all of the organization's employees excluding the highest paid individual.

The change in the increase of the annual total compensation ratio compared to 2021 is –0.14. The indicator is calculated as follows: percentage increase in annual total compensation for the organization's highest paid individual / median percentage increase in annual total compensation for all of the organization's employees excluding the highest paid individual. The negative value of the ratio is due to the fact that in 2021 the highest paid individual acted additionally as Chairman of the Management Board and Chief Executive Officer, while in 2022 this employee performed only the tasks of Member of the Board and Chief Financial Officer.

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's activities with the standards are 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 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. 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 Group's internal control and risk management systems and recommendations for their improvement are submitted to the Audit Committee and the Management Board of the company of the Group.

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

External Auditor

The annual report auditor of Latvenergo AS for 2022 is Ernst & Young Baltic SIA, a commercial company of certified auditors (in 2021, it was Ernst & Young Baltic SIA; from 2018–2020, it was PricewaterhouseCoopers SIA). The auditor is selected as a result of the most economically advantageous tender for a period of three years, evaluating the price of the service, the qualifications of the staff involved, the audit execution plan and the number of audit hours.

The external auditor also provides limited assurance about the compliance of the 2022 sustainability report with the requirements of the GRI Standards guidelines.

Dividend Policy

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

- Law on the State Budget and Law on the Medium-Term Budget 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 2023 and the budget framework for 2023, 2024 and 2025", the estimated amount of dividends to be paid by Latvenergo AS is as follows:

- in 2023 (for the reporting year 2022), 64% of the profit in 2022, but not less than EUR 129.5 million
- in 2024 (for the reporting year 2023), 64% of the profit in 2023, but not less than EUR 89.5 million
- in 2025 (for the reporting year 2024), 64% of the profit in 2024, but not less than EUR 88.3 million

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

Governance of Subsidiaries

Latvenergo Group subsidiaries are governed through governance instruments such as strategy, organisational structure organised around functional units, and policies.

- The supervisory authority of Latvenergo AS is its Supervisory Board, the members of which have been selected through a competition.
- The activities of the Board of Enerģijas publiskais tirgotājs SIA are supervised by the Shareholder Meeting, where the interests of Latvenergo AS are represented by the Management Board of Latvenergo AS.
- 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 operation of the Management Board of Latvijas vēja parki SIA is supervised by the members' meeting, where one of the members of the Management Board of Latvenergo AS is authorized 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 Supervisory Board; half of the Board members are representatives of Latvenergo AS.

Governance of Sustainability Issues

In the reporting year, an international *Deloitte* team of experts carried out a sustainability maturity assessment of Latvenergo AS, in which the performance of the company so far was evaluated positively. In addition, recommendations were made for improving sustainability performance and managing sustainability issues in the future. In accordance with the recommendations, 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 organisational units are permanently represented in it which are responsible for different areas of sustainability; other organisational units are involved in reviewing issues relevant to them. The purpose of the Committee is to provide consultative functions for the governance of sustainability issues and to contribute to 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.

The medium-term strategy of Latvenergo Group is defined for a period of five years. Its preparation includes analysis of the external and internal environment, including analysis of risks and sustainability issues, on the basis of which the goals and objectives of the next strategy period are determined. The strategy is developed by the Management Board of Latvenergo AS and approved by the Supervisory Board. The Management Board is responsible for its implementation, regularly informing the Supervisory Board regarding the progress of implementation. For more information about the strategy and goals of Latvenergo Group for 2022-2026, see the Group Strategy section.

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 a seminar led by the Baltic Institute of Corporate Governance, *ESG Insights for the Boards: Overall Landscape and Target Setting*.

Both the Management Board and the Supervisory Board of Latvenergo AS participate in determining the sustainability topics that are material for the operation of the Group. The materiality matrix, which summarizes these topics, 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 Shareholder.

Latvenergo AS Supervisory Board

Ivars Golsts

Chairman of the Supervisory Board

Term of office

10.06.2025

Committee membership

Human Resources Committee

Experience

2021–present: Member of the Fiscal Discipline Council

2019–2020: Fiscal Discipline Council, Secretary

2008–2015: Latvian Guarantee Agency, Director

2003–2006: Latvian State Radio and Television Centre VAS, Chairman of the Management Board-Director General

2000–2003: European Bank for Reconstruction and Development, Advisor for Norway / Finland / Latvia Office of Board Directors

Education

University of Latvia, Master's Degree in Humanities, in Theology and Religious Studies (2021)

University of Colorado at Denver, Master of Science in International Business (2000)

RTU, Computer Hardware Engineer (1991)

Riga Electromechanical Technical College, Radioelectronics Technician (1986)

Kaspars Rokens

Deputy Chairman of the Supervisory Board

Term of office

10.06.2025

Committee membership

Human Resources Committee (Chairman)

Experience

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

Education

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)

Aigars Laizāns

Member of the Supervisory Board

Term of office

10.06.2025

Committee membership

Human Resources Committee

Experience

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

2013–present: Latvia University of Life Sciences and Technologies, Vice-Rector for Studies, Professor and Lead Researcher

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)

Toms Siliņš

Member of the Supervisory Board

Term of office

10.06.2025

Committee membership

Audit Committee

Experience

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

2020–present: Helvetica Green Investments AG, Director

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

Education

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

Term of office

10.06.2025

Committee membership

Audit Committee

Experience

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

Education

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)

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)

Kaspars Cikmačs

Member of the Management Board and Chief Development Officer

24.09.2023

2021–present: Elektrum Lietuva UAB, Member of the Supervisory Board

2021–present: Latvian Electrical Engineering and Electronics Industry Association, Member of the Management Board

2018–present: Latvenergo AS, Member of the Management Board, Chief Development Officer (before – Chief Technology and Support Officer)

2010–2018: Citadeles banka AS, Member of the Management Board, Chief Operating Officer

2009–2010: Parex Banka AS, Head of Information Technologies

2005–2009: Swedbank Baltic Banking, Head of IT Operations in the Baltics

1996–2005: Hansabanka, Head of IT Monitoring in the Baltics, Head of Service Support and Monitoring, IT System Administrator

SSE Riga, Master of Business Administration (2012)

INSEAD (France), Business Management (2006)

University of Latvia, Bachelor of Computer Sciences (1999)

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

Term of office

02.02.2024

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

Education

SSE Riga, Master of Finance and Economics (2003)

SSE Riga, Bachelor of Economics and Business Administration (1998)

Torben Pedersen

Member of the Audit Committee

02.02.2024

2023–present: Latvenergo AS, Member of the Audit Committee

2018–present: BDO Latvia AS, Member of the Council

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–present: 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

Aarhus School of Business, Master of Economics and Auditing (1974)

Chartered Accountant Qualification (Denmark)

Ilvija Grūba

Member of the Audit Committee

02.02.2024

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

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: 02.02.2024

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

Gundars Ruža

Term of office: 02.02.2024

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 duties of Chief Officers are performed by the Members of the Management Board of Latvenergo AS. At the time of this report's publication, the responsibilities of the Chief Officers are divided as follows:

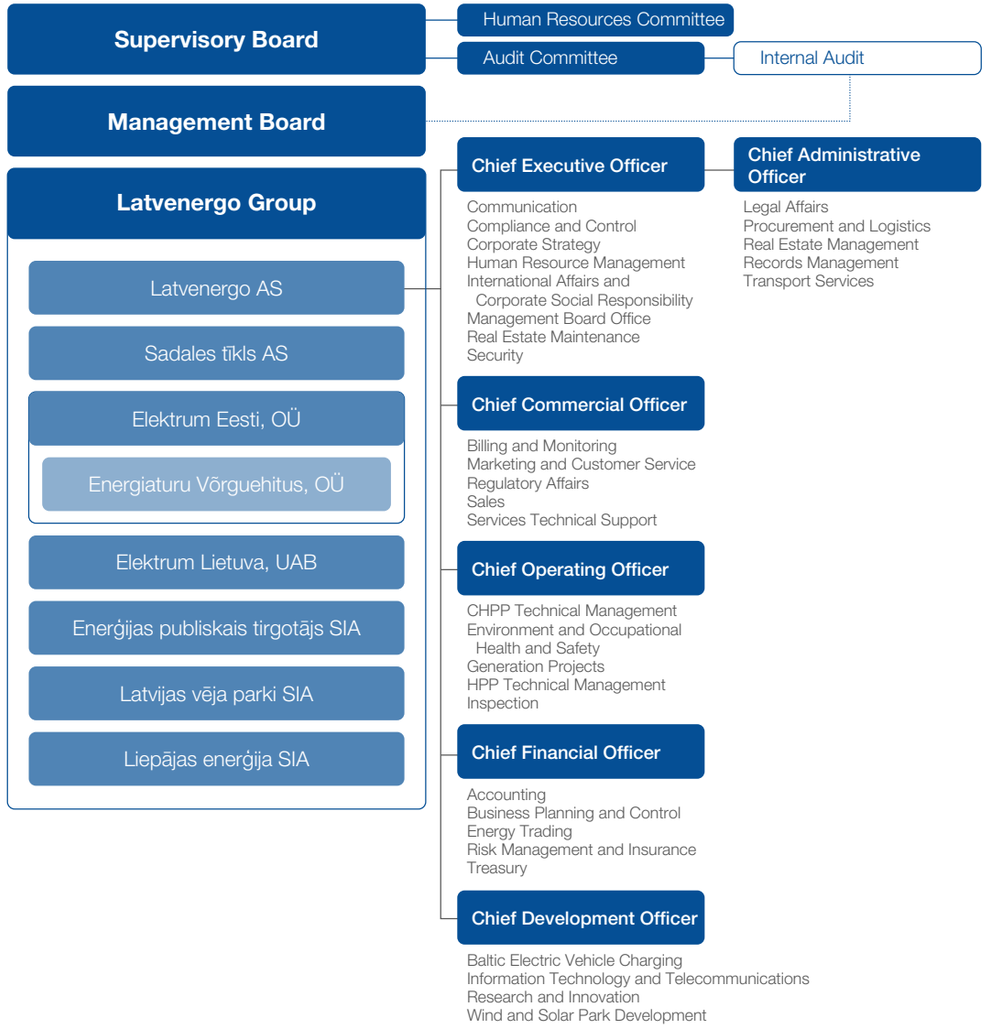
- Mārtiņš Čakste – Chief Executive Officer
- Guntars Baļčūns – Chief Financial Officer
- Kaspars Cikmačs – Chief Development Officer
- Dmitrijs Juskovecs – Chief Commercial Officer
- Harijs Teteris – Chief Operating Officer

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

- In July 2022, together with Latvijas valsts meži AS, Latvenergo AS established a joint venture, Latvijas vēja parki SIA, whose purpose is to build new wind energy parks of strategic importance in Latvia. Latvenergo AS owns 80% of the capital shares of the joint venture, while Latvijas valsts meži AS owns 20%.
- In 2022, as a result of the reorganization of the subsidiaries of Elektrum Eesti OÜ, SNL Energia 1 OÜ and Baltic Energy System OÜ were added to the subsidiary Energiaturu Võrguehitus OÜ.

Latvenergo Group organisational structure (as of 2 January 2023)



Internal Control System and Risk Management

Internal Control System

To ensure the achievement of Latvenergo Group's strategic targets and to successfully supervise its operations, an internal control system has been created in the Group. The system has been developed and improved taking into account the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model, which is a widely used approach internationally for defining internal control principles. The three main objectives of the internal control system are:

- efficiency of the Group's operations;
- credibility of the disclosed information;
- compliance of operations with laws and regulations.

Efficiency of operations

At the end of 2022, an extensive efficiency programme launched in 2017 was concluded. It included revision, centralisation and digitalisation of the Group's processes, as well as a significant reduction in employees, technical bases and vehicles. Its estimated gain is EUR 40 million.

Reporting

Reporting includes both internal and external reports on financial and non-financial operations. Internal reports provide accurate and complete information to the Group's management for decision-making and supervision of operations. External reports inform investors and other stakeholders of the financial position of the Group and its performance.

Compliance

The Group operates in compliance with external and internal regulations. Internal regulations and their compliance with external regulations are reviewed on a regular basis, potential risks are identified and evaluated, and additional controls are developed.

To achieve the above goals on the level of the Group, its subsidiaries and its divisions, the following internal control system elements are continuously improved:

- control environment;
- risk assessment;
- control measures;
- information and communication;
- monitoring.

Control environment

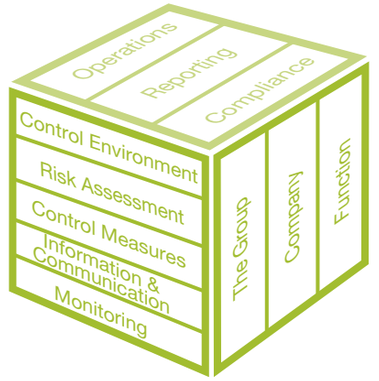
The Group's management promotes business activities that are in line with the principles of good faith and comply with ethical standards. It also implements actions to prevent the risk of fraudulent conduct and corruption and to improve the control environment. Responsible persons for establishment and performance of controls are appointed on all organisational levels. Employees receive training on a regular basis to promote 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 the company's governance processes.

Control measures

The Group has introduced and continuously improves integrated control measures, such as governance policies, the regulations of structural units, and the division of employee duties and responsibilities. These are aimed at promoting strategy implementation and goal achievement by ensuring productive and efficient operations compliant with ethical standards.



Information and communication

The internal information flow and control systems ensure verified, accurate and reliable information for communicating both internally and to external stakeholders. The Group's management provides regular information to employees on both long-term and short-term plans and results, incl. via online meetings where employees can ask questions. The main information channels are intranet *LEports*, the employee magazine *Latvenergo Vēstis*, the internal record-keeping systems, databases, and seminars. Employees' opinions are considered in internal surveys and development interviews. The Group has working groups, which include representatives with various skills and competencies, to exchange opinions and knowledge and facilitate employee engagement in decision-making.

Monitoring

The Group's management is responsible for regular assessment and improvement of controls, while the management's performance is monitored by the Supervisory Board and the Audit Committee. The Internal Audit examines the functioning of controls and evaluates their effectiveness. The external auditor issues an opinion on the impartiality and compliance of the financial reports. All supervisory institutions are independent in their operations.

Once a year, Latvenergo AS performs a self-assessment of the internal control system, which allows for structured assessment of the functioning of the elements of the existing system, identification of deficiencies, and determination of further actions for the system's improvement. This self-assessment is an essential part of the regular system for evaluating and improving 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 assist in improving 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. Every quarter, the Group's management receives data on the Group's risk appetite and main risk indicators.

Starting from Q2 of 2023, the Group focuses on a proactive risk management approach. The Group's management will be provided on a monthly basis with key risk indicator data without significant manual processing or aggregation, while the quarterly report will provide data on all risk indicators and risk appetite, including forecasts.

In the reporting year, while supplementing the previous environmental risk assessment process, assessment of physical risks related to climate change was started in accordance with the principles of the TCFD guidelines. These risks are based on chronic and acute natural phenomena caused by ongoing and projected climate change. In line with the climate risk assessment, decisions will be made on the need to implement measures to adapt to climate change. In 2023, improvement of the management of environmental, social and governance risks will be continued.

The Group's risks

Strategic risks	Operational risks	Financial risks	Legal and compliance risks	Fraud and corruption 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.
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	• fixed-price delivery contracts with customers • derivative financial instruments • delivery of natural gas for a fixed price • 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

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 exceeds three thousand.

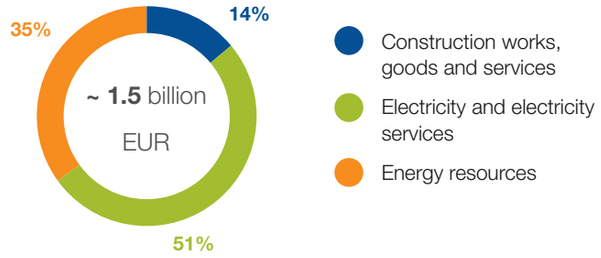
The Group's procurement process complies with the legislation of the EU and the Republic of Latvia and the regulations of the countries in whose territory the Group carries out its commercial activity. The key principles of the Group's procurement are based on the requirements of Directive 2014/25/EU of the European Parliament and the Council and those of the Law on Procurement of Public Service Providers. In addition to these requirements, the Group's Procurement Policy has defined common basic principles for procurement to ensure sustainable growth of the Group's capital companies and the most efficient use of funds. The procurement process is organised in a way that promotes competition among suppliers and observation of the principles of openness and equality. Both the efficiency of the market research and the openness of the procurement process are facilitated by the introduction of IT technologies that enable all procurement to be carried out electronically.

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

In procurement procedures, the Group follows the principles of green procurement where possible and economically feasible. The capital companies of the Group comply with the Cabinet of Ministers Regulations 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 categories of goods and services referred to in the Regulations.

When concluding agreements, Latvenergo Group asks its contractual partners to confirm that cooperation will take place in accordance with the principles of honest cooperation. The ethical principles for cooperation with contractual partners are published on the Group's website.

Types of procurement in 2022



Procurement of construction work, goods and services

In 2022, Latvenergo Group's costs for construction work, goods and services amounted to approximately EUR 210 million. The largest share of these costs comprised investments in reconstruction of existing assets and construction of new ones, where EUR 121.7 million was invested in the reporting year. To ensure high-quality network services, technical performance and operational reliability, a considerable amount of investment is made in distribution networks. This represents around 70% of total investment. The Group is also continuing reconstruction of the Daugava HPPs' hydropower units, where EUR 4.2 million was invested in the reporting year. Other expenses related to the procurement of construction work, goods and services consist of procuring materials, repairs and various services.

Procurement of electricity

The total expenses of electricity procurement at Latvenergo Group amounted to approximately EUR 780 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 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 2022, the total expenses amounted to approximately EUR 530 million. The Latvenergo AS CHPPs account for more than 70% of energy procurement expenses. 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 Liepāja plants. The Group organises natural gas supplies to the CHPPs independently through wholesale purchases of natural gas (including inventories for the next heating season). Liepājas enerģija SIA buys natural gas from natural gas trading companies in Latvia. Consumption of natural gas depends on the electricity market conditions and the demand for thermal energy.

As of 1 January 2023, Latvia is prohibited by law from supplying natural gas from Russia. The prohibition does not affect the natural gas supply of Latvenergo AS, as the company had already stopped purchasing natural gas from Russia by 24 February 2022, switching to liquefied natural gas (LNG) supplies from other countries. In September 2022, Latvenergo AS acquired the right to use 6 TWh of the AB Klaipėdos nafta LNG terminal's capacity for regular natural gas supplies annually for the next 10 years by participating in the long-term capacity allocation procedure for the terminal. During the reporting year, Latvenergo AS concluded contracts for the supply of 3 TWh of LNG for the first half of 2023 from the USA and Norway.

Having assessed the possible risks related to the Russian invasion of Ukraine, amendments to the Energy Law were adopted on 21 April 2022 which stipulate that the purchase and storage of natural gas security reserves on behalf of the state shall be organised by Latvenergo AS. Thanks to timely gas supplies from Norway, the USA and Qatar, electricity and thermal energy generation in Latvenergo AS thermal power plants and the amount of natural gas needed for the state reserves have been successfully secured.

To ensure the reliability of thermal energy supply in situations where the supply of natural gas is interrupted, the CHPPs store backup fuel reserves of diesel. Due to the high price of natural gas and the uncertainty of natural gas supplies, from September to December 2022, diesel was used for thermal energy generation in the CHPP boilers, thus reducing the cost of thermal energy generation. 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; this accounted for about 1% of the Group's total energy resource expenses in 2022. 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 2022 accounted for approximately 10% of total energy resource expenses. For more information on the allocated CO_2 emission allowances, see the section Environmental Topics.

Purchased electricity

	Units	2018	2019	2020	2021	2022
Purchased electricity	GWh	4,020	3,569	3,823	4,208	3,354

Fuel consumption

	Units	2018	2019	2020	2021	2022
Natural gas (incl. the volume of natural gas sold)	thsd. nm^3	667,256	674,889	492,263	581,799	422,022
Wood chips	loose m^3	252,534	225,166	237,511	268,947	266,135
Diesel fuel	m^3	10	11	10	10	17,230

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.

The Group regularly organizes a discussion of financial and operating results and current events with well-known experts in Latvia from the Bank of Latvia, major commercial banks, the Fiscal Discipline Council and the representative office of the European Commission in Latvia. The discussions analyse the interaction of energy with other sectors of the economy and the impact on social, political and environmental areas. Discussions on the new growth strategy of the Group for the years 2022-2026 have been organized with members of the Saeima of the Republic of Latvia, representatives of the European Bank for Reconstruction and Development and other stakeholders.

In September 2022, Sadales tīkls AS invited cooperation partners, electricity traders, customers and other stakeholders to a discussion to review the company's achievements and consider the future priorities of the distribution operator. The discussion provided insight into the company's strategy for the years 2022–2027 and addressed the future tasks and priorities of the distribution operator from the point of view of entrepreneurs and the industry.

In October 2022, Latvenergo AS received the *Stakeholder Engagement Practitioner* award from the Latvian Corporate Governance Advisory Board, in recognition of high-quality stakeholder engagement. The award was given for the best Latvian practice, good governance standards and implementation of the Latvian Corporate Governance Code.

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

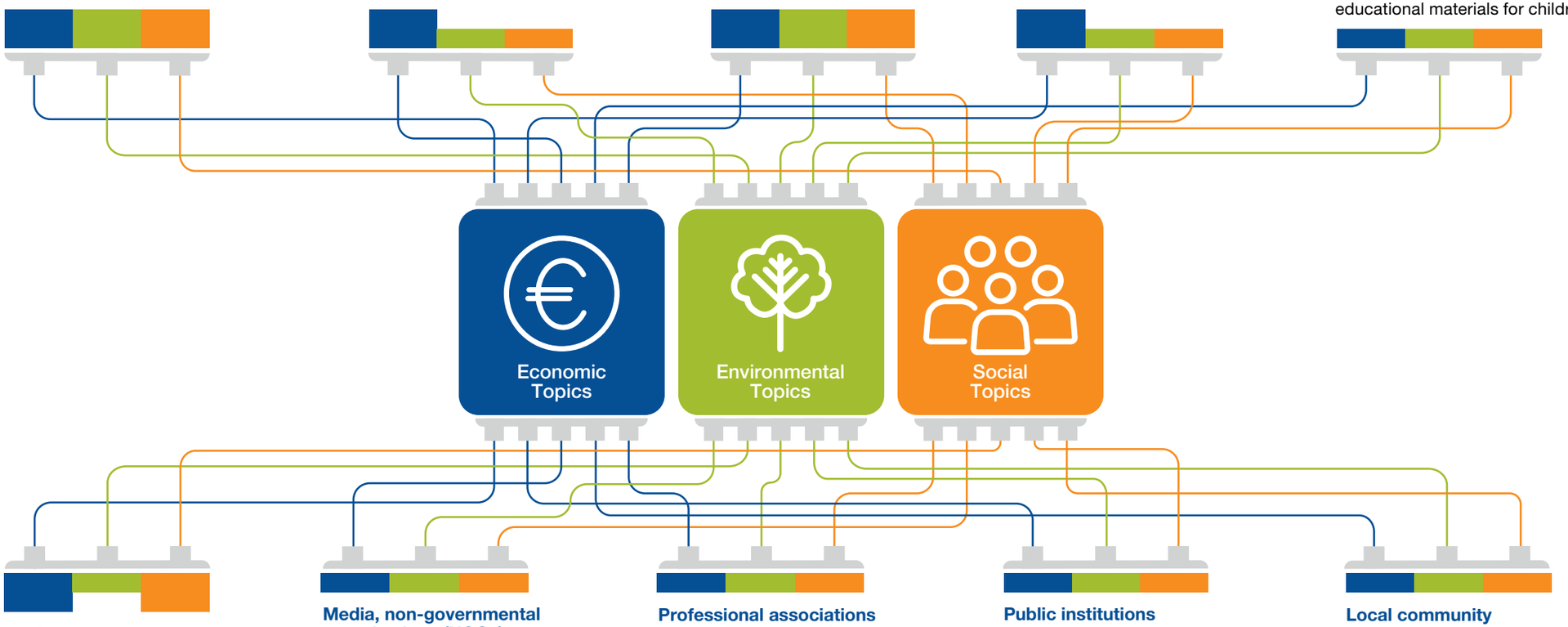
- occupational health and safety
- collective bargaining agreement
- involvement, development, productivity and motivation of employees

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 information on openness and transparency in the section Corporate Governance Model.	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 2022, the main topics were the financial and operational results of the Group, strategic development of the Group, generation of electricity from renewable energy sources, availability and prices of energy resources, promoting innovation, 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 2022, the Cabinet of Ministers of the Republic of Latvia supported the establishment of Latvijas vēja parki SIA, a joint venture between Latvenergo AS and Latvijas valsts meži AS for the development of wind parks in Latvia. In compliance with the procedure stipulated by laws and regulations, the Group cooperates with the Competition Council and provides regular information on its operations, financial results and calculation of regulated tariffs to the PUC. Cooperation has been initiated with the Ministry of Climate and Energy, which was established in December 2022, on further development of the sector's policy. 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 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 actions during the spring flood period in the Daugava River basin. The Group regularly learns the opinions of people in Latvia in various surveys and implements various CSR activities – see the section Corporate Social Responsibility. In 2022, an environmental impact assessment process was started to evaluate the possibilities of WPP construction in five regions of Latvia.

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 representation of its interests during drafting of national and international policy documents, legislative acts and standards. Representatives of the Group regularly discuss issues pertaining to energy and development of related sectors with industry experts at various forums, conferences, seminars and working groups.

The most significant events in which the Group's representatives participated in 2022 include:

- conferences *Energy 2022*, *WindWorks 2022* and *Energycon 2022*
- *Lampa* Conversation Festival
- Energy Innovation Forum *AC/DC Tech*
- *Energy hackathon* and climate hackathons *Climathon 2022*, *Young Climathon 2022*
- forum *Market of responsible ideas*

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

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

The business model of Latvenergo Group

	Resources	Operating segments	Results	Impact
Economic	• Assets – EUR 3.9 billion • Generation capacity – 2,606 MW_{el} and 1,793 MW_{th} • Solar parks for customers – 11 MW_{el} • Electricity distribution network – 92,407 km of power lines • Energy consumed: - 3.4 TWh of electricity - 0.4 billion Nm^3 of natural gas - 0.3 million m^3 of woodchips - 0.02 million 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 184 million • 3.8 TWh of electricity and 1.8 TWh of thermal energy generated • SAIDI – 240 min and SAIFI – 2.5 times • Distribution losses – 3.73% • Electricity market share in the Baltics – 20%	• Investments – EUR 122 million • EUR 70 million paid in dividends to the state • EUR 320 million paid in taxes • Personnel costs – EUR 117 million • Raw materials, supplies, operating and other costs – EUR 1.4 billion • Share of EU taxonomy-aligned activities in CAPEX – 87%
Social	• 3,316 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 • 818 thousand electricity customers in the Baltics – 783 thousand households and 35 thousand business customers • *Elektrum* Energy Efficiency Centre • Diverse CSR activities		• Employee engagement index – 68 • 26 training hours per employee on average • 52 internships provided • Total accident index – 0.19; 0 fatal accidents • *Elektrum* customer satisfaction index (scale 1–6): - households – 4.1 - companies – 4.0 • Customer satisfaction index of Sadales tīkls AS (scale 1–100): - households – 69 - companies – 63 • 95% of Latvians 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 base • 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: - 48% renewable resources - 52% fossil resources • 78 thousand free CO2 emission allowances for thermal energy generation • ISO 14001 and ISO 50001-compliant environmental and energy management system		• 70% of electricity is generated from renewable energy sources. • 673 thousand tonnes of direct CO_2 emissions • 1,754 thousand tonnes of indirect CO_2 emissions • 7.3 million fish fry and larvae were released into rivers and 440 fish spawning nests were installed • 611 nest bases installed for white storks	• The CO_2 emissions intensity of Latvenergo Group – 0.08 t CO_2/MWh, which is significantly lower than the European average • Primary energy savings – 311 MWh • CO_2 savings of more than 22,000 thousand tonnes • Latvenergo AS scores almost 99% in environmental performance on the Sustainability Index

Generation and Trade

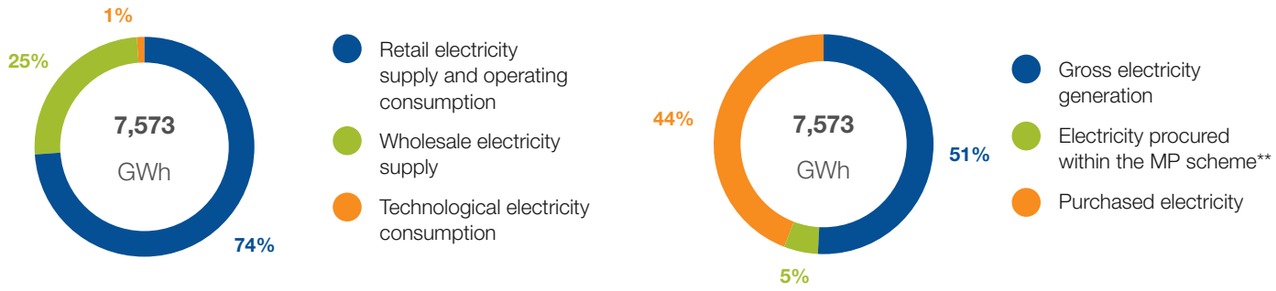
Generation and trade is the largest operating segment of Latvenergo Group in terms of revenue. In 2022, 90% of the segment's revenue was comprised of revenue from the trade of electricity, natural gas, and associated services, while thermal energy revenue accounted for 10%. Most of the operating revenues 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 2022, the Group generated 3.8 TWh or 70% of the total amount of electricity sold in the retail trade. 70% of the amount generated came from renewable energy sources. The amount of electricity generated by the Daugava HPPs did not change significantly, remaining at 2.7 TWh. Due to the high prices for natural gas and emission allowances, CHPP electricity generation decreased by around 40%, with 1.1 TWh of electricity generated at both plants in the reporting year. For more information, see the section Generation.

With a 20% 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 7.6 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 2022, the total amount of natural gas consumed by the Group for its own use and sold to customers comprised 4.4 TWh.

Latvenergo Group electricity balance sheet in 2022*



Latvenergo Group electricity balance sheet*

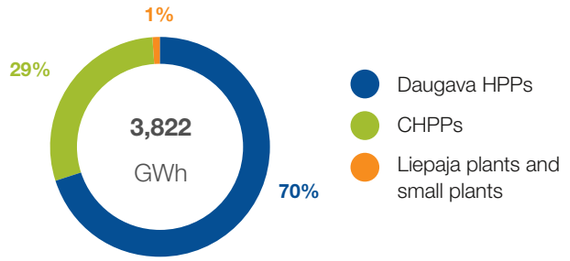
	Units	2018	2019	2020	2021	2022
Retail electricity supply and operating consumption	GWh	7,281	6,773	6,670	6,983	5,612
incl. retail electricity supply	*GWh*	*6,954*	*6,505*	*6,394*	*6,706*	*5,452*
Wholesale electricity supply	GWh	3,030	2,754	2,460	2,554	1,894
Technological electricity consumption	GWh	124	121	85	96	67
TOTAL	**GWh**	**10,435**	**9,648**	**9,216**	**9,632**	**7,573**
Gross electricity generation	GWh	5,076	4,880	4,249	4,517	3,822
Electricity procured within the MP scheme**	GWh	1,339	1,199	1,144	907	397
Purchased electricity	GWh	4,020	3,569	3,823	4,208	3,354
TOTAL	**GWh**	**10,435**	**9,648**	**9,216**	**9,632**	**7,573**

* 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

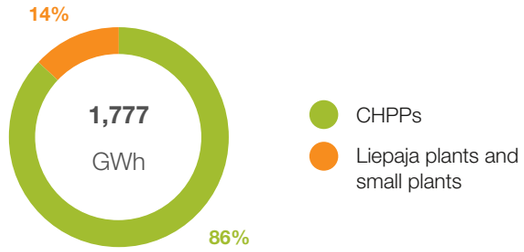
Generation

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 Ainazi 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 1,793 MW. In 2022, 3.8 TWh of electricity and 1.8 TWh of thermal energy were generated. With the lower output at Latvenergo AS CHPPs, the share of electricity generated from RES reached 70% in 2022, which is one of the highest levels in history.

Electricity output in 2022



Thermal energy output in 2022



Installed electrical capacity of generation facilities

	Units	2018	2019	2020	2021	2022
Daugava HPPs	MW	1,558	1,558	1,558	1,558	1,558
CHPPs*	MW	1,025	1,025	1,039	1,039	1,039
Liepaja plants and small plants	MW	8	8	8	9	9
TOTAL	**MW**	**2,591**	**2,591**	**2,605**	**2,606**	**2,606**

* installed capacity when CHPP-2 is in condensation mode

Installed thermal energy capacity of generation facilities

	Units	2018	2019	2020	2021	2022
CHPPs	MW	1,617	1,617	1,617	1,617	1,617
Liepaja plants and small plants	MW	221	221	221	180	176
TOTAL	**MW**	**1,838**	**1,838**	**1,838**	**1,797**	**1,793**

Electricity output

	Units	2018	2019	2020	2021	2022
Daugava HPPs	GWh	2,380	2,047	2,528	2,636	2,670
CHPPs	GWh	2,644	2,780	1,685	1,854	1,123
Liepaja plants and small plants	GWh	52	53	37	26	29
TOTAL	**GWh**	**5,076**	**4,880**	**4,249**	**4,517**	**3,822**

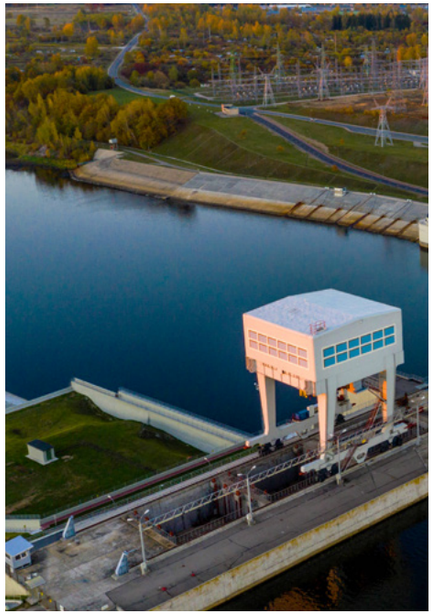
Thermal energy output

	Units	2018	2019	2020	2021	2022
CHPPs	GWh	2,004	1,603	1,475	1,800	1,531
Liepaja plants and small plants	GWh	270	239	227	272	247
TOTAL	**GWh**	**2,274**	**1,842**	**1,702**	**2,072**	**1,777**

Kegums HPP

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

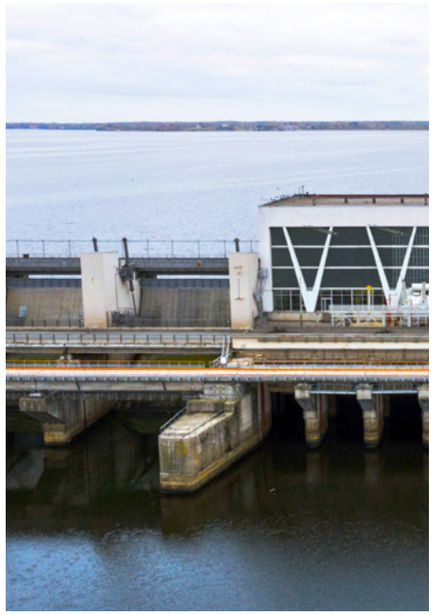
Kegums HPP is the oldest Daugava hydropower plant. It consists of two separate power plants built at different times on the right and left banks of the Daugava River.



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

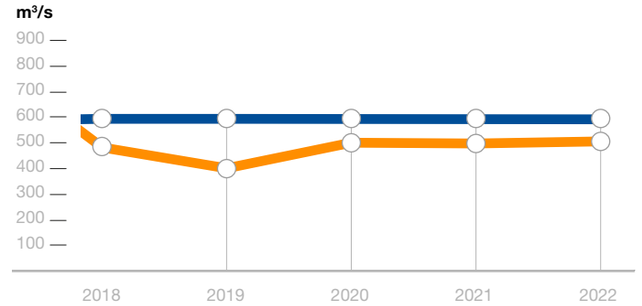
Riga HPP is the newest of the Daugava hydropower plants. It also serves as a synchronous compensator for voltage regulation in high voltage electricity networks. In 2022, the reconstruction of Riga HPP was completed.

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.

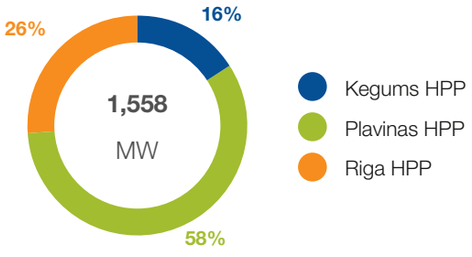
In the reporting year, the electricity output at the Daugava HPPs did not significantly change: 2.7 TWh of electricity were generated, which constituted 70% of the Group's total electricity output.

Water inflow in the Daugava River

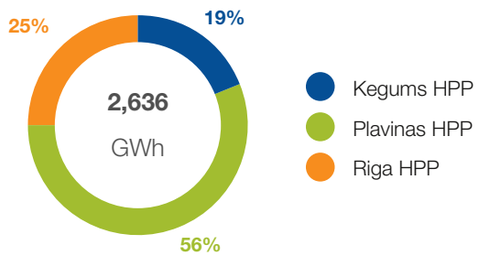


Source: Latvian Environment, Geology and Meteorology Centre

Installed electrical capacity at Daugava HPPs in 2022



Electricity output at Daugava HPPs in 2022



Installed electrical capacity at Daugava HPPs

	Units	2018	2019	2020	2021	2022
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	2018	2019	2020	2021	2022
Kegums HPP	GWh	457	402	493	512	522
Plavinas HPP	GWh	1,359	1,150	1,420	1,474	1,487
Riga HPP	GWh	564	495	615	650	661
TOTAL	**GWh**	**2,380**	**2,047**	**2,528**	**2,636**	**2,670**

Investments in Daugava HPPs

	Units	2018	2019	2020	2021	2022
Reconstruction of hydropower units	MEUR	21.1	16.6	18.4	11.7	4.2
Other projects	MEUR	3.3	4.8	2.6	4.5	7.8
TOTAL	**MEUR**	**24.4**	**21.4**	**21.0**	**16.2**	**12.0**

Investments in the Daugava HPPs

In the reporting year, investments in the Daugava HPPs' assets amounted to EUR 12 million, including EUR 4.2 million invested in the programme for the reconstruction of hydropower units, which will ensure their operation for more than 40 years. The programme provides for the reconstruction of 11 hydropower units that have not been reconstructed yet, of which eight were commissioned by the end of 2022. The total cost of the programme is expected to be around EUR 260 million. Investments of EUR 200 million were already made by the end of 2022.

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 0.366 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. In 2021, the largest heat storage system in the Baltics was commissioned at CHPP-2.

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 response to the energy crisis, the CHPPs also used diesel as an alternative fuel to natural gas for thermal energy generation in 2022. In the reporting year, 11% of the CHPPs' thermal energy output was produced with diesel.

In March 2021, the CHPP-2 heat storage system was commissioned; it is the largest project of its kind in the Baltics. The 17,800 m3 heat storage tank enables 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 the reporting year, the system achieved primary energy savings of more than 300 MWh and CO2 savings of almost 1,100 tonnes. In addition, it increases the security of the heat supply of the Riga district heating system on the right bank of the Daugava.

High prices for natural gas and emission allowances led to a drop in CHPP electricity production of around 40% in the reporting year. The CHPPs produced 1.1 TWh of electricity, which accounts for 29% of the total electricity production of the Group. The amount of thermal energy generated by the CHPPs was 1.5 TWh, a 15% decrease compared to the previous year. The decrease is mainly due to warmer weather in the 2022 heating season. 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	2018	2019	2020	2021	2022
CHPP-1	GWh	643	598	364	310	111
CHPP-2	GWh	2,001	2,182	1,321	1,544	1,012
TOTAL	**GWh**	**2,644**	**2,780**	**1,685**	**1,854**	**1,123**

Thermal energy output at CHPPs

	Units	2018	2019	2020	2021	2022
CHPP-1	GWh	1,105	883	729	757	650
CHPP-2	GWh	899	720	746	1,043	881
TOTAL	**GWh**	**2,004**	**1,603**	**1,475**	**1,800**	**1,531**

Investments in CHPPs of Latvenergo AS

	Units	2018	2019	2020	2021	2022
Investments	MEUR	2.5	10.1	17.8	3.7	1.7

Liepājas enerģija SIA and Small Plants

Liepaja plants

Liepājas enerģija SIA was founded in 2005
Electrical capacity: 6 MW
Thermal capacity: 176 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 82% of the fuel balance of 2022.

In the reporting year, the Liepaja plants generated 247 GWh of thermal energy and 22 GWh of electricity. Contracts have been concluded for the connection of 31 new objects to the district heating networks with a total planned capacity of 6.7 MW. To attract new customers in South Kurzeme, the company has expanded its range of services to include the installation and maintenance of individual heating units. In 2022, 18 contracts for the installation of heating units and 33 contracts for the servicing of 96 heating units were concluded.

In October 2022, a contract was signed with the Central Financing and Contracting Department (CFCD) for the implementation of the project “Replacement of fossil fuels in Liepāja”. Within the project, 3.78 MW gas boilers will be replaced by 4 MW woodchip boilers, which will reduce CO_2 emissions by around 2,700 tonnes per year. The project is to be implemented within 14 months of the conclusion of the contract.

Ainazi WPP

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

In 2013, full renovation of both generators was completed. In 2022, 0.9 GWh of electricity were generated at Ainazi WPP.

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. The reconstruction of the hydropower plant was completed in the reporting year, 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 2022, 5.9 GWh of electricity were generated at Aiviekste HPP.

Development of wind and solar parks

Latvenergo Group is actively working to expand its RES production capacity, which will contribute to the achievement of national climate goals and strengthen energy security. The focus is on developing wind power plants (WPPs) and solar power plants (SPPs).

In July 2022, Latvenergo AS established a joint venture – Latvijas vēja parki SIA – together with Latvijas valsts meži AS, whose purpose is to build new onshore wind energy farms of strategic importance. Using the experience and resources of the two nationwide companies, the Group plans to bring at least 800 MW of renewable energy to its power generation portfolio across Latvia. The task of the joint venture is to design, build and operate wind farms in the territory of Latvian state forests. The projects will be implemented according to free market principles, without any state financial support mechanisms.

During the reporting year, a dialogue with environmental institutions and organisations was launched, and meetings were held with several municipalities to gather the views of all stakeholders early in the development process. Nature experts have started surveying and studying possible areas for the construction of the WPPs. Considering the results of the study, the possible location of the power plants and associated infrastructure is being clarified to avoid significant negative impacts on the environment, including habitats and species of high conservation value.

The strategy of Latvenergo Group also includes developing offshore wind farms and participating in wind farm auctions in the Baltics. In September 2022, Latvenergo AS and RWE, a global leader in renewable energy, signed a cooperation agreement to develop, build and operate offshore wind projects in the Baltic Sea off the coast of Latvia. The new partnership is focused on participating in the upcoming auctions for the rights to develop the Latvian-Estonian joint project *ELWIND*, as well as on jointly developing offshore wind farms at other sites along the Latvian coast. More information on wind park development and wind energy use is available on the Latvenergo website.

At the same time, work is underway to develop solar power plants (SPPs) in the Baltics. At the end of 2022, the total installed capacity of the Baltic SPPs is 11 MW, with projects in various stages of development with a total capacity of around 200 MW.

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.

Being socially responsible

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

Respecting the environment

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

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 trades electricity and natural gas as well as an extensive range of related products and services under the *Elektrum* brand.

Electricity

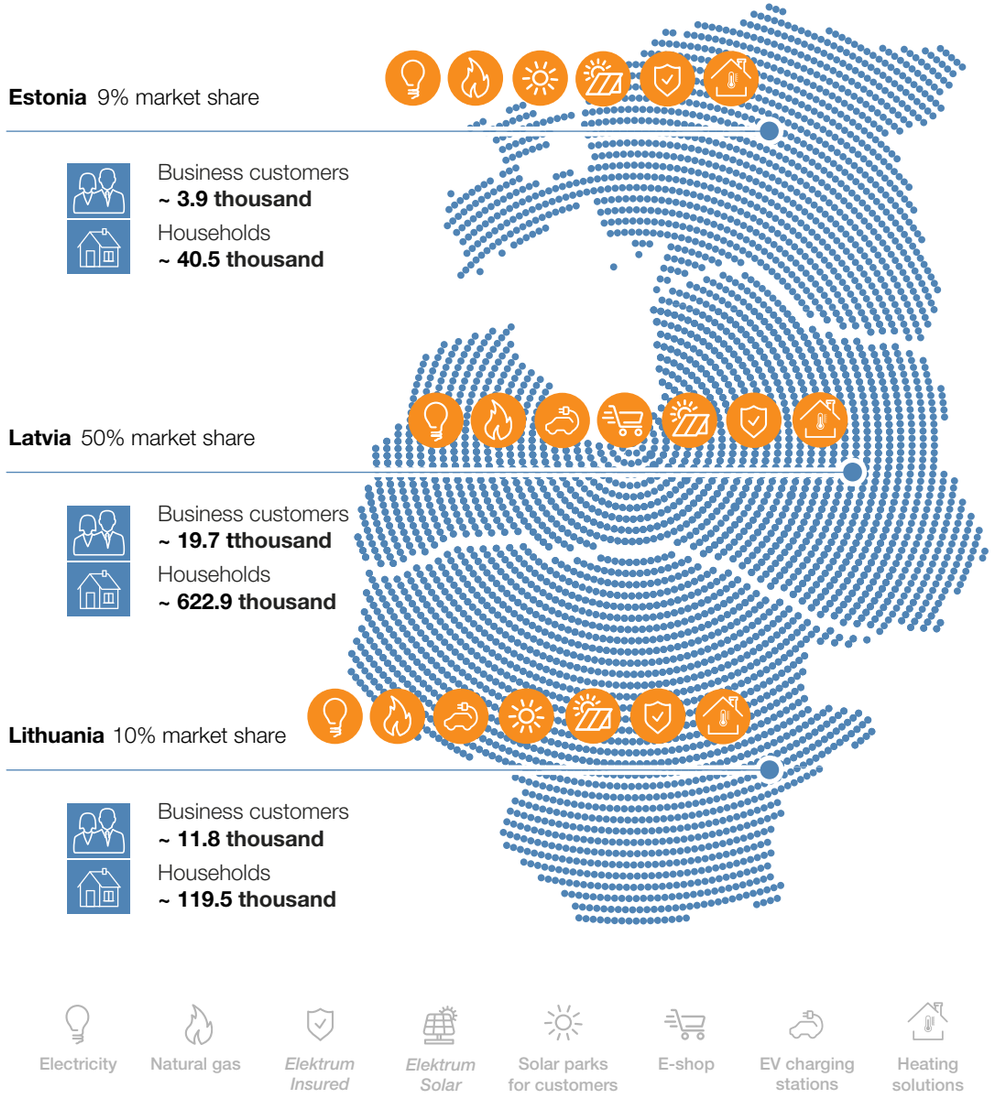
At the end of 2022, Latvenergo Group had about 818 thousand customers in the Baltic states, of which more than 175 thousand were outside Latvia. The number of clients increased by 8% in the reporting year. It increased in both the business customer and household segments. The growth was significantly driven by the opening of the household market in Lithuania, where, during the year, the number of household customers increased by approximately 81,000 to nearly 120,000. Of the total number of electricity customers, 96% are household customers and 4% are business customers.

Total electricity consumption in the Baltic states in 2022 was 27.7 TWh, which is around 5% less than a year earlier. The decrease in consumption, mainly in the household segment, was driven by warmer weather in the first half of the year, as well as rising electricity prices and subsequent customer actions to reduce electricity consumption, including the installation of solar panels. In the reporting year, the market share of Latvenergo Group in the Baltic electricity market was 20%. 5.5 TWh of electricity were sold to retail customers in the Baltics in 2022, while 6.7 TWh were sold in 2021. The decrease was mainly due to a review of the sales strategy in the large customer segment, narrowing the gap between the amount of electricity sold and generated by the Group in an environment of high and volatile electricity market prices.

Natural gas

In 2022, Latvenergo Group sold 0.9 TWh of natural gas to retail customers in the Baltics. Although demand for natural gas has decreased significantly due to the increase in natural gas prices, the volume of natural gas sold by the Group in the reporting year remained at around the same level as in the previous year.

The number of natural gas customers in the Baltics has continued to grow, further strengthening the position of *Elektrum* in the strategically important small business and household segments. At the end of 2022, the number exceeded 21,000, an increase of 15% compared to the previous year. Of the total number of natural gas customers, 90% are household customers and 10% are business customers.

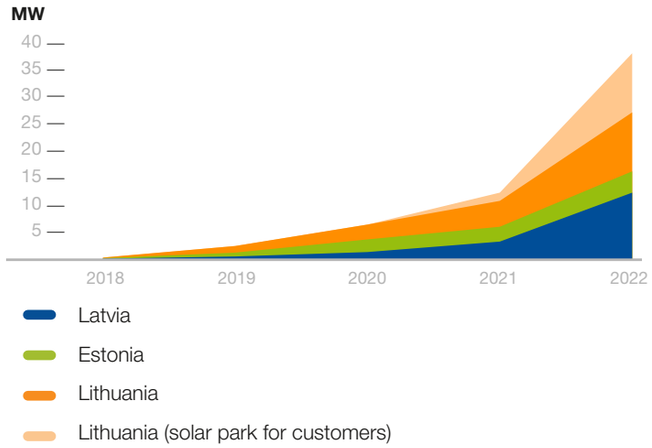


Solar panels and parks for customers

During the reporting year, the construction of solar parks for *Elektrum* customers continued and the total capacity of panels installed for customers increased significantly. In the Baltics, more than 6,200 new contracts were signed for the installation of solar panels and for the purchase of remote shares in solar parks, which is almost five times more than in 2021. The increase was particularly boosted by the state support programmes for renewable energy in Latvia and Lithuania.

At the end of the year, the total installed capacity of solar panels for retail customers of Latvenergo Group reached 38 MW, which makes the Group one of the leading providers of the service in the Baltics. 67% of the capacity is installed outside Latvia. The total capacity of the *Elektrum* solar parks for customers was 11 MW, while 12 solar parks with a total capacity of around 200 MW are in the design or construction stage.

Customer solar panel capacities (cumulative)

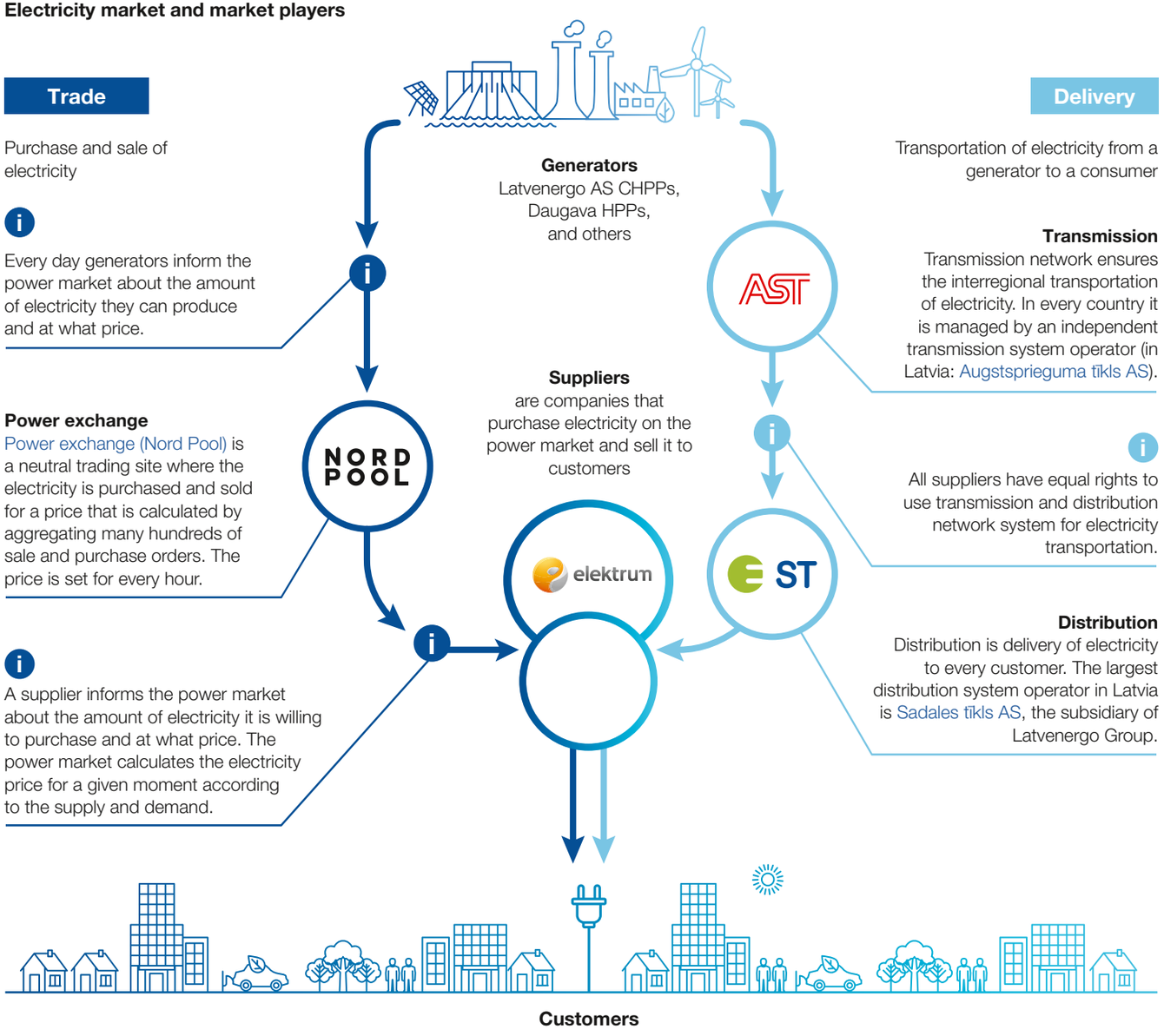


Development of the charging network for electric cars

The development of the charging network for electric cars continued in the reporting year as well. By the end of 2022, with almost 200 publicly available charging ports, *Elektrum* was one of the largest charging networks in Latvia. Some ports are installed together with cooperation partners. Compared to 2021, the volume of charging has increased about threefold to almost 500 MWh.

In November, an agreement was signed with the *e-mobi* network, enabling *Elektrum Drive* customers to charge at more than 300 ports in Latvia. The charging network for electric cars in the Baltics is set to expand to more than 500 charging ports in 2023.

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 Augstsprieguma tīkls AS and Sadales tīkls AS
- the Mandatory Procurement Component – state support for the production of environmentally friendly electricity (not applicable to end-users of electricity since 1 September 2022)
- 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 July 2021, the European Commission initiated recasting of the 2012 Energy Efficiency Directive as part of the European Green Deal package, which includes legislative proposals that will contribute to meeting the climate targets of the EU: to reduce GHG emissions by at least 55% by 2030 and to achieve climate neutrality by 2050. In September 2022, the European Parliament endorsed a proposal to achieve primary energy savings of 42.5% and final energy savings of 40% in 2030. The existing savings in primary and final energy consumption for 2030 are 32.5%. The savings targets of EU member states will be increased to meet the updated energy savings target.

The Energy Efficiency Directive obliges retail undertakings or system operators operating in the energy sector to take measures to improve the energy efficiency of energy end-users under the Energy Efficiency Obligation Scheme (EEOS). An EEOS was established in Latvia in 2017, and its first commitment period was from 2018 to 2020. Latvenergo AS has been implementing energy efficiency promotion measures since 2014 and, in the first EEOS period, achieved the savings targets set for the company. The EEOS is set to continue in the period 2021–2030, and a national framework is currently being developed which will define the specific range of responsible parties, the level of savings to be achieved and the accounting procedures.

The following energy efficiency improvement activities were implemented in the reporting year:

- seminars, webinars, guest lectures, and other educational activities organised by the *Elektrum* Energy Efficiency Centre for both legal and household clients, as well as online classes for students and teachers in the *Ready for Life* school programme
- individual remote consultations provided by both the *Elektrum* Energy Efficiency Centre and customer service specialists, as well as face-to-face consultations at events such as the Ogre City Festival, Clean Latvia in Tērvete and the BE Electric news exhibition
- informing customers about energy efficiency through the *Elektrum* mobile app and at elektrum.lv, where customers can also track their hourly energy consumption
- energy efficiency tips in the customer publications *Elektrum for Your Home* and *Electricity Market Review*, as well as on the social media accounts of *Elektrum*
- informing the public via the media, e.g., the radio programme *Energy Efficiency Expert*, the television advertising campaign Keep the Heat In, publications on the portal *BuvBaze.lv* and in the magazine *Latvijas Bizness*, the creation of a special edition of *Home* for subscribers of *Ir* magazine, and the preparation and distribution of informative handouts
- an electricity consumption assessment tool, *Energo Pulse*, which enables the customer to compare the consumption of their home with similar households in Latvia and get personalised recommendations for increasing energy efficiency
- participation of *Elektrum* Energy Efficiency Centre specialists in industry conferences, think tanks and discussions, e.g., at the *Lampa* conversation festival, as well as provision of expert opinions in the media, such as interviews on the TV programme *Footprints. What is left after you?* and the radio programme *How to Live Better?*
- development of guidelines for possible short and long-term energy consumption reduction measures for public sector bodies and corporations

Energy efficiency is a key element in the development of the Group and the energy sector as a whole. Latvenergo AS has achieved significant energy savings since 2014 and will continue to implement energy efficiency improvement measures in the future.

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), the installed capacity, and, for natural gas cogeneration plants, the cost of natural gas.

The MP regulatory framework is 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 Enerģijas publiskais tirgotājs SIA. The public trader is compensated for expenditures associated with MP and support for energy-intensive processing industry companies through mandatory procurement and capacity component (MPC) payments by electricity end-users and state budget grants.

To mitigate the negative impact of energy price increases on consumers, the Law on Measures to Reduce Exceptional Increases in Energy Prices was adopted in January 2022. Accordingly, from 1 January to 30 April 2022, electricity end-users were subject to a 100% reduction of the MPC charge, which was reimbursed to the public trader in the same amount by the state.

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 sets the average MPC rate for electricity at 0 EUR/MWh from 1 September 2022. In February 2023, amendments to the Electricity Market Law were approved which foresee the abolition of 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 manufacturing companies, MPC reduction support was provided to companies of this category.

Key indicators for mandatory procurement

In the reporting year, the amount of electricity procured under the MP framework decreased by 517 GWh or 56%. The decrease in purchased electricity was due to the cancellation of MP support permits, including the withdrawal of producers from MP permits, driven by record-high electricity prices on the Nord Pool and the end of the support period for an increasing number of power plants. By the end of the reporting period, 19 power plants had been granted and were exercising the right to sell the electricity they produce under MP or to receive guaranteed capacity payments for the electrical capacity installed in the power plants (at the end of 2021, there were 261 power plants).

MP costs above the market price decreased to EUR 11.5 million in the reporting year, which is 85% less than in 2021. This decrease was due to a significantly higher electricity market price, which increased the revenues of the public trader from the sale of MP electricity, and a decrease in the volume of electricity purchased under MP.

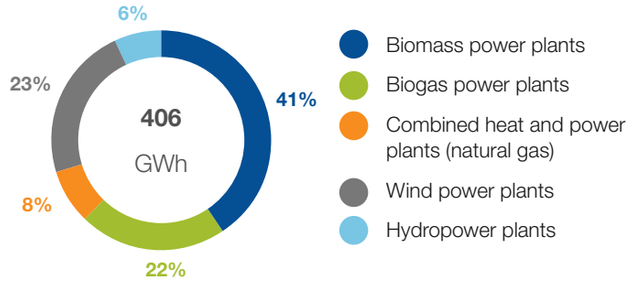
In the reporting year, the total revenues of the public trader were EUR 23.3 million higher than the MPC costs; this resulted in a reduction of the uncollected MPC revenues recognised in the balance sheet assets in previous years. In December 2022, Enerģijas publiskais tirgotājs SIA received a state budget grant of EUR 13.2 million, which covered most of the MP costs accrued in previous periods (see Annex 18 to the financial statements). The support costs for energy-intensive manufacturing companies in 2022 amounted to EUR 3.7 million, and a public subsidy was received for these costs as well.

More information about MP can be found on the website of Enerģijas publiskais tirgotājs SIA.

Mandatory procurement: key indicators

	Units	2018	2019	2020	2021	2022
Power plants	number	374	364	337	306	261
Installed capacity	MW	1,360	1,354	1,331	1,168	1,087
Electricity purchased within MP	GWh	1,385	1,246	1,172	923	406
MP costs above the market price	MEUR	158.9	150.9	150.7	75.8	11.5
MPC reduction: state aid to energy-intensive companies	MEUR	4.8	6.2	3.0	2.9	3.7

Electricity purchased within the MP in 2022



Distribution

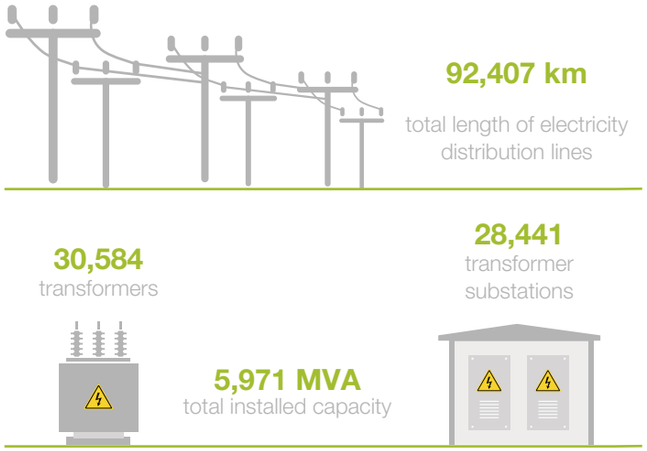
Electricity distribution ensures the flow of electricity from the electricity transmission network and electricity generators connected to the distribution networks to electricity consumers.

Sadales tīkls AS, a subsidiary of the Group, is the largest distribution system operator in Latvia, providing electricity distribution service to more than 790 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. As a result of the reconstruction of the network, the share of cable lines increases year by year: it has grown from 36% to 40% of the overall line length of power lines over the last five years. The use of cable lines has allowed for reducing both natural and human-induced damage to power lines. Investing in the electricity network reduces the number of faults year-on-year, with an 11% reduction in the reporting year.

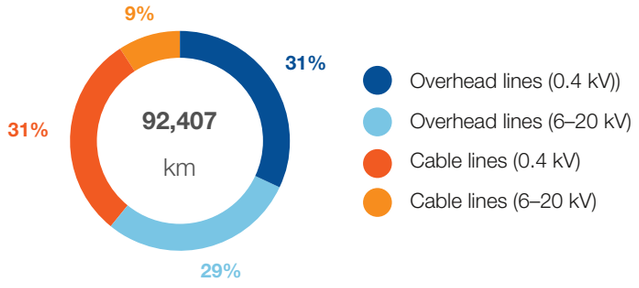
The share of electricity losses in the distribution network in 2022 was reduced to 3.73%, which is the lowest in history. Over the last five years, losses have been reduced by 75 GWh or 23%. For more information on the efficiency and availability of the distribution service, see the section Economic Topics.

Distributed electricity volumes decreased by 3.5% or 229 GWh in 2022, due to higher electricity prices as well as warmer weather in the winter months. The decrease was observed in practically all user groups. The largest decrease in distributed electricity, 6.7%, occurred in the household segment, which had previously experienced an increase in consumption due to remote working and studying during the COVID-19 period. Electricity consumption by business customers decreased by 2.2% in the reporting year.

Distribution system service tariffs are approved by the PUC. Considering the increase in costs caused by the sharp rise in electricity prices and general inflation due to the energy crisis, including the planned tariff increase by the transmission operator Augstsprieguma tīkls, a new draft tariff was submitted to the PUC in November 2022. It is expected that, after review and revision of the draft tariffs, the tariff changes could enter into force on 1 July 2023.



Length of electricity distribution lines



Electricity received in distribution network

	Units	2018	2019*	2020	2021	2022
From transmission network	GWh	5,520	5,531	5,334	5,693	5,622
From small generators	GWh	1,407	1,295	1,228	1,048	875
incl. microgeneration	*GWh*	–	–	*2*	*4*	*25*
TOTAL	**GWh**	**6,927**	**6,825**	**6,563**	**6,741**	**6,497**

Distributed electricity and losses

	Units	2018	2019*	2020	2021	2022
Distributed electricity	GWh	6,600	6,532	6,286	6,470	6,241
Electricity distribution losses, technological and operating consumption	GWh	327	293	277	271	252
Accumulated microgeneration electricity losses						4
TOTAL	**GWh**	**6,927**	**6,825**	**6,563**	**6,741**	**6,497**
Electricity losses	%	4.43%	4.05%	3.99%	3.79%	3.73%

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

Efficiency programme

Improvement of the distribution segment's operational efficiency is an important precondition for its balanced development and reduction of operational costs. The programme launched in 2017 to improve the efficiency of operations implemented by Sadales tīkls AS ended in 2022. Efficiency projects were implemented in three main areas:

- improvement of network management, customer service, dispatch control and support processes
- revision of management and support processes and optimisation of resources required for operations
- installing smart electricity meters

Within the efficiency programme, a reduction of more than 800 jobs at the company was planned. From the start of the programme to the end of the reporting year, the number of jobs was reduced by 898, which is 10% more than initially planned. The number of vehicles was reduced by 39% or 410 units. 43 technical bases were closed (two in part), thereby reducing their number by 61% and optimising their geographic location in the territory of Latvia. More than 1 million smart meters were installed by the end of 2022, accounting for 98% of the total fleet of meters and around 98% of all electricity consumed by customers.

Investments

According to the development plan of Sadales tīkls AS, large investments are made in the maintenance and development of electrical networks every year. Their aim is to promote high-quality and reliable electricity supply, reduce the frequency and duration of interruptions in electricity supply and ensure efficient management of electricity networks. Digitalisation and automation of the distribution network play an important role in achieving this goal.

In December 2022, the PUC approved the Development Plan of Sadales tīkls AS for the next 10 years, which envisages continued purposeful investments in the development of electricity infrastructure. From 2023–2032, the company will continue the reconstruction and modernisation of the distribution system in accordance with the development trends of the industry and public demand. The main areas for investment under the development plan are as follows:

- smooth rebuilding of the electricity network, which includes renewing power lines and 110 kV substations and increasing the proportion of insulated mains (cable, insulated wire or overhead cable)
- improvement of electricity networks by increasing the proportion of insulated mains, replacing unsafe cables, and building remotely controlled switches
- smart network management, which includes replacing existing transformers with more energy-efficient equipment, integrating 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 network development.

A modern distribution system capable of two-way electricity flows on the network, smart network management, and data availability to market players form the basis for developing the sector in the renewable energy era. In 2022, nearly 10,000 new micro-generators (mostly solar panels to generate electricity for households' own consumption) were also connected to the grid. The total number of micro-generators connected to the distribution network at the end of the reporting year reached almost 12,000, with a total capacity of 94 MW. There are also 220 solar power plants with a total capacity of around 18 MW connected to the distribution network; of these, 124 were connected in 2022. In addition, 31 connection ports were built for customers to set up EV charging stations in the reporting year.

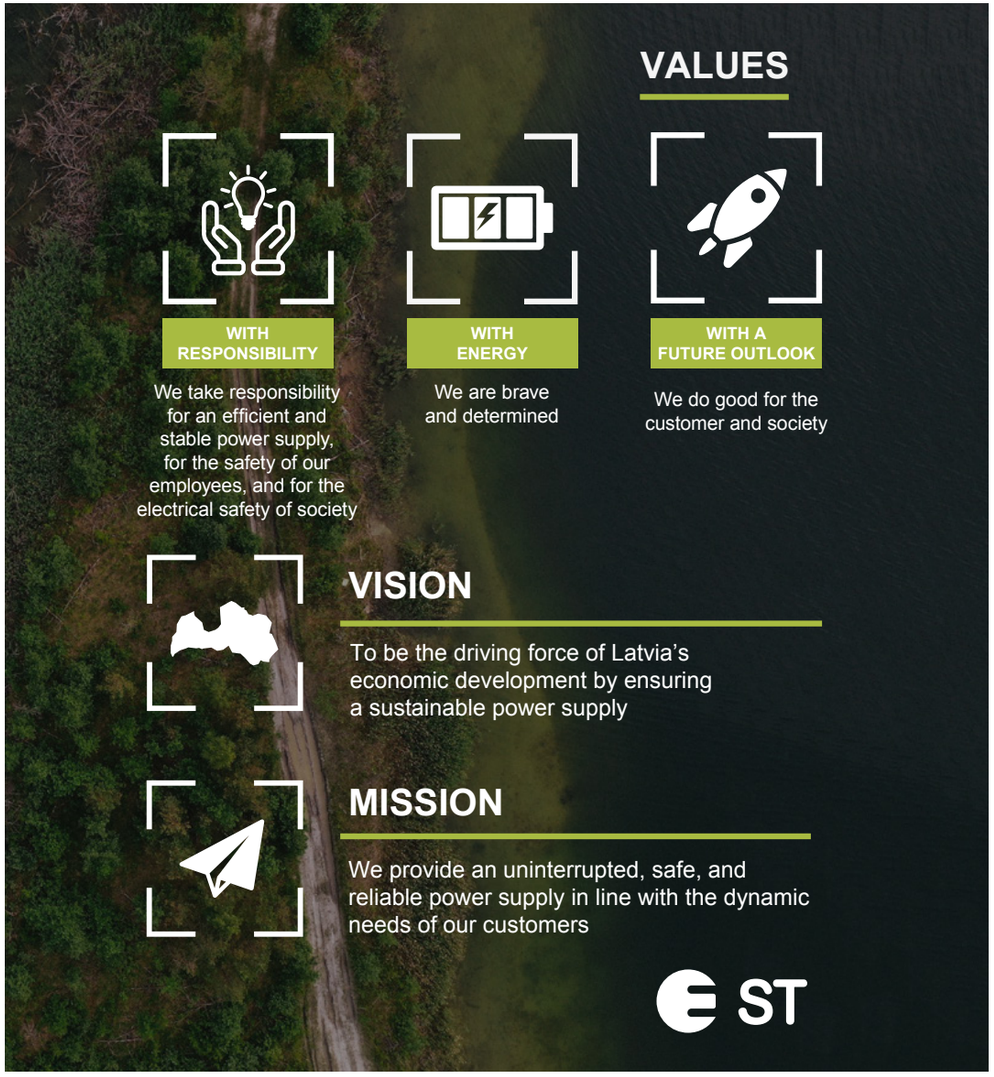
Investments in distribution assets

	Units	2018	2019	2020	2021	2022
Investments	MEUR	95.1	95.1	87.4	84.8	84.6

Reconstruction and construction

	Units	2018	2019	2020	2021	2022
Overhead lines (0.4 kV)	km	39	81	367	718	573
Cable lines (0.4 kV)	km	858	711	571	525	392
TOTAL low-voltage power lines	**km**	**897**	**792**	**938**	**1,243**	**965**
Overhead lines (6–20 kV)	km	692	621	885	905	606
Cable lines (6–20 KV)	km	295	199	149	124	97
TOTAL medium-voltage power lines	**km**	**987**	**820**	**1,034**	**905**	**703**
Transformer substations reconstructed	number	816	690	605	522	460
Connections constructed	number	9,445	11,079	12,410	14,747	13,592

Sadales tīkls AS Strategy for 2022–2027



In the autumn of 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:

- **Improving the quality and reliability of electricity supply** – the distribution network is designed with consideration for the safety of the network and the quality of the voltage in each facility and the network as a whole. The main lines of action to achieve this objective are the development and maintenance of the network, management of the smart network, and the sustainability and management of the materials used.
- **Digital transformation of the company** – the company purposefully develops digital solutions based on automated, standardised processes and centralised data exchange and improves the digital environment and services for customers. The main areas for achieving this objective are digital solutions, data-based development and know-how, security, and the development of information systems.
- **Continuous improvement of the company and increase in value** – in the strategy period, the company plans to continue improving the efficiency of its operations. The main areas for achieving this objective are the development of company processes, synergy with other operators and communication holders, and financial sustainability and efficient management of resources.
- **Ensuring sustainable development and climate neutrality** – the main areas for achieving this objective are the company's sustainable development, employees, and climate neutrality.

For each of the objectives, the key performance indicators to be achieved are also set, allowing progress towards the objective to be monitored. See the section Economic Aspects for more information on the SAIDI and SAIFI indicators on the quality and safety of electricity supply and the section Product Responsibility for more information on the digital transformation of the company. 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. At present, a list of taxonomy-eligible economic activities and the technical criteria for assessing their compliance with the first two environmental objectives have been developed.

Companies in non-financial sectors that meet the criteria set out in the Taxonomy Regulation are required to report in their Annual Report 2022 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 climate change. 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.

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	Solar power plants in the Baltic states in the design and construction stage with a total capacity of around 200 MW	✓
4.3. Electricity generation from wind power	Ainazi WPP – 1 MW. In 2022, the joint venture Latvijas vēja parki SIA was established to develop 800 MW wind farms; cooperation with RWE on the potential development of wind farms off the Latvian shore has started.	✓
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 790 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 1,100 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 32 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 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 200 ports in 2022. In 2023, the number of ports is set to expand to more than 500.	✓

Accounting policy

The calculations have been made in accordance with Taxonomy Regulation (EU) 2020/852, its delegated regulations and related documents. Given the current lack of a common understanding and specific methodological guidelines, the calculations are based on several assumptions described below. Assumptions and calculation methodologies may be adjusted following the publication of official guidelines from the European Commission. 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 on a more detailed level in projects. The most significant part of eligible investments consists of investments in distribution network renewal and development.

Revenue

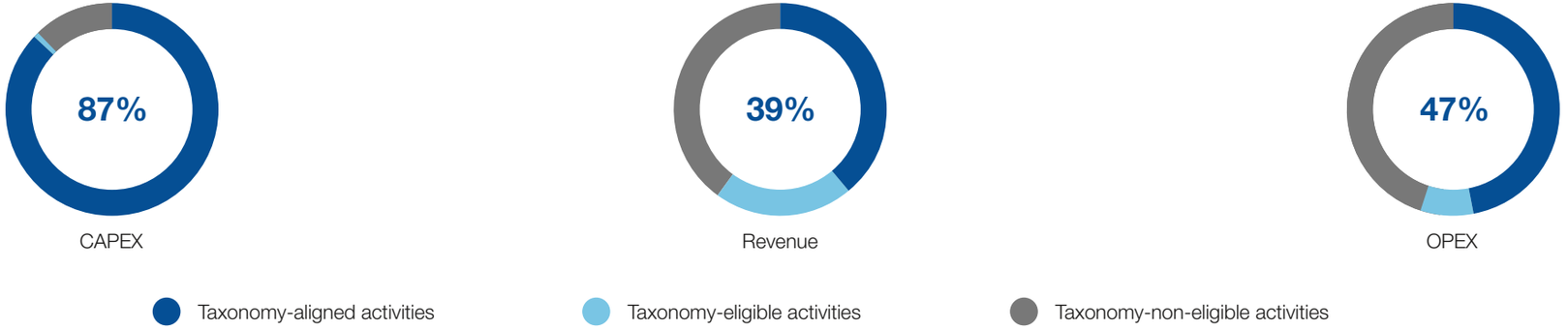
The share of taxonomy-eligible and aligned activities in revenues is based on an analysis of operating segments (e.g., the electricity distribution segment) and product and service revenues (e.g., generation and trade of thermal energy, electric vehicle charging services). In turn, electricity is provided 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.

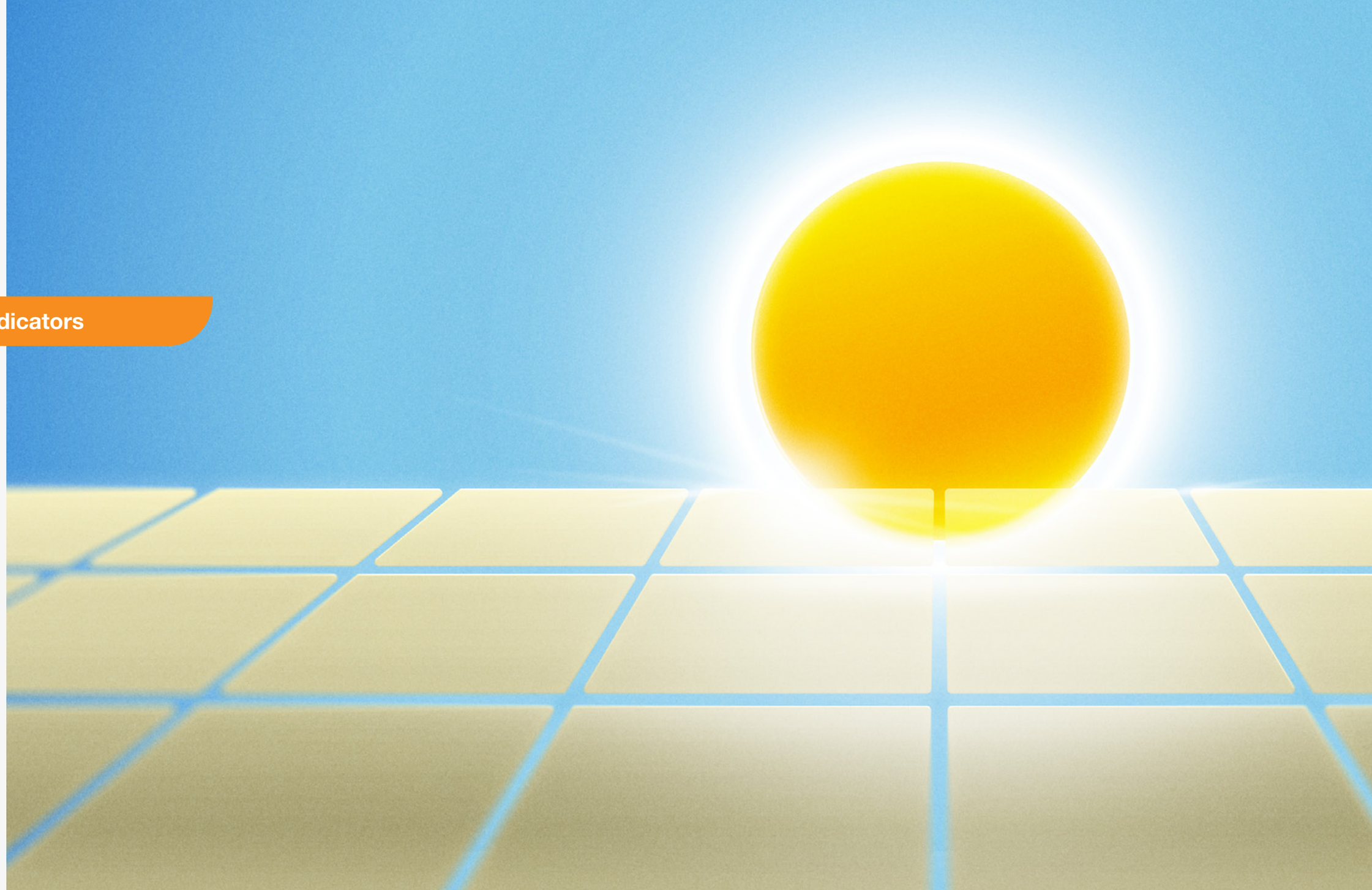
OPEX

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 identified in compliance with the GRI Guidelines and the materiality assessment methodology developed by the Group. Identifying 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;
- stakeholder opinion;
- a study of the Group's communications, incl. information disclosed in previous sustainability reports, etc.

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

Step 2

Determining the most material sustainability topics.

Latvenergo Group organises stakeholder workshops on a regular basis to identify the key sustainability topics. They are attended by the management of the Group and representatives of priority stakeholders. The last workshop for the evaluation of sustainability topics took place in 2018. During the workshop, participants assessed the materiality of the topics on a scale of 1 to 7 (from *no material impact on the sustainability of the Group* to *a highly material impact on the sustainability of the Group*).). In addition, the participants split into working groups and discussed ideas and suggestions on how the Group could ensure sustainability for the topics which are most relevant to each working group. The results of the group discussions were presented in a panel discussion.

In September of 2021, Latvenergo Group organised a stakeholder workshop online to discuss trends in energy industry development and to gather stakeholder perspectives on the Group's development. The stakeholders still recognize economic sustainability as the most material to the Group.

Step 3

Incorporating the most material topics into a matrix and verifying it. Selecting disclosures.

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

The materiality matrix comprises 23 sustainability topics identified as relevant to Latvenergo Group. The vertical axis 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. The matrix is divided into three parts: most material, moderately material and less material topics. The Sustainability Report covers the most material and moderately material topics. According to the GRI Guidelines, disclosures corresponding to these topics were identified. The report discloses information on 16 material sustainability topics for the Group and 33 specific standard disclosures (see the GRI Index).

Step 4

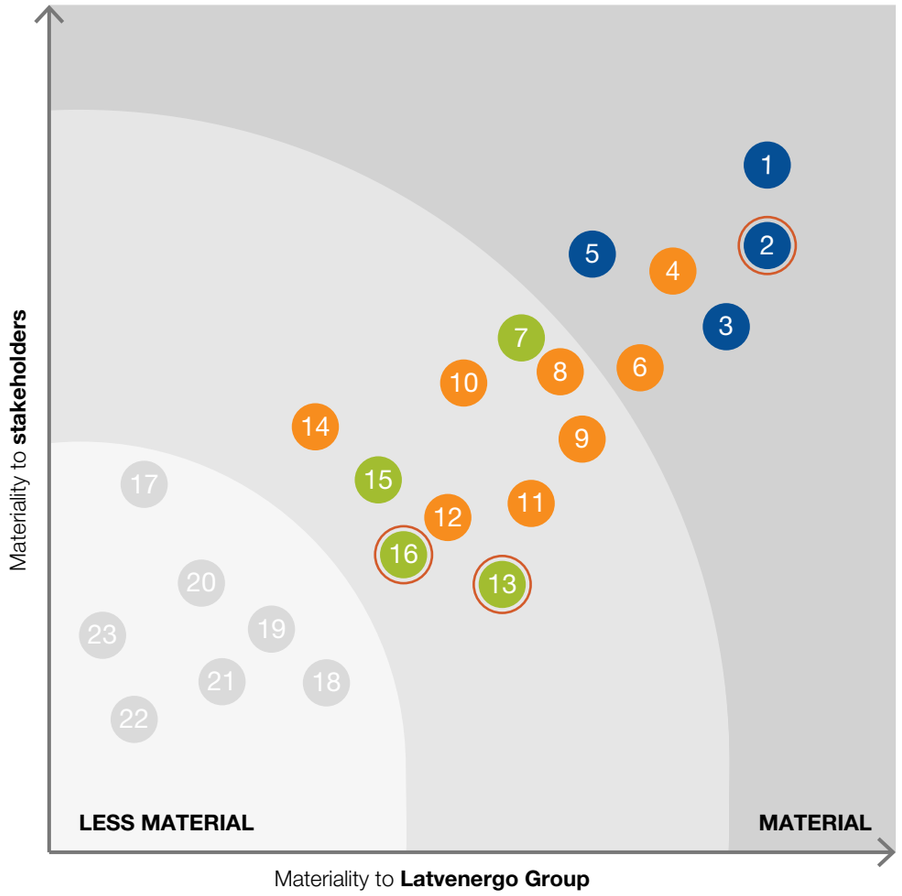
Reassessing sustainability topics and disclosures.

The preparation of the report included the annual re-evaluation of stakeholders' opinions, the topics identified and the relevant disclosures. This was done by the persons responsible for the respective areas, considering changes in the operational environment and the Group's operations and the feedback received from stakeholders. In 2022, the Group identified a significant increase in stakeholder interest in the following topics:

- the contribution to the national economy, incl. the use of Latvenergo AS dividends, and the support that these dividends can provide to Latvian society and business in the context of high energy prices
- air pollution and climate change, the relevance of which stems from the European Green Deal to achieve climate neutrality in the EU by 2050
- renewable energy, its role in strengthening Latvia's energy independence. The importance of energy independence has increased significantly following Russia's invasion of Ukraine and the changing geopolitical situation in the region.

The report provides more information on these topics. The environmental topic "Air pollution and climate change" also includes indirect Scope 3 GHG emissions (GRI 305-3) from 2022 onwards.

Materiality matrix



topics on which more information is provided in the report for 2022

Economic topics

1 Efficiency of generation plants
2 Contribution to the economy
3 Efficiency and availability of distribution system
5 General compliance and fair business

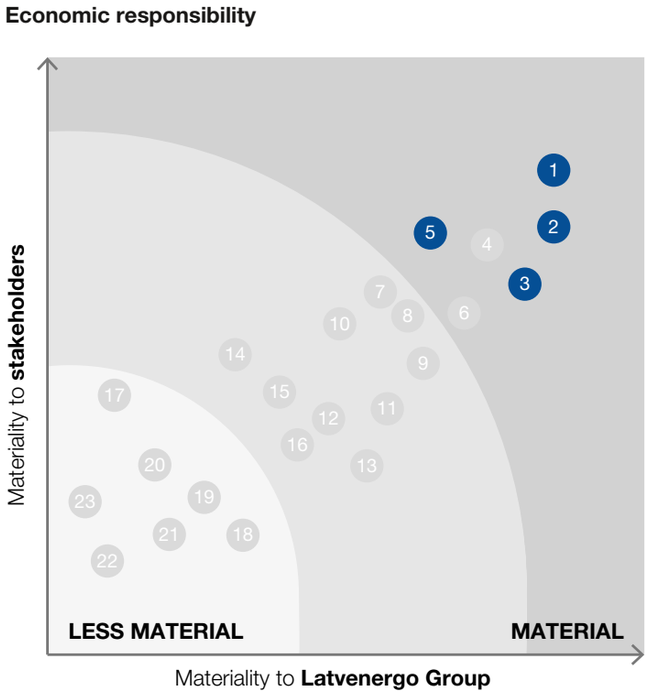
Social topics

4 Customer satisfaction
6 Emergency planning
8 Occupational health and safety
9 Safety of distribution services
10 Public policy engagement
11 Employee involvement and development
12 Security of personal data
14 Information availability
17 Work-life balance
18 Community contribution
19 Impact on local communities
21 Human rights and diversity in the workplace
23 Freedom of association

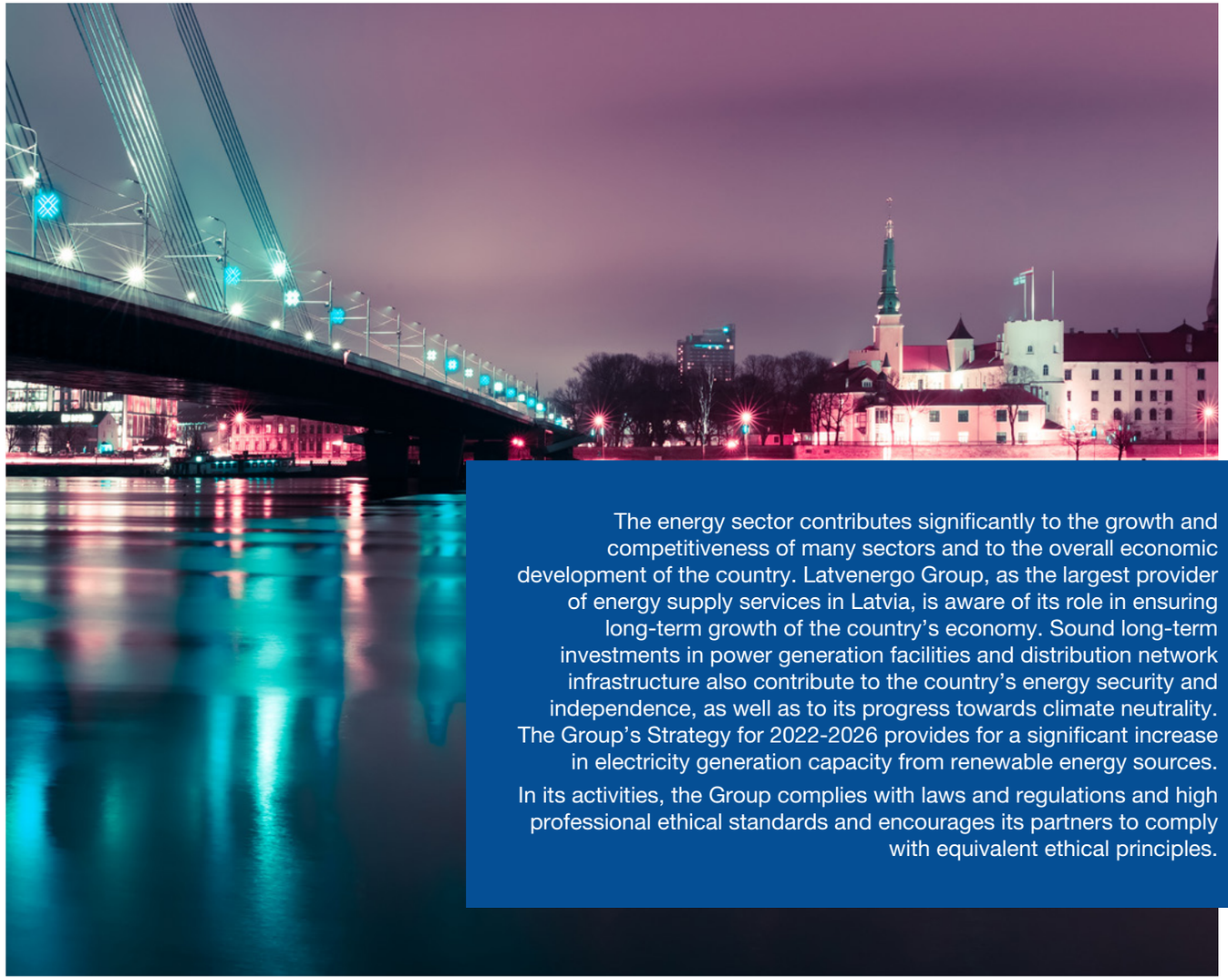
Environmental topics

7 Environmental compliance
13 Air pollution and climate change
15 Resource and energy consumption
16 Renewable energy and strengthening energy independence
20 Waste and wastewater
22 Biodiversity

Economic Topics



1. Efficiency of generation plants
2. Contribution to the economy
3. Efficiency and availability of distribution system
5. General compliance and fair business



The energy sector contributes significantly to the growth and competitiveness of many sectors and to 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 in power generation facilities and distribution network infrastructure also contribute to the country's energy security and independence, as well as to its progress towards climate neutrality. The Group's Strategy for 2022-2026 provides for a significant increase in electricity generation capacity from renewable energy sources.

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

1 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 has a key role to play in achieving the climate goals. The most important development tasks at the European and Latvian level are to reduce greenhouse gas emissions, increase the share of renewable energy sources, and increase energy efficiency.

Maintenance and improvement of Latvenergo Group's facilities is also essential for ensuring high generation efficiency. During the reporting year, reconstruction of the Riga HPP hydropower units was completed, while reconstruction of the Pļaviņas and Ķegums HPPs is still in progress.

Efficiency indicators of facilities are significantly 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 on the Nord Pool Exchange. However, electricity generation at the CHPPs increases in conditions of increased electricity market demand. The output of the Daugava HPPs is planned considering the water inflow in the Daugava River and the possibility for short-term water accumulation in the water reservoirs of the HPPs and generate electricity during periods when the demand and the exchange price are higher.

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.

In 2022, the generation efficiency indicator of the CHPPs increased by two percentage points, which can be explained by an increase in the share of thermal energy generated in water heating boilers compared to 2021. Efficiency indicators of the Daugava HPPs and Liepaja plants did not change significantly in the reporting year.

Generation facility efficiency indicators

	Units	2018	2019	2020	2021	2022
Daugava HPPs	m^3/kWh	18.6	17.9	18.1	17.9	17.8
CHPPs	%	77	72	76	81	83
Liepaja plants	%	90	90	90	89	89

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 is able to provide its rated capacity. The remaining time is intended for scheduled and unscheduled repair work.

The availability factor of the Daugava HPPs increased in 2022 due to the completion of the Riga HPP's reconstruction. The availability factor of the CHPPs increased by four percentage points as the number of planned repair hours for CHPP-2 was significantly lower compared to 2021.

In the reporting year, one hydropower unit of the Daugava HPPs worked on average 2,618 hours (including in synchronous compensator mode); in generator mode – 2,117 hours. The average annual duration of scheduled repair work per hydropower unit was 642 hours, which also includes long-term reconstructions. Unscheduled repairs to all hydropower units amounted to 2,633 hours in total. The CHPPs were operational for an average of 1,943 hours and on back-up for an average of 5,965 hours. The average annual duration of scheduled repairs per unit was 453 hours. Unscheduled repairs amounted to 8,053 hours.

Average plant availability

	Units	2018	2019	2020	2021	2022
Daugava HPPs	%	76	85	84	89	93
CHPPs	%	88	85	81	81	85

2 Contribution to the economy

Latvenergo Group is one of the largest energy companies in the Baltics, with more than 800 thousand customers choosing its services and products. The Group is also one of the largest employers in Latvia, providing competitive salaries, pension contributions, and development and training opportunities to more than 3,000 employees.

Given the scale of the Group's operations, it has a significant impact on economic growth throughout the Baltics. 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 needs of Latvian society and business and for state aid programmes. In 2022, various aid measures to mitigate the impact of high energy prices were particularly important.

The Russian invasion of Ukraine has had a significant impact on energy and financial markets. The upward dynamics of energy prices and physical risks to natural gas supplies constituted a major challenge for energy companies in 2022. Thanks to timely gas supplies from Norway, the USA and Qatar, Latvenergo AS thermal power plants have successfully secured electricity and thermal energy generation and gas reserves in the event of an energy crisis.

Energy is a capital-intensive sector which regularly requires large investments. In the reporting year, the Group invested EUR 121.7 million. In recent years, most of the investments have been made in the construction and reconstruction of power lines and transformers and in the renovation of the hydropower units of the Daugava HPPs. According to the Group's Strategy for 2022-2026, in the future, the Group's investments in RES generation capacity will increase significantly, which will reduce GHG emissions and promote the climate neutrality of Latvia by 2050.

The Group is one of the largest taxpayers in Latvia. In the reporting year, EUR 273.5 million was paid into the state budget and EUR 70.2 million was paid in dividends for the use of state capital. In Lithuania and Estonia, EUR 28.2 million and EUR 18.0 million respectively were paid in taxes.

At the end of the reporting year, the Group's assets amounted to EUR 3.8 billion, while equity exceeded EUR 2.3 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	
		2021	2022	2021	2022	2021	2022	2021	2022
Taxes borne	**MEUR**	**42.0**	**36.5**	**0.6**	**0.7**	**0.2**	**0.2**	**42.8**	**37.4**
Corporate income tax	MEUR	6.8	2.6	0.0	0.0	0.0	0.0	6.8	2.6
Payroll taxes paid by the employer	MEUR	19.1	19.8	0.2	0.1	0.2	0.2	19.5	20.1
Other taxes (excise, environmental, electricity, real estate taxes)	MEUR	16.1	14.1	0.4	0.6	0.0	0.0	16.5	14.7
Taxes collected	**MEUR**	**71.3**	**237.0**	**14.6**	**27.5**	**11.6**	**17.8**	**97.5**	**282.3**
Value-added tax	MEUR	48.4	213.0	14.0	25.8	11.5	17.7	73.9	256.5
Payroll taxes paid by employees	MEUR	22.9	24.0	0.6	1.7	0.1	0.1	23.6	25.8
TOTAL	**MEUR**	**113.3**	**273.5**	**15.2**	**28.2**	**11.8**	**18.0**	**140.3**	**319.7**

Contributions to the pension fund

	Units	2018	2019	2020	2021	2022
Contributions	MEUR	2.2	2.1	3.5	4.7	4.8

GRI 201-3

Defined benefit plan obligations

In compliance with the Collective Bargaining Agreement, the Group makes contributions to a pension fund and pays retirement benefits. These benefits apply to 90% of the Group's employees.

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 the Group's employees 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 case of Group 1 disability. If the employee draws on the accumulated pension after reaching the age of 60, the Group suspends contributions. In 2022, EUR 4.8 million were paid into the pension fund. The operations of Pirmais Slēgtais Pensiju fonds AS are supervised by the Financial and Capital Market Commission.

Retirement benefits apply to employees who retire 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 Latvenergo Group's obligation for the benefit plan is disclosed in Note 27 of the Annual Report.

GRI 201-1

Direct economic value generated and distributed*

In 2022, the economic value generated by Latvenergo Group reached EUR 1.9 billion, which corresponds to 5% of Latvia's GDP. Distributed economic value reached 86% 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 in Latvia for the state capital it uses. In the reporting year, EUR 70.2 million was paid into the state budget in dividends, while in 2023 at least EUR 129.5 million is expected to be paid in dividends. The company's dividends are earmarked for the public, including the social budget and support to protected users for payment of electricity bills and covering the costs of mandatory procurement.

In the reporting year, the Group's retained economic value amounted to EUR 253.8 million or approximately 14% of the economic value generated. In 2022, EUR 121.7 million was earmarked for investment.

Economic value generated and distributed*

	Units	2021	2022
Economic value generated	**MEUR**	**1,072.8**	**1,850.4**
Revenue and other income	MEUR	1,070.7	1,849.0
Income from financial activities	MEUR	2.1	1.4
Economic value distributed	**MEUR**	**1,010.0**	**1,596.6**
Resources, materials, operational and other costs	MEUR	778.9	1,384.5
Employee remuneration	MEUR	105.6	117.0
Payments for the use of state capital	MEUR	98.2	70.2
Payments to providers of debt capital	MEUR	9.1	10.8
State imposed payments	MEUR	17.6	13.1
Charity and sponsorships	MEUR	0.6	1.0
Retained economic value	**MEUR**	**62.8**	**253.8**

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

GRI 201-4

Funding received from the state

In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by Enerģijas publiskais tirgotājs SIA, a subsidiary of the Group, which receives a targeted grant from the state budget for restriction of the MPC. Its main funding comprises revenues from dividends paid by Latvenergo AS. In 2022, Enerģijas publiskais tirgotājs SIA received a EUR 16.9 million targeted grant.

Funding received from the state and the EU

	Cofunding source	Units	2018	2019	2020	2021	2022
Liepaja plants	EU	MEUR	0	0.3	0.0	0.0	0.0
Energy IT platform	EU	MEUR	0	0.0	0.2	0.0	0.0
Heat accumulation system at CHPP-2	EU	MEUR	0	0.2	1.4	0.7	0.0
Grant for limiting MPC*	state	MEUR	92.7	5.5	3.8	5.7	16.9
TOTAL		**MEUR**	**92.7**	**6.1**	**5.3**	**6.4**	**16.9**

* incl. payments to energy-intensive processing industry companies

3 Efficiency and availability of the distribution system

Sadales tīkls AS is developing a customer-oriented smart power grid to improve the continuity and stability of 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, the introduction of new digital solutions and automation of network management.

The key performance indicators for quality of 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 regular detailed analysis of these indicators and takes measures to improve them. In the reporting year:

- about 1,700 km of power lines were reconstructed, including almost 500 km of cable lines, and 460 transformer substations were reconstructed or built
- more than 4,200 km of power line routes were cleaned
- 107 remote-controlled circuit breakers were built, separating power lines in densely populated places and forested areas

When performing work in the power grid, a set duration of scheduled interruptions is largely observed – up to 5 hours during winter and 6 hours during the rest of the 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 monitors the quality of services provided and continuously improves its customer service-related processes. Currently, work is ongoing to facilitate and speed up the installation, renewal, and load change of the electricity connection. The connection of electricity micro-generators has also become simplified and faster to implement, for which the necessary documentation (from the application to the conclusion of the contract) can be arranged in the customer portal e-st.lv. If the connection of solar panels or a wind generator does not require reconstruction of the power grid, installing and connecting a micro-generator takes one to two months.

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 2022, Latvenergo Group reached its historically lowest electricity loss rate of 3.73%.

Distribution losses

	Units	2018	2019*	2020	2021	2022
Distribution losses	%	4.43	4.05	3.99	3.79	3.73

* 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 790 thousand customers – 762 thousand private persons and 26.8 thousand business customers that have concluded agreements on electricity supply.

GRI EU27

Number of residential disconnections for non-payment

In 2022, electricity supply was disconnected for 8,870 households due to failure to pay in a timely manner, which is 11% more than a year before. 63% of disconnections lasted up to 48 hours. Cases where disconnections were longer than one month (10%) were mainly related to connections used by customers irregularly or rarely. In the reporting year, 95% of households had their electricity connection restored within 24 hours after payment.

Number of residential disconnections for non-payment

	Units	2018	2019	2020	2021	2022
Up to 48 hours	number	4,123	4,513	4,968	4,938	5,600
From 48 hours to 1 week	number	971	1,726	1,428	1,074	1,208
From 1 week to 1 month	number	1,297	1,451	1,149	1,026	1,198
From 1 month to 1 year	number	1,747	1,184	1,140	945	838
More than 1 year	number	0	13	34	15	26
TOTAL	**number**	**8,138**	**8,887**	**8,719**	**7,998**	**8,870**

Length of time between arrangement of payment and reconnection

	Units	2018	2019	2020	2021	2022
Up to 24 hours	number	7,217	7,799	7,820	7,371	8,415
From 24 hours to 1 week	number	921	1,082	887	610	435
More than 1 week	number	0	6	12	17	20
TOTAL	**number**	**8,138**	**8,887**	**8,719**	**7,998**	**8,870**

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 electricity supply is one of the objectives of the Sadales tīkls AS Strategy for 2022-2027. By 2027, excluding massive damages, SAIFI is expected to be reduced to 1.85 times and SAIDI to 160 minutes.

Over the last five years, excluding massive damages, SAIFI has been reduced by 22% to 1.9 times and SAIDI has been reduced by 17% to 188 minutes. The increase in both figures in the reporting year was influenced by several factors:

- network damage caused by natural events, such as more frequent storms in winter and a more active thunderstorm season in summer
- delays in material deliveries due to geopolitical factors, which prevented the completion of planned work in one outage
- a significant increase in the number of objects to be repaired

To reduce power supply interruptions to customers, Sadales tīkls AS is the first distribution system operator in the Baltics to have introduced the dielectric glove method for carrying out live line work. The method involves special techniques and individual equipment made of dielectric materials, and its use allows planned repairs to be carried out on the power grid without disconnecting the power supply to customers.

The 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 detected damage.

System Average Interruption Frequency Index (SAIFI)

	Units	2018	2019	2020	2021	2022
Unscheduled: weather conditions (massive damage)	number	0.0	0.3	0.2	0.2	0.6
Unscheduled: damage (incl. by third parties)	number	1.9	1.8	1.5	1.7	1.4
Scheduled: network maintenance and overhaul	number	0.6	0.6	0.6	0.5	0.5
TOTAL	**number**	**2.5**	**2.7**	**2.3**	**2.3**	**2.5**

System Average Interruption Duration Index (SAIDI)

	Units	2018	2019	2020	2021	2022
Unscheduled: weather conditions (massive damage)	min	3	33	25	15	53
Unscheduled: damage (incl. by third parties)	min	102	90	83	91	78
Scheduled: network maintenance and overhaul	min	123	123	111	102	110
TOTAL	**min**	**228**	**246**	**219**	**208**	**240**

5 General compliance and fair competition

Latvenergo 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 take decisions in an unbiased manner and prevent fraud, corruption and illegitimate or dishonest conduct in their activities.

The Code of Ethics also defines the types of conflict of interest and sets out measures to prevent conflicts of interest. The Group organises training and information events and has introduced declarations of conflict 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, 2,760 employees of the Group submitted declarations of conflict 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 their activities. Members of supervisory boards and management boards are required to submit annual asset declarations as public officials. They must also obtain permission to combine positions. The declarations of public officials are publicly available in 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 any company contracts, authorisations or obligations performed

(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, companies of which the person is a participant, shareholder or member, as well as shares and stocks owned

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

(5) the transactions the person has entered into, the person's debt commitments and the loans the person has made

To prevent corrupt or fraudulent activities, the Group's employees are regularly informed about ethics and compliance standards, and the internal regulations of the Group are continuously improved. In 2022, the Code of Ethics updated Latvenergo Group's corporate values, clarified the conditions for submitting annual declarations of conflict of interest and the principles of responsible business practices, and amended and supplemented the reporting or whistleblowing provisions. The Code of Ethics has been approved by the Supervisory Board of Latvenergo AS.

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. In 2022, the internal whistleblowing guidelines for Latvenergo Group employees were updated in line with the amendments to external laws and regulations. Employees were familiarised with the most important changes, and updated material on internal guidelines for reporting possible violations within the Group was sent electronically. The whistleblower's report form is available in both Latvian and English on the Group's website.

The Group also urges its partners to comply with the same ethical principles and, when entering into contracts, it asks for confirmation that cooperation will be based 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 Latvenergo Group's operations. Both employees and contractual partners can also submit a report on 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 on alleged violations and other types of complaints made through whistleblowing channels. On a quarterly basis, the Management Board of Latvenergo AS is informed about 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 significant fraud risk events that could cause significant reputational damage or loss to the Group. In 2022, 26 entries were listed in the register; however, no material risk events or complaints were identified that required immediate reporting 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 period.

The internal control system of Latvenergo AS includes an independent unit, Compliance Control, whose tasks include operational compliance control issues, including 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 both 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 events with significant reputational or financial impact identified
- no corruption events identified and 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

All Latvenergo Group employees 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 cooperation partners of the Group.

During the reporting year, a new e-learning programme was developed on the requirements of the Code of Ethics, prevention of conflict of interest and prevention of fraud and corruption. Its implementation in Latvenergo Group companies is set to start in 2023.

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.

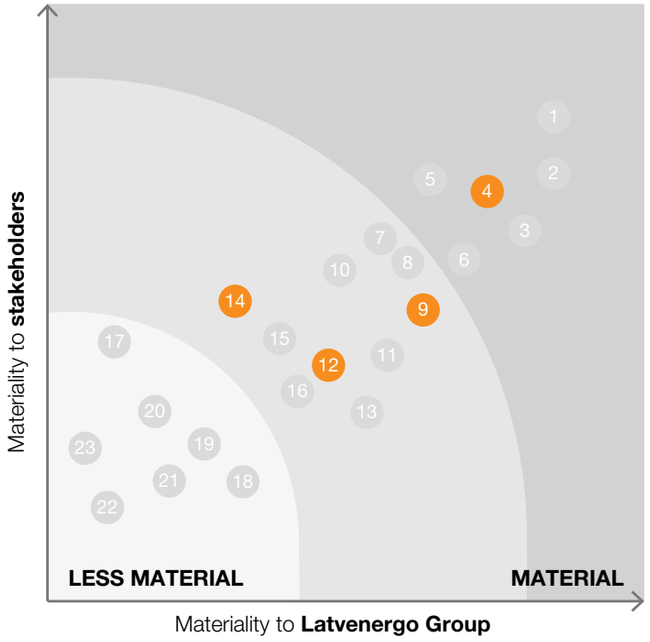
GRI 206-1

Legal actions for anti-competitive behaviour and monopoly practices

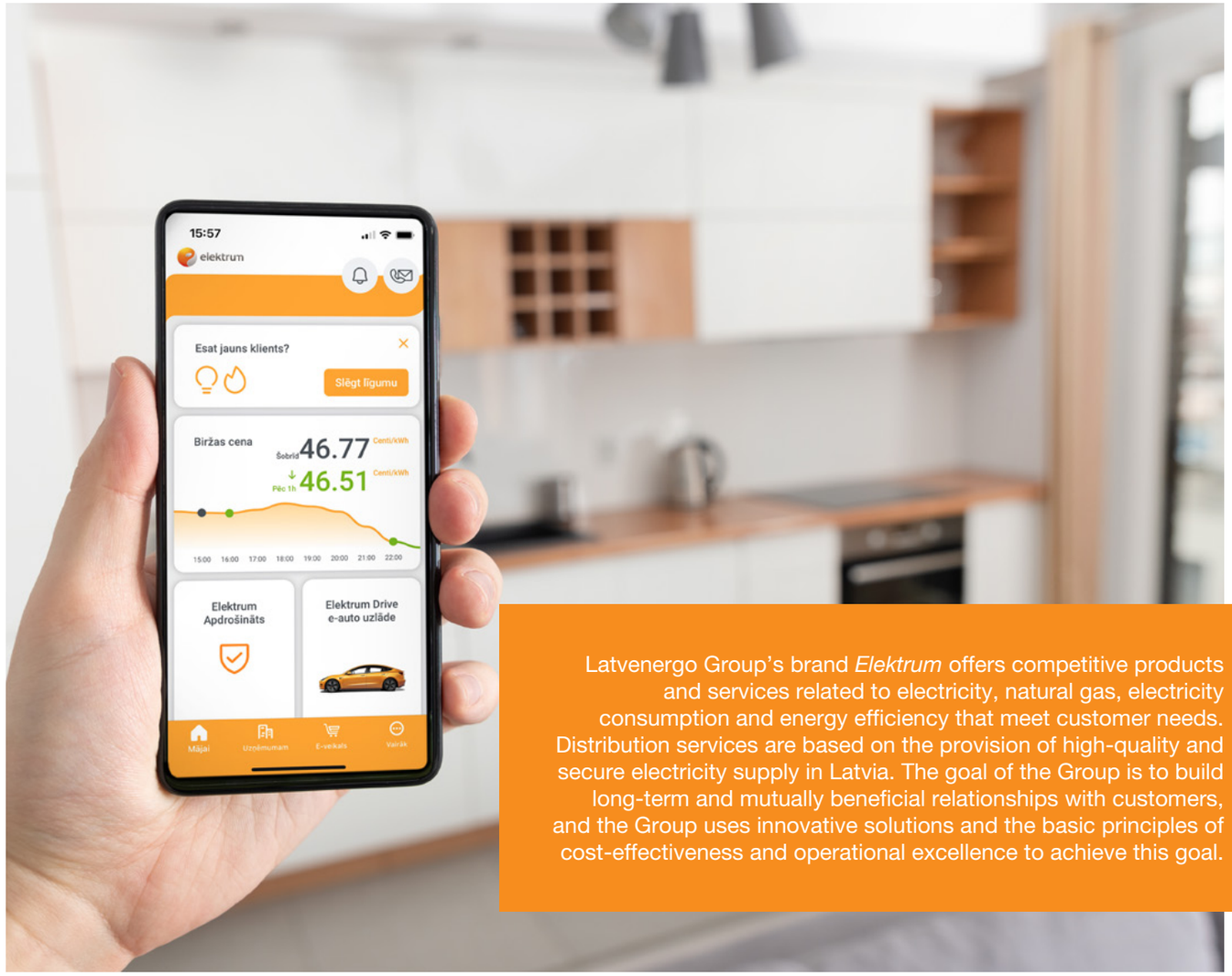
Latvenergo Group has approved the Competition Law Compliance Policy, prohibiting activities that violate the restrictions specified in the competition law. In 2022, no cases of anti-competitive behaviour or misuse of the dominant position by Latvenergo Group were identified, and no court proceedings against Latvenergo Group were initiated or were ongoing.

Social Topics

Product responsibility



4 Customer satisfaction
9 Safety of distribution services
12 Security of personal data
14 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 high-quality and secure electricity supply in Latvia. The goal of the Group is to build long-term and mutually beneficial relationships with customers, and the Group uses innovative solutions and the basic principles of cost-effectiveness and operational excellence to achieve this goal.

4 Customer satisfaction

Trade

Elektrum regularly improves the availability of products and services and the quality of customer service, including developing and modernising customer service formats, in particular self-service channels. To enhance digital self-service, several improvements were implemented in 2022 that facilitate the customer's interaction with the energy service provider:

- The *Elektrum* mobile app was functionally and visually updated, enabling the user to customise content, select sections of interest and arrange them in the order they need. Notification functionality was developed in the app: customers receive notifications about invoices, payments received, exchange prices, the need to extend contracts, the need for meter readings, and monthly *EnergoPulse* results. A notification archive was developed and implemented where customers can view previously received notifications.
- The possibility to sign and terminate natural gas contracts as well as functional improvements to contract and payment plan creation were introduced in the *Elektrum* portal. In the *My Payments* section, customers have the possibility to review their payment archive. Functional and visual changes were made to the portal's homepage and navigation was improved.
- The app and portal provide a notification on the current month's forecast consumption, enabling the customer to plan and, if necessary, improve the efficiency of their electricity consumption.
- Improvements to customer e-mail verification and to changing contracts and products in the portal were introduced to improve the security of customer data.

Customer service and invoicing processes were improved and automated during the reporting year, reducing manual tasks. Rising energy prices and the introduction of state aid contributed to increasing customer interest in solar panels, which led to the development and streamlining of sales processes for the *Elektrum Solar* service. To mitigate the impact of the energy price crisis, *Elektrum* ensured the application of state aid to its customers and made recommendations on cost efficiency as part of its communication activities.

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

	Units	KPI	2018	2019	2020	2021	2022
Calls answered	%	85	83	91	91	88	89
Calls answered within 30 seconds	%	75	64	79	82	77	75
E-mails answered within 24 hours	%	70	58	87	73	76	63
Claims answered within 3 days	%	80	80	90	85	84	81
First call resolution for the household segment	%	90	91	90	91	90	90

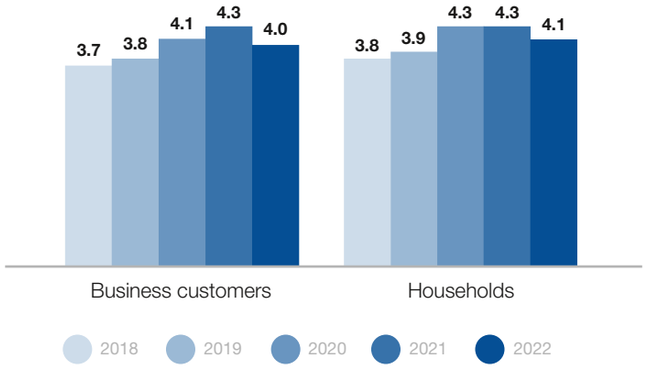
To assess the quality of customer service and identify opportunities for its improvement in a timely manner, the Group has set several customer service indicators. In the reporting year, all indicators were within the target level, except for electronic communication efficiency, which was slightly below the target level.

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 2022, *Elektrum* customer satisfaction was 5% 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.

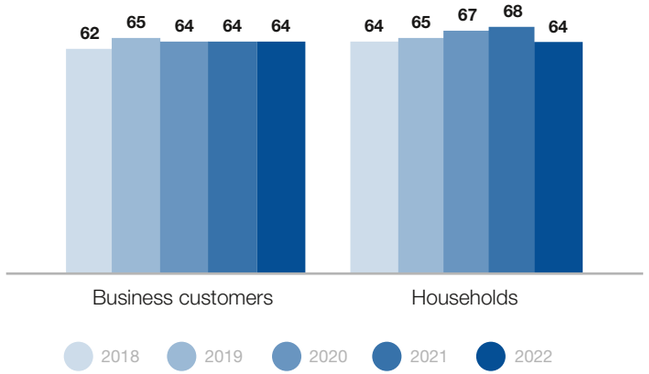
Elektrum customer satisfaction index

- demonstrates customer satisfaction with the service provider
- measured on a scale from 1 to 6
- Customer satisfaction in both segments decreased slightly in 2022 compared to the previous year. Customer satisfaction was significantly affected by the energy price crisis.



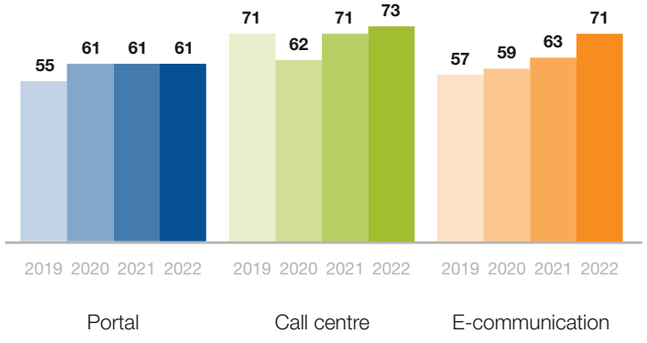
Elektrum customer loyalty index

- demonstrates the level of customer loyalty to the service provider and readiness to continue cooperation in the long term
- measured on a scale from 1 to 100
- Customer loyalty decreased slightly in 2022 in the household segment, driven by the energy price crisis.



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 recommendation index for all customer service channels is stable at a high level, with an increase in 2022 for telephone and electronic communication.



Distribution

Since 2014, when the replacement of previous generations of electricity meters with smart meters started, more than 1 million smart meters have been installed, representing 98% of the total meter fleet. Digital and technological solutions now provide remote electricity metering and a wide range of energy data to more than one million users across the country. Convenient access to energy data improves customer satisfaction, increasing energy efficiency, expanding energy efficiency options and providing a competitive advantage (users can monitor their electricity consumption and choose the most appropriate time, e.g., for more intensive generation). The availability of energy data is also an indispensable prerequisite for the development of the electricity market and the growth of the economy.

In 2022, the data service *PLUS* of Sadales tīkls AS was supplemented with additional possibilities, within the framework of which customers can receive not only hourly consumption data, but also generation and reactive energy data. Digital and automated solutions were also further developed to improve service availability and reduce manual effort in customer service processes.

Multichannel communication capabilities ensure continuous and comprehensive availability of services and high-quality customer service remotely and at any time:

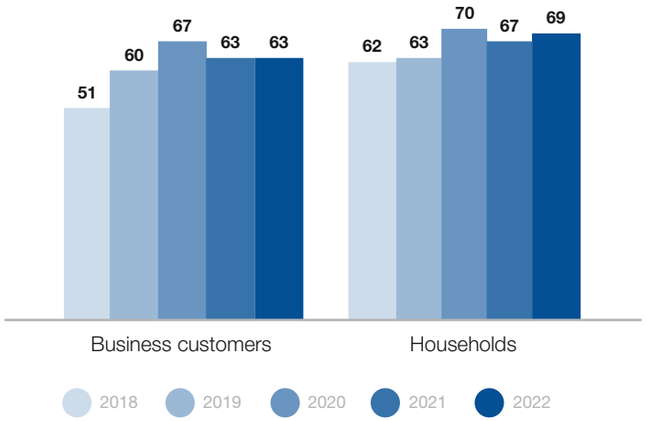
- The company's website sadalestikls.lv provides extensive information on services, several e-calculators, digital maps, and e-consultations. The virtual assistant Valts provides crucial support and immediate answers to questions at any time of day.
- In the self-service portals e-st.lv and saskano.sadalestikls.lv, customers can do everything from a service application to the conclusion of a contract; they can also coordinate projects and plans and obtain permits for construction, forestry and excavation work. Since 2022, these portals have also been powered by Valts.
- During the reporting year, a solution was introduced for reporting power failures on the company's website. It is also still possible to report failures by calling the toll-free number 8404.

In 2022, customer satisfaction at Sadales tīkls AS remained stable – it was medium-high and in line with the European industry benchmark of 66 index points. Both households and businesses value the quality of electricity supply, the company's reputation (safe, reliable) and, in cooperation, the promptness and availability of information. Large and medium-sized enterprises also value the personal service, proactive communication, e-environment capabilities and completeness and clarity of information. Overall, the large and medium-sized enterprise sub-segments continue to show steady long-term growth in customer satisfaction.

Sadales tīkls AS works in the long-term interests of society and continuously pays attention to changing customer habits and needs, which is the basis for developing new services and improving existing services. The improvements made in recent years in the availability of basic services and the ease of customer experience are also reflected in customer satisfaction indicators in 2022 – 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. Installation of new connections was also a highly appreciated service

Customer satisfaction index of Sadales tīkls AS

- demonstrates customer satisfaction with the service provider
- measured on a scale from 1 to 100
- In 2022, customer satisfaction among businesses remained at a medium-high level, while it increased slightly in the household segment.



9 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 power grid. In the reporting year:

- The company's employees, who are ambassadors of electrical safety, conducted 268 face-to-face and online electrical safety classes, in which more than 7,000 children and young people were educated; electrical safety education was also provided at the *Zelta Zivtiņa Championship*.
- A TV, radio and social media electrical safety campaign on working safely around power lines was implemented for performers of economic activities. Farmers were reminded about electrical safety at the *Tractor Day 2022* event.
- In cooperation with the research centre Norstat Latvija, a study initiated by Sadales tīkls AS, *Electrical Safety Index*, was conducted to assess the overall awareness and understanding of Latvian society about electrical safety. The study results show that most respondents (85%) believe that they are generally familiar with the principles of electrical safety. Compared to the 2020 and 2021 studies, the results have not changed significantly.

It is possible to learn about the dangers of electricity and how to act properly in dangerous situations on the website 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 2022, two accidents involving third parties occurred in the electrical installations of Sadales tīkls AS. Both accidents were caused by unauthorised break-ins at electrical installations. To prevent such incidents, Sadales tīkls AS regularly carries out inspections of electrical installations and emphasises the importance of compliance with electrical safety requirements.

Number of accidents to third parties involving company assets

	Units	2018	2019	2020	2021	2022
Fatal	number	0	1	0	1	1
Serious	number	0	1	0	1	0
Not serious	number	3	1	0	1	1
TOTAL	**number**	**3**	**3**	**0**	**3**	**2**
Legal cases	number	0	0	0	0	0

12 Security of personal data

To ensure compliance with the requirements of General Data Protection Regulation (EU) 2016/679, Latvenergo Group constantly improves its personal data processing and introduces measures to reduce the risks of personal data processing. Employees whose duties include working with personal data are regularly provided with training, seminars and knowledge tests. In 2022, mandatory training was organised for employees of Latvenergo AS, Sadales tīkls AS and Enerģijas publiskais tirgotājs SIA on the basic principles of IT security, social engineering, secure use of e-mail, internet security, passwords, data security, working remotely and insider threats.

In 2022, new e-learning materials were developed at Sadales tīkls AS, the content of which was adapted to the company's personal data processing processes and target audience. The implementation of e-learning will take place in the first half of 2023. Mandatory training on personal data processing was also carried out at Elektrum Eesti OÜ and Elektrum Lietuva UAB in the reporting year.

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

The subsidiary Liepājas enerģija SIA has separate management and supervision of personal data processing from the Group.

GRI 418-1

Complaints regarding breaches of customer privacy and losses of customer data

In 2022, Latvenergo Group did not record any breaches related to personal data theft or loss, nor did it identify any cases that would have posed a high risk to the rights and freedoms of natural persons. Latvenergo AS, Sadales tīkls AS, Liepājas enerģija SIA and Enerģijas publiskais tirgotājs SIA did not receive any complaints from supervisory authorities or other institutions regarding personal data breaches.

Elektrum Eesti OÜ received one complaint from a supervisory authority: that it was not possible to provide voluntary consent to receive future marketing communications using the contact form on the website. The deficiencies identified were remedied within the timeframe set by the supervisory authority, resulting in no penalty or other corrective action.

Elektrum Lietuva UAB received one complaint from a supervisory authority about the inadequate processing of personal data of a data subject. The event did not have undesirable consequences for the data subject, and the company had already taken the necessary steps to remedy the situation prior to receiving the complaint; no fine or other corrective action followed.

As of 2023, the following target has been set for the protection of personal data at Latvenergo Group: no justified inquiries from the supervisory authority and/or reports from auditors on non-compliance of personal data processing with the requirements of the General Data Protection Regulation.

14 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 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 68% of *Elektrum* customers in the reporting year. In 2022, 16% of customers used the *Elektrum* app. 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 accommodate the customer's language preferences as much as possible.

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, in the customer service portal and in activities organised by the *Elektrum* Energy Efficiency Centre. To promote energy efficiency in 2022, marketing communication campaigns in the media and webinars were organised. The *EnergoPulse* programme included the *Energy-Efficient Detectives* campaign, which provided engaging information on energy-efficient approaches in households. A year-end analysis of the campaigns' effectiveness shows that 74% of the Latvian population has noticed one of *Elektrum's* information campaigns on energy efficiency and 96% of the audience reached has committed to using one of the energy efficiency tips.

Distribution

All services of Sadales tīkls AS are available in the e-environment and the company plans to keep the share of e-environment activities at 97%. On average, 98% of customer actions in the reporting year took place in the e-environment, as customers are targeted and informed about its possibilities. 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 2022, customers can also report power failures quickly via self-service on the website, thus ensuring modern, interactive communication, reducing manual tasks and optimising the use of resources. The 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.

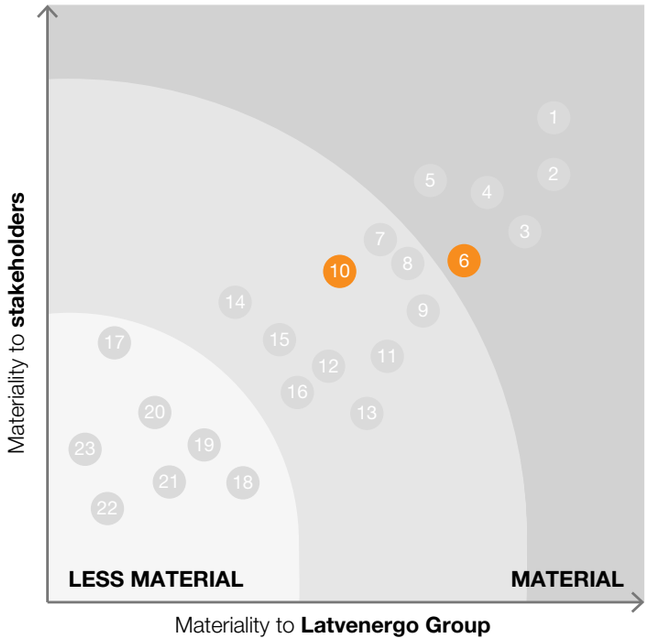
Reporting failures digitally also enables greater public participation in the identification of infrastructure damage, which is seen as an important contribution to the maintenance of the power grid of Sadales tīkls AS and to the continuity of power supply. The addition of geolocation and images to the damage reporting tool allows the company's specialists 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.

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 2022.

Society



6 Emergency planning

10 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 critical infrastructure of the Group. The Group carries out corporate social responsibility activities to support different groups of society.

6 Emergency planning

Latvenergo Group has developed an emergency and crisis management system. It aims for a common approach to addressing such situations to ensure the continuous and safe operation of the Group or its rapid and effective restoration. Emergency response involves cooperation with 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. The plans are implemented annually and updated and supplemented where necessary.

Every year, practical fire safety classes are organised in the largest plants and administrative buildings of Latvenergo Group. They are attended by employees of the Group, contractors, and specialists and operational staff of the SFRS firefighting departments. At the end of the classes, a review is performed, establishing the measures to be taken to prevent serious consequences and reduce material damage in case of a fire, as well as to improve fire safety.

In 2023, the current emergency and crisis management system will be integrated into a new operational continuity system. This will include a set of documents and procedures to ensure that business tasks are continued or restored to an appropriate level as quickly as possible in the event of interruptions or major disruptions and that incidents and crises are managed effectively. Greater attention will be paid to preparing Latvenergo Group managers for crisis management.

The Group regularly conducts recovery tests for information systems to ensure that recovery plans are appropriate for the current situation and to improve employees' ability to deal with different cybersecurity threats.

In 2022, 26 large-scale distributed denial of service (DDoS) attacks were carried out on the Group's information system resources. The controls that were already in place are considered to be effective, as the impact of the attacks on information systems was very low in 10 cases and non-existent in 16 cases. In 2021, there were four DDoS attacks with no impact on information systems. The increase in attacks is related to activities on the part of Russia, which are also communicated on social networks.

The company's specialists 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 what to do. In addition, different types of cybersecurity tests are developed each year to improve employees' knowledge of different types of attacks, how to recognise them and what to do next.

10 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. In response to the current risks and challenges in the energy sector, several legislative acts were developed in 2022 with the participation of Group's experts:

- the regulatory framework for the supply of natural gas during the energy crisis
- the Law on Facilitated Construction Procedures for Energy Supply Structures to Promote Energy Security and Independence
- amendments to the Energy Law which provide for the full liberalisation of the natural gas market
- amendments to the Electricity Market Law which introduce the regulation of active users and energy communities and improve the net settlement service
- the Law on Measures to Reduce Exceptional Increases in Energy Prices and amendments to the Electricity Market Law abolishing MPC payments to electricity end-users and covering MP-related costs from the state budget in the future

The involvement of the Group in shaping energy sector policy is ensured through its participation in the federation for the European electricity industry Eurelectric and the technical association of power plant operators vgbe energy e.V. (formerly VGB PowerTech e.V.).

- During the reporting year, the Group's experts were involved in the development of Eurelectric's position on the draft EU Taxonomy Delegated Regulation on the inclusion of natural gas and nuclear energy, providing a compilation of information on national support mechanisms for the purchase of electric vehicles, energy efficiency improvements and the use of renewable energy sources for heating and micro-generation. To develop the use of renewable energy, making the most of land, preserving biodiversity and adapting solutions to the surrounding landscape, the Group participates in the *Power Plant* cooperation project between Eurelectric and EFFEKT. Mārtiņš Čakste, Chief Executive Officer of Latvenergo AS, was confirmed as a member of the Eurelectric Board of Directors in March 2022.
- The association vgbe energy e.V. started to set up five Competence Centres in 2022 – for wind, hydro, thermal and nuclear energy, as well as for future energy systems. The main topics of the Association's 2022 Congress were reducing the dependence of the European energy sector on Russian energy supplies, intensifying the electrification of sectors and accelerating technology development, including the conversion of renewable electricity into green hydrogen and synthetic fuels. Harijs Teteris, Chief Operating Officer of Latvenergo AS, was approved by the Congress as a member of the vgbe Board of Directors.

Latvenergo Group participates in energy and energy efficiency-related forums and conferences to promote the exchange of opinions on the future of the industry. Key issues discussed in 2022 include:

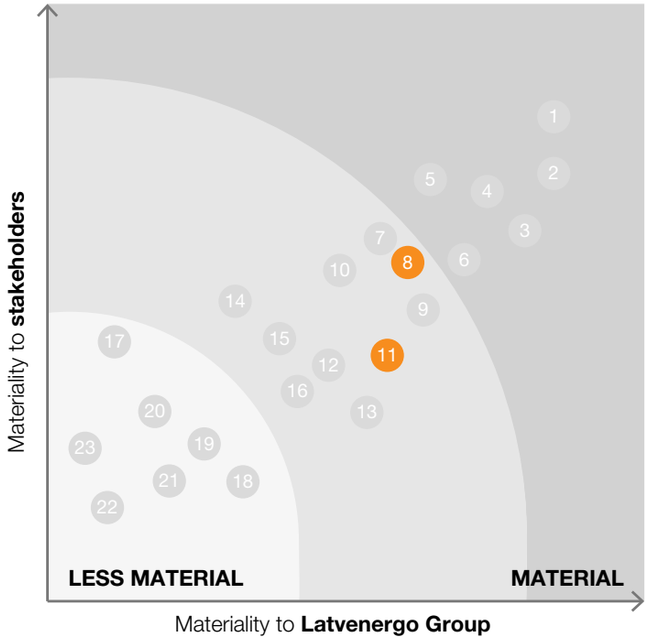
- sustainable electricity generation
- development of offshore wind farms
- distribution network capacity to meet future consumption changes
- reducing energy costs in the future
- opportunities and integration of green hydrogen, nuclear and other forms of energy generation in the Latvian energy market
- climate-neutral households
- transfer of sustainability solutions from business to education
- electromobility

GRI 415-1

Political contributions

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

Employees and the work environment



8 Occupational health and safety

11 Employee involvement and development

Latvenergo Group's priorities include strengthening employee engagement, motivation, and development and providing a safe work environment that promotes innovation. An innovative, dynamic and development-orientated culture is an essential prerequisite for achieving the objectives set out in the Group's Strategy for 2022-2026. During the reporting year, a series of cultural transformation activities, management communication of strategic objectives, and new Group values were implemented.

Human resource management policy and basic principles

Motivated, loyal, and satisfied employees are an essential precondition for the sustainable development of the Group. Latvenergo Group's human resource management aims to promote employee engagement, motivation, and actions in line with the Group's values, as well as an innovative and safe working environment. The Human Resource Management Policy is subject to the strategy of the Group and covers the following areas of human resource management:

- employee engagement to promote growth, productivity, and innovation
- management of excellence-orientated skills and competences and leadership development
- comprehensive diversity management, enabling employees to realise their potential regardless of possible limiting factors
- a balanced motivation system that supports excellence and leadership

The key principles characterising the Group's human resource management philosophy and attitude towards employees are as follows:

- social responsibility, which includes a safe working environment as well as equal treatment and employment conditions for all employees
- social dialogue with employees and their representatives
- competence development, knowledge sharing and knowledge transfer
- engagement and responsibility for the performance of work to ensure the achievement of goals
- support for diversity, new knowledge, and innovation
- honesty and mutual respect in the relationship between the employer and employees: the employer and employees are equal partners who build their relationship adhering to ethical principles and preventing conflict of interest situations

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 that the human rights of the Group's employees and subcontractors are infringed or violated, insofar as the Group can influence this. Respect for the human rights of the Group's employees and cooperation partners is stipulated in the Code of Ethics.

GRI 2-7, 2-30

Number of employees and collective bargaining agreement

At the end of the reporting year, Latvenergo Group employed 3,316 employees across the Baltics. The efficiency programme launched in 2017, which included process review, centralisation and digitalisation, ended in 2022 and resulted in approximately 1,000 less employees at the Group at the end of the reporting year than before the programme was launched. Compared to 2021, the number of employees increased by 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: 70% of all employees in 2022 were male and 30% were female. Most employment contracts are concluded as full-time open-ended contracts. In 2022, only 8 employees or 0.2% of the workforce had part-time contracts (0.2% of male and 0.4% of female employees). On the other hand, 51 employees or 1.5% of the workforce had a fixed-term contract (1% of male and 2.7% 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. In addition to meeting the requirements of laws and regulations, the Collective Bargaining Agreement provides protection for employees' economic and social interests and applies to 90% of the Group's employees. The Collective Bargaining Agreement applies not only to trade union members, but to all the employees of the above-mentioned companies.

Number of employees by operating segments

	Units	2018	2019	2020	2021	2022	Δ2022
Generation and trade	number	877	880	875	912	1,052	140
Distribution	number	2,019	1,957	1,876	1,681	1,665	-16
Lease of transmission system assets*	number	8	6	0	0	0	0
Corporate functions	number	604	580	544	560	599	39
TOTAL	**number**	**3,508**	**3,423**	**3,295**	**3,153**	**3,316**	**163**
female	number	1,020	997	952	947	1,010	63
male	number	2,488	2,426	2,343	2,206	2,306	100

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

8 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

Occupational health and safety (OHS) systems in Group companies ensure internal monitoring and management of the working environment in line with legal requirements and industry specifics. Management systems have been introduced on a voluntary basis and adapted to the needs of each company. OHS measures are planned by setting annual goals and objectives and taking into account the risk assessment and observations in the working environment. It is in the Group's interest to ensure that working conditions are continuously improved, OHS systems are enhanced, and employees are educated and involved, while promoting individual responsibility and an inclusive working environment.

The OHS system consists of planning, implementation and results collection:

- The planning of OHS measures is supported by information systems that collect information on each employee's working environment, workplace risks, training, briefings, personal protective equipment issued, the microclimate and other indicative measurements of the working environment. The OHS action plan includes risk assessments of the working environment, scheduling of mandatory health checks and briefings, and visits to sites and units by OHS specialists and trustees.
- During the implementation phase, a risk assessment of the working environment is carried out for each employee and each unit to identify risks in the working environment and actions to eliminate or mitigate them. Before starting work, each employee is adequately trained to carry out the work. The briefing of employees is based on the specific working conditions, the job, the work to be performed and the risk factors in the working environment. Employees also regularly update both their professional skills and their safety knowledge at seminars and training courses organised outside the Group. The Group fully covers the costs of the training and employees can attend the training during working hours.
- During the compilation phase, information is prepared on risk factors identified, briefings carried out, mandatory health examinations and other factors that may affect the employee. OHS specialists prepare a set of measures to be taken and recommendations to prevent or reduce risks in the working environment. Each worker is provided with information relevant to his/her working environment. At the end of the planning period, all the information on the OHS measures taken in each of the Group's companies and units is compiled. Based on the results, objectives are set for the next planning period, deadlines are established and the persons involved are identified.

Employees may report dangerous situations or instances of 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 has 28 trustees, nominated by employees and approved by the trade union Enerģija. The trustees are nominated for a five-year term and trained in OHS to provide advice and support in situations related to the working environment, workplace risks and work organisation. Employees can also turn to trustees in situations when direct communication with the employer is difficult. Trustees also participate in workplace risk assessments.

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

Involvement in "Mission zero"

In 2022, Latvenergo AS and Sadales tīkls AS joined the voluntary initiative "Mission zero". Its objective is to reduce the number of workplace accidents, share experience with other companies in implementing preventive occupational safety measures, and build a team of experts at the inter-company level among the initiative's participants to help maintain a safe working environment. The companies' Management Boards signed a charter, the main objective of which is to make health and safety priority company values, thus demonstrating their commitment to:

- implement the principles of the Labour Protection and Occupational Health Policy in daily work at every workplace
- do everything possible to achieve the goal of zero accidents
- continuously strive for operational excellence
- support, train and develop employees' knowledge of OHS
- support employee initiatives and suggestions to improve occupational safety

The charter's guiding principles have been incorporated into the Latvenergo Group Labour Protection and Occupational Health Policy, which was updated in the reporting year. The Group's managers emphasise that occupational safety comprises two-way cooperation: on the one hand, it is the employer's responsibility to ensure appropriate working conditions, regular inspections of work equipment and modern protective equipment, and on the other hand, it is the employee's responsibility to perform his/her duties in accordance with safety rules and approved methods. By focusing employees' attention on identifying, reporting and preventing hazards, the Group has seen a reduction in the number of serious accidents, with no fatalities in 2022.

Employee health

In accordance with their position, the risk assessment of the working environment and the requirements of legislation, all employees are regularly sent for mandatory health examinations. These are included in the employee's health insurance policy, are free of charge for the employee 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.

One of the objectives for the reporting year was to promote employee health, which included several measures. Workplaces were equipped with ergonomic furniture, pads and assistive devices, in line with risk assessments and recommendations from occupational physicians. Following the introduction of energy-saving measures in Latvia, monitoring of the indoor microclimate was carried out, which showed that the workplaces comply with the requirements of legislation and recommendations on the parameters of a safe working environment microclimate.

The health insurance of Latvenergo Group employees also includes specialist and inpatient services, rehabilitation, and vaccination. Additional health promotion measures include accident insurance and additional sickness guarantees under the collective agreement.

Effects of COVID-19 and measures to control the disease

In accordance with the virus control measures recommended worldwide and in the country, Latvenergo Group also planned and implemented epidemiological safety measures:

- revising and updating instructions in accordance with the current situation; training and informing employees
- providing employees with medical masks or respirators and disinfectants
- revising the work process; strengthening remote working options for positions where possible

Latvenergo AS continued to provide free testing for employees. For the convenience of employees, contractors and visitors, rapid tests were also provided, so that one's health status could be checked quickly in case of doubt or contact with a sick person.

Contractors

The most frequent activities in which Latvenergo Group engages contractors are construction, repair and maintenance of equipment; management and supply of goods or services; and renting of 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.

At any stage of the cooperation, the Group's responsible persons can verify that the contractors' work complies with the occupational safety requirements. Contractors are regularly monitored for compliance with workplace safety requirements when carrying out work on electrical installations and other sites.

The Group also trains young specialists or trainees. Traineeships are arranged with higher education institutions and the young specialists also learn practical skills for safe work performance under the supervision of experienced employees. Regardless of the place, profession or planned duration of the traineeship, each trainee is instructed in the work to be carried out.

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

Before starting work, each contractor and trainee is briefed according to the specific nature of the work to be carried out and familiarised with the risk factors identified in the particular working environment. Briefings are carried out either in person or remotely. After the briefing, the responsible person ensures that the person briefed has a good knowledge and understanding of OHS, that personal protective equipment is available and that he/she can use it appropriately.

It is the responsibility of contractors or their subcontractors to carry out a risk assessment, familiarise their employees with instructions appropriate to the occupation and the work to be carried out, and send their employees for mandatory health examinations to ascertain the health status of the employees before carrying out work.

To verify the work practices and safety of contractors, Sadales tīkls AS carried out 398 inspections at contractors' work sites in 2022. In 2023, a similar number of inspections is anticipated. In addition, a new indicator will be introduced – the ratio of detected violations to inspections carried out.

GRI 403-8

Employees covered by the OHS management system

All Group segments and employees are covered by an internally audited OHS management system, which is set up and maintained in accordance with the requirements of each capital company and national legislation. The OHS system implemented by Latvenergo AS and Elektrum Lietuva UAB also meets the requirements of the international ISO 45001 standard. In 2022, no instances of non-compliance were identified during the supervisory audit of Latvenergo AS.

	Units	2018	2019	2020	2021	2022
Workers covered by OHS management system	number	3,508	3,423	3,295	3,153	3,315
	%	100	100	100	100	100
Workers covered by an internally-audited OHS management system	number	3,508	3,423	3,295	3,153	3,315
	%	100	100	100	100	100
Workers covered by an externally-audited or externally-certified OHS management system	number	3,508	3,423	1,419	1,269	1,329
	%	100	100	43	40	41

GRI 403-9

Work-related injuries

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 or Elektrum Lietuva UAB.

	Units	2018	2019	2020	2021	2022
Recordable work-related injuries	number	10	8	8	7	5
	index*	0.33	0.28	0.28	0.27	0.19
Low-consequence work-related injuries	*number*	*7*	*5*	*7*	*5*	*5*
	*index**	*0.23*	*0.17*	*0.25*	*0.19*	*0.19*
High-consequence work-related injuries	*number*	*3*	*3*	*1*	*2*	*0*
	*index**	*0.10*	*0.10*	*0.04*	*0.08*	*0*
Fatalities	*number*	*0*	*0*	*0*	*0*	*0*
	*index**	*0*	*0*	*0*	*0*	*0*
Number of hours worked		6,037,998	5,772,056	5,636,983	5,262,582	5,141,008

* 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).

In 2022, the Group did not receive any information on accidents involving employees of contractors (4 in 2021).

Latvenergo Group has the following safety and health indicators for employees and contractors:

1) for employees – no serious health problems following an accident resulting in disability or death of the employee

2) for contractors' employees – no death of a contractor's employee

11 Employee involvement and development

Employee involvement

Employee involvement is a prerequisite for the Group's growth, development, and achievement of 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 2022, a comprehensive study was carried out assessing both the level of employee commitment according to the TRI*M methodology and the level of employee experience according to the EX Index methodology. Almost 2,300 respondents or 70% of the Group's employees participated in the survey. This level of participation is very positive and not only demonstrates the representativeness of the results (applicability to all Group employees), but also indicates a high level of employee engagement.

Employee commitment encompasses not only employee satisfaction, but also levels of loyalty, retention, involvement and motivation. The commitment indicator – the TRI*M index – is a single numerical measure consisting of employees' responses to questions on overall satisfaction, recommending the workplace, willingness to reapply for the job, motivation of colleagues, and assessment of the company's performance and competitiveness. The indicator increased by two index points in the reporting year to 68 index points, in line with the 2022 target. This indicator is moderately high and indicates a good and stable working environment. The TRI*M index to be achieved next year is set at 64–67 index points.

The EX Index indicator on employee experience was also assessed for the first time. This is a multifaceted assessment tool that measures employee experience across seven dimensions and 45 employee experience factors, helping to identify priorities for improving the experience. The dimensions of employee experience included in the index are as follows:

- positive working environment
- capable leadership
- opportunities for growth
- well-being
- trust in the company
- meaningful work
- digital tools

Based on the dimension scores, an average score is calculated which measures the level of employee experience. In 2022, the Latvenergo Group EX Index was 77%, which corresponds to the experienced level (70-85%). The strengths were communication of the company's mission and vision, having a purpose, mutual support in teams, and physical safety in the workplace. Areas for improvement were recognising signs of stress and burnout, being open about mental health, and contributing to the emotional well-being of employees.

In the survey, employees were also able to express comments and objections about the work environment, as well as make 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, where they can also follow the progress of these proposals.

To inform employees about current developments in the Group, achievements and plans, in 2022, a remote conversation between the Management Board of Latvenergo AS and employees was held, and a remote meeting of the management of Sadales tīkls AS with employees was organised.

During the reporting year, employees of the Group were also able to engage in a series of activities to support communication and cooperation, implement the Group's values in daily work and strengthen their sense of belonging to the company. These activities were of particular importance given the significant changes that the prolonged COVID-19 pandemic and the full or partial reorientation to remote work brought to the daily lives of each employee and company.

Employee commitment indicator TRI*M

	Units	2018	2019	2020	2021	2022
Indicator to be achieved	index points	N/A	N/A	56	63–66	63–66
Indicator achieved	index points	56	53	66	66	68

Cultural transformation

To achieve the ambitious goals set in the Latvenergo Group Strategy for 2022-2026, the internal culture of the organisation, which supports innovation, the free exchange of knowledge and ideas and cooperation at all levels, is essential. During the reporting year, the cultural transformation programme Growth was launched with the following activities:

- online conferences for Group employees on the new Group strategy
- live communication of the new Group values by Latvenergo AS management to employees
- a values month with internal communication and team activities dedicated to each value, prepared and implemented by members of the Excellence Programme and other active colleagues
- updating work approaches through attractive team tasks on the challenge game platform Efectio. Fifteen of the most active teams won prizes: funding to organise a team event of their choice.
- creation of an informal communication site for exchange of information on self-learning, *I Learn, I Share, I Develop*

Managers play a key role in the success of cultural transformation and therefore a strong focus is placed on manager development. In 2022, leadership competencies were assessed for function heads and the Management Board, 53 managers in total. Personal development plans were developed for 39 managers following individual discussions. For all other managers, interviews and development plans will take place in 2023.

All Latvenergo AS and Sadales tīkls AS managers had the opportunity to participate in a four-week programme, Principles for Developing Managerial Potential and Communication, which included both online lectures and assignments. A workshop on values and change communication was organised for the management teams of Elektrum Lietuva UAB and Elektrum Eesti OÜ.

To discuss topics of interest to managers, a new form of manager development was also launched in the reporting year – a monthly meeting for all managers called the Manager Power Group, which is expected to continue in 2023.

Employee development

Employees of Latvenergo Group can improve their skills and knowledge both on the recommendation of managers and at their own initiative. In 2022, taking into account the impact of the prolonged COVID-19 pandemic and the worrying geopolitical situation following Russia's initiation of war in Ukraine, considerable attention was paid to the well-being and emotional balance of employees. Several webinars on crisis management, emotional intelligence and security in the information space were organised to reduce employees' anxiety. There was a great response to the practical training organised by Latvenergo AS on critical situations, where employees could learn marksmanship and self-defence skills under the guidance of experienced instructors. This project is set to continue in 2023, offering practical training in self-defence and medicine to employees outside Riga – at major facilities of Latvenergo AS.

More than 65 training courses have been created in the Group's e-learning environment, on internal processes and regulations and on various professional fields. In the reporting year, new training materials were created on emotional intelligence, security in the information space and protection of critical infrastructure facilities. For employees without a computerised workplace, e-learning materials are available on smart devices that provide the opportunity to learn at a convenient place and time.

In the reporting year, Latvenergo AS continued to offer the employee rotation option *Try out a vacancy*. Those interested could 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. A total of four rotations were announced and one employee remained in his new position.

Knowledge exchange and continuity

One of the most effective ways to develop competencies is the exchange of knowledge among employees. Its implementation in daily processes is a prerequisite for the transformation of organisational culture and improves the involvement and motivation of employees. In 2022, the Excellence Programme came to an end; however, the implementation of several projects launched under this programme continues. The Excellence Programme approach of bringing together people from different, even unrelated, departments to work on a project has been successfully embedded in the company's culture and is also used in other projects.

During the reporting year, a major public education project, *Career Springboard*, was also implemented. The 12-week online training programme was open to anyone in Latvia. The objective was to educate the public on energy issues, gain more knowledgeable customers and attract new employees by offering job opportunities to the best participants. The training started with 95 participants and was successfully completed by 27 participants, of whom the top 10 were offered a job and started working.

Traditionally, Latvenergo Group pays considerable 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 2022 were used by 52 trainees. The Group cooperates with Latvian educational institutions to promote young people's interest in studying in STEM (science, technology, engineering and mathematics) programmes, as well as to foster the development of the future workforce in Latvia in general.

GRI 404-1

Average hours of training per year

In 2022, about 83,600 hours were dedicated to training, which was attended by 2,390 employees of the Group. On average, one employee spent 26 hours in training. Male employees spent an average of 27 hours in training, while female employees spent an average of 23 hours in training. A total of 11 employees obtained professional qualifications through training financed by the employer, devoting 8,000 hours to training.

Average hours of training (TH) per employee*

Profession group (PG)	Units	2018	2019	2020	2021	2022
Managers						
Average number of TH	number	32	25	26	28	38
% of employees who have undertaken training	%	78	64	68	71	84
Specialists						
Average number of TH	number	23	17	16	19	22
% of employees who have undertaken training	%	58	56	57	71	67
Craft and related trades workers						
Average number of TH	number	56	33	30	28	38
% of employees who have undertaken training	%	97	88	87	87	90
Other professions						
Average number of TH	number	6	13	24	31	14
% of employees who have undertaken training	%	42	66	68	82	79
Average number of hours, TOTAL	**number**	**28**	**20**	**20**	**23**	**26**
Percentage of all employees who have undertaken training	**%**	**66**	**64**	**66**	**75**	**74**

* the figures do not include data for Liepājas enerģija SIA

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 the redundancies no later than five days following the decision.

GRI EU15

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

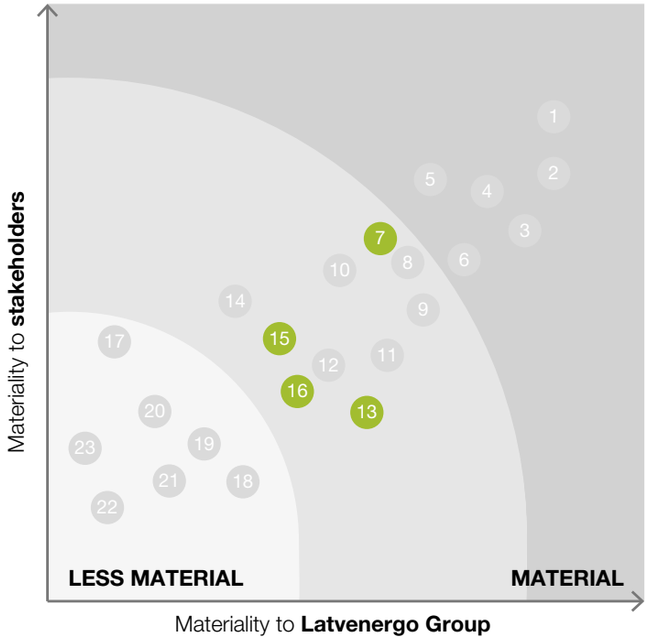
The Group maintains a balanced succession and generational change in accordance with the specifics of the work. Compared to the previous year, the share of employees of retirement age in 2022 did not change significantly.

Expected retirement rate

Profession group		5 years		10 years	
	Units	women	men	women	men
Managers	%	0.3	0.4	0.5	1.1
Specialists	%	1.7	4.4	3.4	8.3
Craft and related trades workers	%	0.1	2.4	0.1	4.7
Other professions	%	0.6	0.4	1.4	0.9
TOTAL	**%**	**2.7**	**7.6**	**5.4**	**15.0**

Environmental Topics

Environmental protection



7 Environmental compliance

13 Air pollution and climate change

15 Resource and energy consumption

16 Renewable energy and strengthening energy independence

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

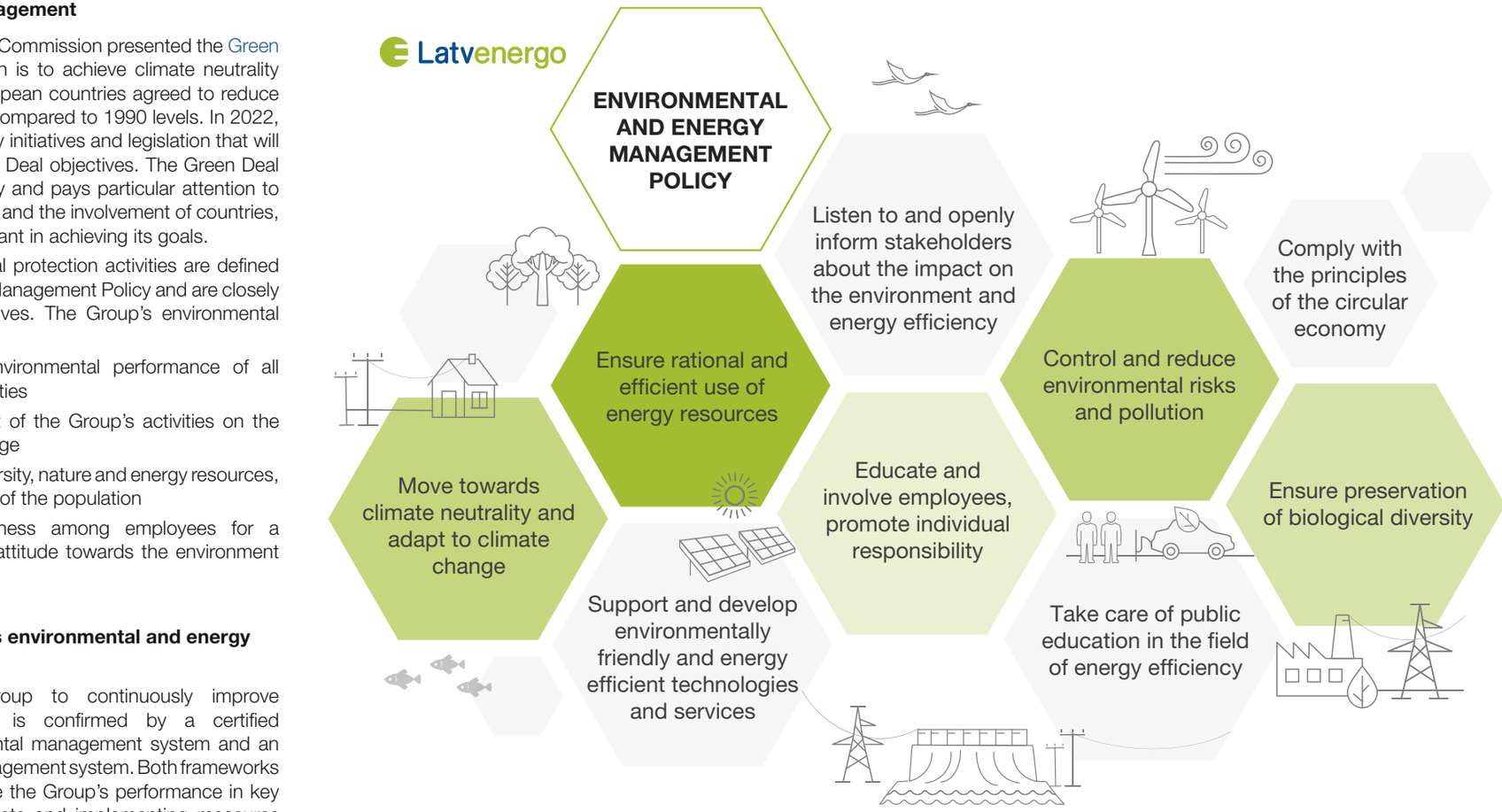
In the field of environmental protection and energy efficiency, the Group's activities are planned in accordance with the guiding principles of sustainable development, environmental legislation and the ISO 14001 and ISO 50001 standards. During the reporting year, the Environmental and Energy Management Policy was renewed in accordance with the Latvenergo Group Strategy 2022-2026 and the Green Deal trends in the field of economic sustainability and environmental protection.

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, European countries agreed to reduce CO_2 emissions by 55% by 2030 compared to 1990 levels. In 2022, intensive work continued on policy initiatives and legislation 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 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
- conserve and preserve biodiversity, nature and energy resources, and 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



Basic principles of the Group's environmental and energy management

The ability of Latvenergo Group 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 2022, in environmental performance, Latvenergo AS scored almost 99%, while Sadales tīkls AS scored 91.2% and Liepājas Enerģija SIA scored 89.8%.

The Group also promotes the inclusion of green procurement principles in procurement procedures.

7 Compliance with environmental protection requirements

In its operations, Latvenergo Group complies with the environmental protection requirements set forth in both EU and Latvian legislation and in equipment operating permits. Compliance of operations is ensured by the modernisation of equipment and the introduction of the best available technologies, as well as by 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 use of water resources, and consulting on the application of environmental protection requirements. In 2022, no reprimands or sanctions were received from environmental authorities.

Reduction of industrial pollution and the sustainable management of chemical substances 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 chemical substances 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.

In the reporting year, an additional study of the historically polluted territory of the former reinforced concrete plant in Aizkraukle was completed and possible solutions were presented to ensure the adequate depollution of the territory and to reduce the risk of environmental pollution and the threat to the safety of the Pļaviņas HPP structures. Depollution of this territory has been identified as one of the priority projects to be supported at the national level, and Latvenergo AS has provided significant support, including financial, in this area.

The following target has been set for the environmental impact of Latvenergo Group: no environmental pollution events with significant reputational or financial impact. In 2022, the Group was subject to eight inspections by the State Environmental Service. No significant reprimands or sanctions were received from the controlling institutions.

Biodiversity

Latvenergo Group fosters 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.

- The Group makes annual payments to replenish fish stocks in the water bodies of the Daugava River Basin. In the reporting year, approximately 1.1 million salmon, sea trout, pikeperch, whitefish, vimba, and pike fry as well as 6.2 million lamprey larvae were released into the rivers.
- In addition, the Group also implements other projects to improve fish habitats and migration, e.g., it places fish spawning nests in the Daugava River and cleans small rivers in the Daugava River Basin. According to the Group's Action Plan for migration and natural restocking of migratory fish in the Daugava River Basin, clean-up of the Bērzene River started in 2022 and, in cooperation with scientists, solutions were developed for possible future implementation to improve the river's accessibility for migratory fish. 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 several research activities and, in cooperation with experts and stakeholders, continues to plan and develop projects to improve the migration of migratory fish in the Daugava River Basin.
- To meet the conditions of security and safety of the electricity supply and reduce the death of white storks on power lines, in 2022, in coordination with the environmental authorities, 939 potentially dangerous nests were removed from power line supports and 611 new nesting substrates were installed. During their nesting season, storks are only disturbed in rare cases where the security and/or safety of the energy supply and public safety is threatened. In cooperation with Valmiera Municipality, the first artificial nest park for white storks in Latvia was opened in Matīši Parish – six power line poles with metal bases for nests. In order to promote research, protection and public education regarding white stork nesting, monitoring of white stork nesting 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.
- When developing new power generation capacities, including wind power plants, the Group pays particular attention to mitigating impacts on biodiversity and plans projects in close cooperation with species and habitat experts.

13 Air pollution and climate change

In addition to water and wind energy resources, Latvenergo Group also uses natural gas and biomass for energy generation. In response to the energy crisis, the CHPPs' generation facilities also used diesel as an alternative fuel to natural gas in 2022. 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 generated 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 continuously and automatically.

Involvement of the Group in climate change mitigation

One of the global environmental challenges facing the energy sector is climate change caused by GHGs. The work of Latvenergo Group 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.

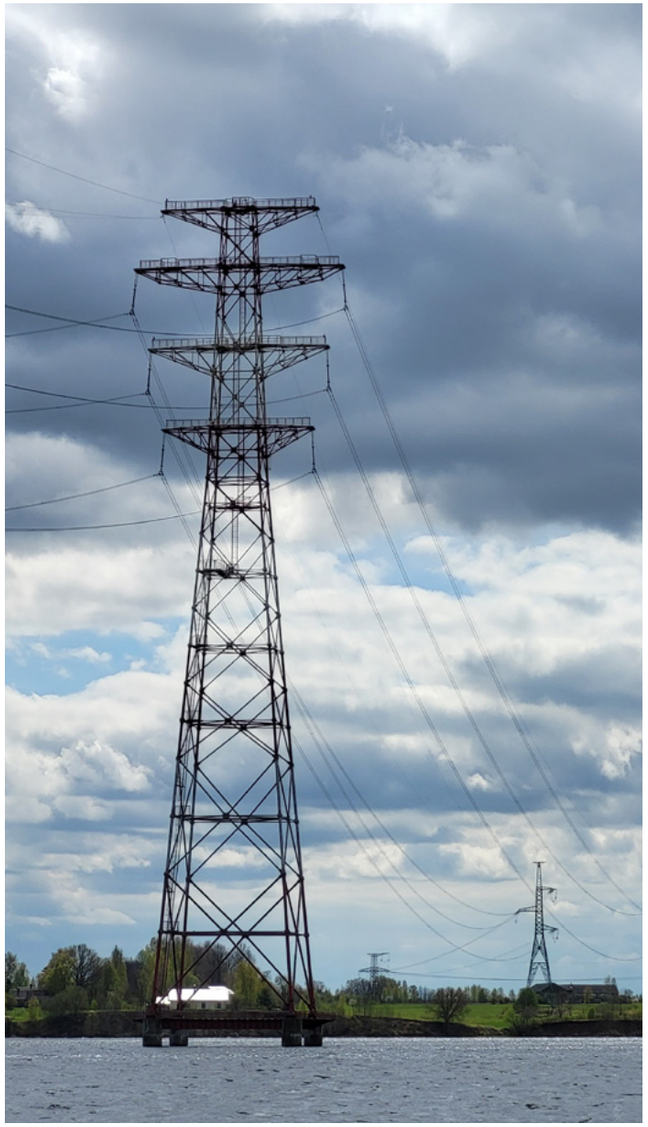
In response to the Russian invasion of Ukraine, the European Commission has launched a new initiative, REPower EU, to significantly reduce the EU's dependence on Russian fossil fuels by 2030. The plan aims to diversify energy supplies, save energy and accelerate the transition to *clean* energy. These measures also contribute to reducing GHG emissions.

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. The main investment areas are as follows:

- generation – development of new renewable energy-based generation capacities (wind and solar), increasing the efficiency of energy generation and maximising the use of renewable energies, including research into hydrogen technologies
- trade – development of products and services that promote microgeneration, energy efficiency and the use of electricity instead of other energy sources
- electromobility – development of a public electric vehicle charging network
- distribution – development of a sustainable and economically viable service in line with trends in microgeneration and electrification

For information on the Group's strategic performance targets and their implementation, see the section Group Strategy.

One aspect of Latvenergo Group's risk management comprises the impact of climate change. The environmental risk assessment methodology was updated in 2022 and includes 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. 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 sectors covered by the scheme. For fuel combustion plants with a total rated thermal input above 20 MW, participation in the ETS is mandatory, and both Latvenergo AS CHPPs and the CHPP and gas boiler house of Liepājas Enerģija SIA meet this criterion. At the end of 2022, the European Commission, the European Parliament and the Council provisionally agreed on a target to be reached by 2030: to reduce SEG emissions in the ETS sectors by 62% compared to 2005. In this period, the plan is to significantly and more rapidly reduce the total amount of emission allowances, phasing out free allowances (after 2026); to allocate allowances according to the volume of generation; and to establish several financing instruments, including a modernisation fund to support industry and the electricity sector in terms of innovation and investment.



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

Latvenergo Group's GHG emissions assessment has been 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 the 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 at Latvenergo Group are influenced by several factors, i.e., the share of renewable energy resources in the consumption of primary energy resources, the amount of generated energy and the operating modes of generation facilities. GHG emissions intensity is expressed in tonnes of carbon dioxide equivalent (hereinafter – CO_2 emissions) and is measured per unit of electricity (MWh) generated by the Group. The lower this ratio, the more electricity is generated from RES and the more efficient the CHPP units are.

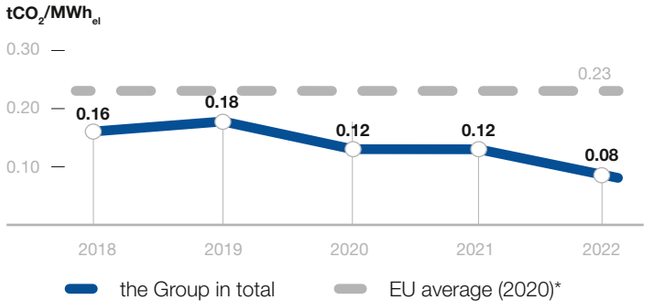
During the reporting year, direct CO_2 emissions and CO_2 emission intensity decreased, which is attributable to the lower amount of energy generated at the CHPPs. The total direct emissions of the Group consist of:

- emissions from the 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 during the reporting year emitted approximately 7.5 thousand tonnes of CO_2, corresponding to 1.1% of total emissions

The total amount also includes emissions related to the provision of the energy generation process. In addition to the indicated amount, CO_2 emissions are attributable to fuel used for transport and machinery. The CO_2 emissions generated in 2022 amounted to 7.9 thousand tonnes.

The Group also operates equipment containing sulphur hexafluoride (SF_6) gas and refrigeration equipment containing gas with negligible global warming potential. These are closed installations where no gas leaks have been detected and are therefore not included in the calculation.

CO_2 emission intensity per unit of electricity output



**Source: Agora Energiewende & Ember (2021), The European Power Sector in 2020*

Indirect (Scope 2) GHG emissions

Indirect Scope 2 GHG emissions are emissions from the generation of electricity and heat purchased by the company from other energy producers. During the reporting year, the methodology for estimating emissions was refined to include Scope 2 emissions in 2021 and CO_2 emissions from electricity distribution losses of Sadales tīkls AS.

Latvenergo Group not only generates energy, but also consumes heat and electricity for the maintenance of technological and administrative buildings. Heat and electricity are purchased from various suppliers, and the consumption of heat and electricity of the Group, as well as data provided by suppliers and publicly available reports, are used to compile its emissions. In 2022, the generation of electricity purchased for consumption by the Group resulted in 5.7 thousand tonnes of CO_2 emissions, while thermal energy generation resulted in 0.8 thousand tonnes of CO_2 emissions, representing an overall decrease of around 13% compared to the previous year.

In the reporting year, electricity distribution losses of Sadales tīkls AS generated 64 thousand tonnes of CO_2 emissions.

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.

During the reporting year, the most significant Scope 3 emissions were assessed, which are directly related to the Group's principal activities: electricity and heat generation, electricity and natural gas trading in the Baltic states, and the provision of electricity distribution services in the territory of Latvia. The calculation includes:

- extraction, generation, transport and transmission of consumed energy resources (GHG Protocol Category 3), which resulted in 154.4 thousand tonnes of CO_2 emissions
- use of energy resources sold and electricity sold (GHG Protocol Category 11), which resulted in 1,529.9 thousand tonnes of CO_2 emissions

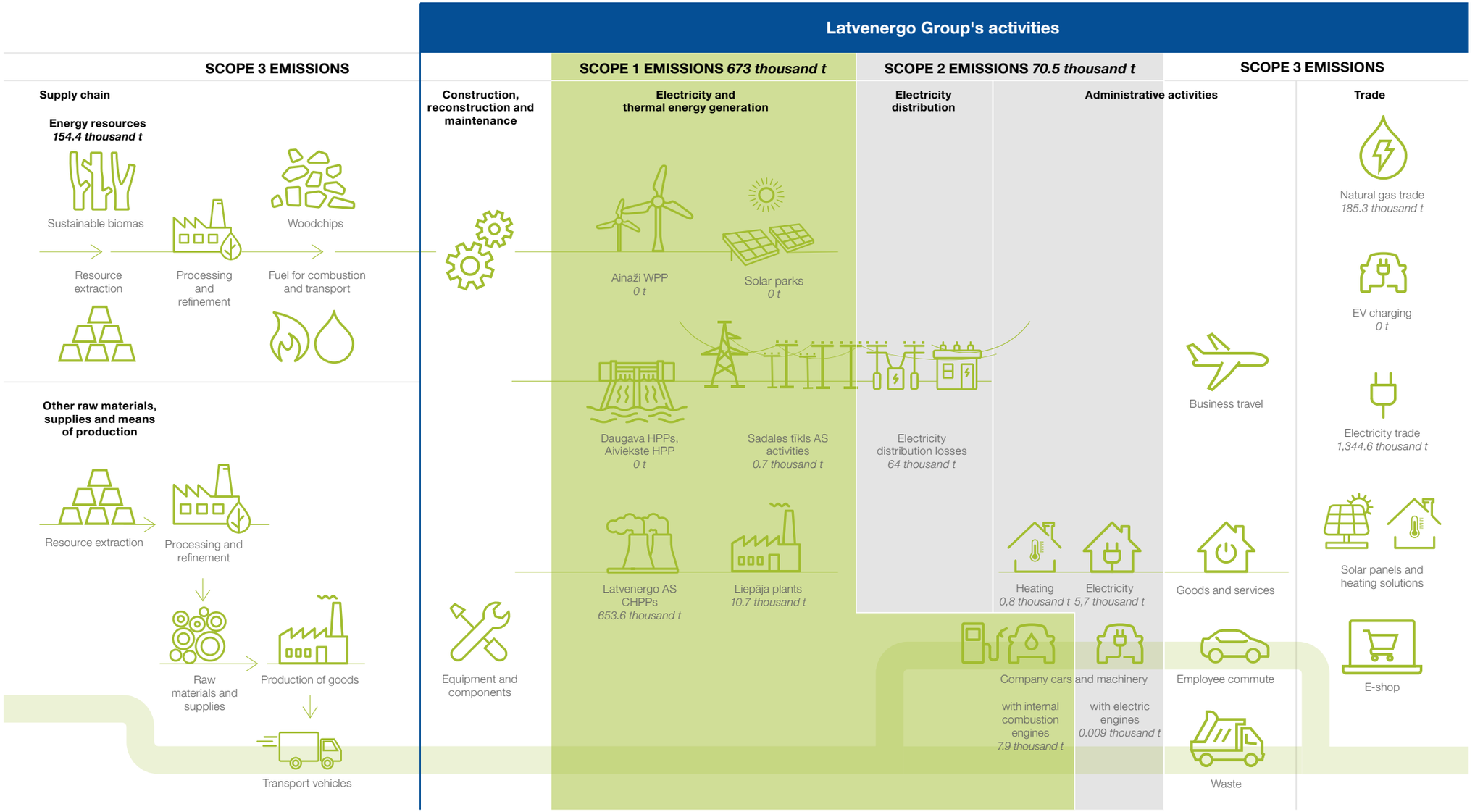
Latvenergo Group contributes to the reduction and savings of GHG emissions by implementing activities that contribute to climate change mitigation and adaptation. The most significant projects and activities of the Group implemented or completed in the reporting year resulted in CO_2 emission savings of more than 22 thousand tonnes:

- Riga HPP reconstruction project completed – 15,539 tonnes
- use of a heat storage system at CHPP-2 – 1,094 tonnes
- The *Elektrum* public electric vehicle charging network provides customers with electricity generated from RES – 253 tonnes.
- reduced electricity losses in the distribution network – 5,146 tonnes

Latvenergo Group SEG emissions

	Units	2018	2019	2020	2021	2022
Scope 1 emissions	**thousand t**	**1,251**	**1,252**	**860**	**928**	**673**
From combustion plants	thousand t	1,243	1,244	852	920	665
From fuel for transportation and machinery	thousand t	8	8	8	8	8
Scope 2 emissions	**thousand t**				**76**	**70**
From generation of purchased electricity	thousand t	N/A	N/A	N/A	7	6
From generation of purchased thermal energy	thousand t	N/A	N/A	N/A	1	1
From electricity distribution losses	thousand t	N/A	N/A	N/A	69	64
Scope 3 emissions	**thousand t**					**1,684**
GHG Protocol Category 3	thousand t	N/A	N/A	N/A	N/A	154
GHG Protocol Category 11	thousand t	N/A	N/A	N/A	N/A	1,530

Latvenergo Group's SEG emissions by scope



GRI 305-7

NO_x, SO_2 and other significant air emissions

Emissions of air pollutants into the atmosphere directly depend on the amount of energy generated, 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 Liepāja plants. 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 2022, 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 emits NO_x, CO, and particulate matter.

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

NO_x, CO, SO_2 and other emissions

	Units	2018	2019	2020	2021	2022
NO_X	t	904	912	648	686	374
NO_x from combustion plants	kg/MWh	0.18	0.20	0.19	0.15**	0.13
NO_x for the Group combined	kg/MWh	0.12	0.14	0.11	0.10	0.07
CO	t	426	427	319	363	231
CO from combustion plants	kg/MWh	0.09	0.09	0.09	0.08**	0.08
CO for the Group combined	kg/MWh	0.06	0.06	0.05	0.05**	0.04
SO_2	t	5	4	5	5	25
Other*	t	15	14	15	19	23

* incl. emissions of solid particulate matter and hydrocarbons
** data for 2021 were corrected in the report for 2022

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	2018	2019	2020	2021	2022
Latvenergo AS CHPPs	number	250,091	205,721	112,760	67,301	69,773
Liepājas enerģija SIA	number	15,374	12,624	12,334	8,664	7,945

15 Resource and energy consumption

Latvenergo Group promotes the efficient use of energy resources by recording and analysing the flow of energy consumption, identifying the essential energy consumption for ensuring generation 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 emissions per unit of energy generated. Using cogeneration potential, CHPP-1 saved 26% of primary energy resources and CHPP-2 saved 19%. The thermal storage system at CHPP-2, constructed in 2021, enables accumulation of the thermal energy generated in cogeneration mode and optimises the adjustment of the CHPP operating modes to the changing market conditions and to cover peak loads. In 2022, the system delivered primary energy savings of 311 MWh.

To minimise the waste of energy, Latvenergo AS and Liepājas enerģija SIA have implemented an energy management system, while Sadales tīkls AS has incorporated the principles of energy management into its environmental management system. In accordance with the principles of energy management, energy efficiency indicators have been developed, baseline energy consumption at the facilities 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 2022

- Replacement of transformers for HPPs' own consumption
- Renovation and insulation of buildings; modernisation of lighting, ventilation, and heating systems
- Installation of solar panels
- Optimisation of boiler house generation and management modes

In 2022, Latvenergo Group joined the government's commitment to achieve energy savings of at least 15%. Latvenergo AS average specific consumption of electricity at its facilities decreased by 4% and average specific consumption of thermal energy decreased by 18% compared to 2021.

GRI 301-1, 302-1

Consumption of materials and energy

Renewable energy sources (RES) accounted for 48% of total primary energy consumption in the reporting year, while fossil fuels accounted for 52%. The use of renewables increased significantly compared to 2021, but it should be noted that this is mainly due to the lower amount of energy generated in the CHPPs. The proportion of primary energy sources between renewables and fossil fuels is different for the generation of electricity and thermal energy. After the consumption of primary energy resources, the share of renewable energy resources in electricity generation was 63%, while in thermal energy generation it was 14%. The share of renewable energy resources in energy consumption is significantly influenced by the amount of energy generated by the HPPs, which is mainly determined by hydrological conditions and market factors (see the section Generation and Trade).

The Group's own consumption of electricity for generation and business processes in 2022 was 90 GWh or 2.4% of the energy generated.

The Group used 420 m^3 of petrol and 2,610 m^3 of diesel for transport and machinery during the reporting year. Petrol consumption decreased by around 14% compared to the previous year, while diesel consumption increased by around 8%.

The average fuel consumption per 100 km of Latvenergo AS internal combustion engine vehicles decreased by 2% in the reporting year. Around 112 MWh of electricity was used to charge Latvenergo AS electric vehicles, saving 46 m^3 of fuel, which is seven times more than in 2021.

Consumption of primary energy resources

	Units	2018	2019	2020	2021	2022
Water, wind*	TJ	8,584	7,386	9,109	9,506	9,639
Wood	TJ	842	752	905	1,060	1,010
Renewable energy resources	*TJ*	*9,426*	*8,138*	*10,014*	*10,566*	*10,649*
Natural gas	TJ	22,440	21,784	14,958	16,542	11,145
Diesel fuel	TJ	1	1	1	1	620
Fossil energy resources	*TJ*	*22,441*	*21,785*	*14,959*	*16,543*	*11,765*
TOTAL	**TJ**	**31,867**	**29,922**	**24,973**	**27,109**	**22,414**

Consumption of primary energy resources for electricity generation

	Units	2018	2019	2020	2021	2022
Water, wind*	TJ	8,584	7,386	9,109	9,506	9,639
Wood	TJ	61	1	145	62	58
Renewable energy resources	*TJ*	*8,645*	*7,387*	*9,254*	*9,568*	*9,697*
Natural gas	TJ	14,300	15,864	9,438	9,308	5,771
Fossil energy resources	*TJ*	*14,300*	*15,864*	*9,438*	*9,308*	*5,771*
TOTAL	**TJ**	**22,945**	**23,251**	**18,692**	**18,876**	**15,468**

Consumption by primary energy resources for thermal energy generation

	Units	2018	2019	2020	2021	2022
Wood	TJ	781	751	760	998	952
Renewable energy resources	*TJ*	*781*	*751*	*760*	*998*	*952*
Natural gas	TJ	8,141	5,920	5,520	7,234	5,374
Diesel fuel	TJ	1	1	1	1	620
Fossil energy resources	*TJ*	*8,142*	*5,921*	*5,521*	*7,235*	*5,994*
KOPĀ	**TJ**	**8,923**	**6,672**	**6,281**	**8,233**	**6,946**

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

The 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 with the requirements specified in the emission permits and in Latvian and EU legislation.

GRI 303-3

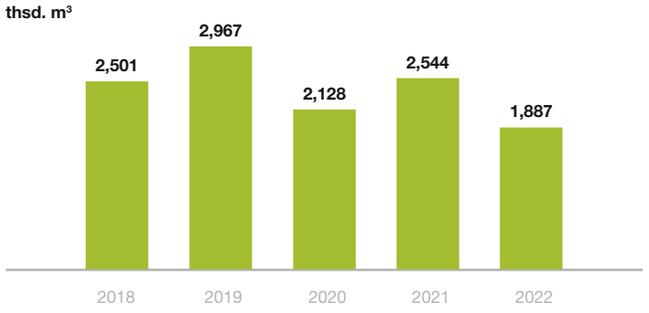
Water consumption

The Group mainly uses water resources to ensure generation processes and, in small quantities, for other business 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 are identified in the water consumption data. The amount of surface and/or ground water consumption is specified in the permits of each facility.

The Group's water consumption balance includes water from surface, ground and centralised water supply networks. As the water consumption of the CHPPs is mainly influenced by the operating modes of the generation facilities and the amount of energy generated, the amount of water consumed has also decreased as generation has decreased. In 2022, 1.88 million m^3 of water was consumed, of which 97% was surface and ground water obtained in the low-medium water stress zone. Of the water used for operations in 2022, 92% was surface water, 5% was ground water and 2% was tap water. The largest consumer of water is CHPP-2, which consumed 1.77 million m^3 of water in the reporting year, 85% of which was cooling water. The largest consumers of ground water are CHPP-1 and CHPP-2, which used 30 m^3 and 32 m^3 of ground water respectively.

Water consumption data are obtained from meter readings.

Water withdrawal



16 Renewable energy and strengthening energy independence

Increasing the share of renewable energy sources in energy generation is one of the cornerstones for achieving the EU and Latvian climate targets and strengthening energy independence, and it is also envisaged in Latvenergo Group's strategy. The Group already generates a significant part of its electricity and heat using renewable energy resources: water, wood, and wind. In 2022:

- renewable sources accounted for 48% of the approximately 22 thousand TJ of primary energy consumption (for more information, see GRI indicators 301-1 and 302-1);
- of the 5.6 TWh of heat and electricity generated, 52% was generated from renewable resources (for more information, see the section Generation).

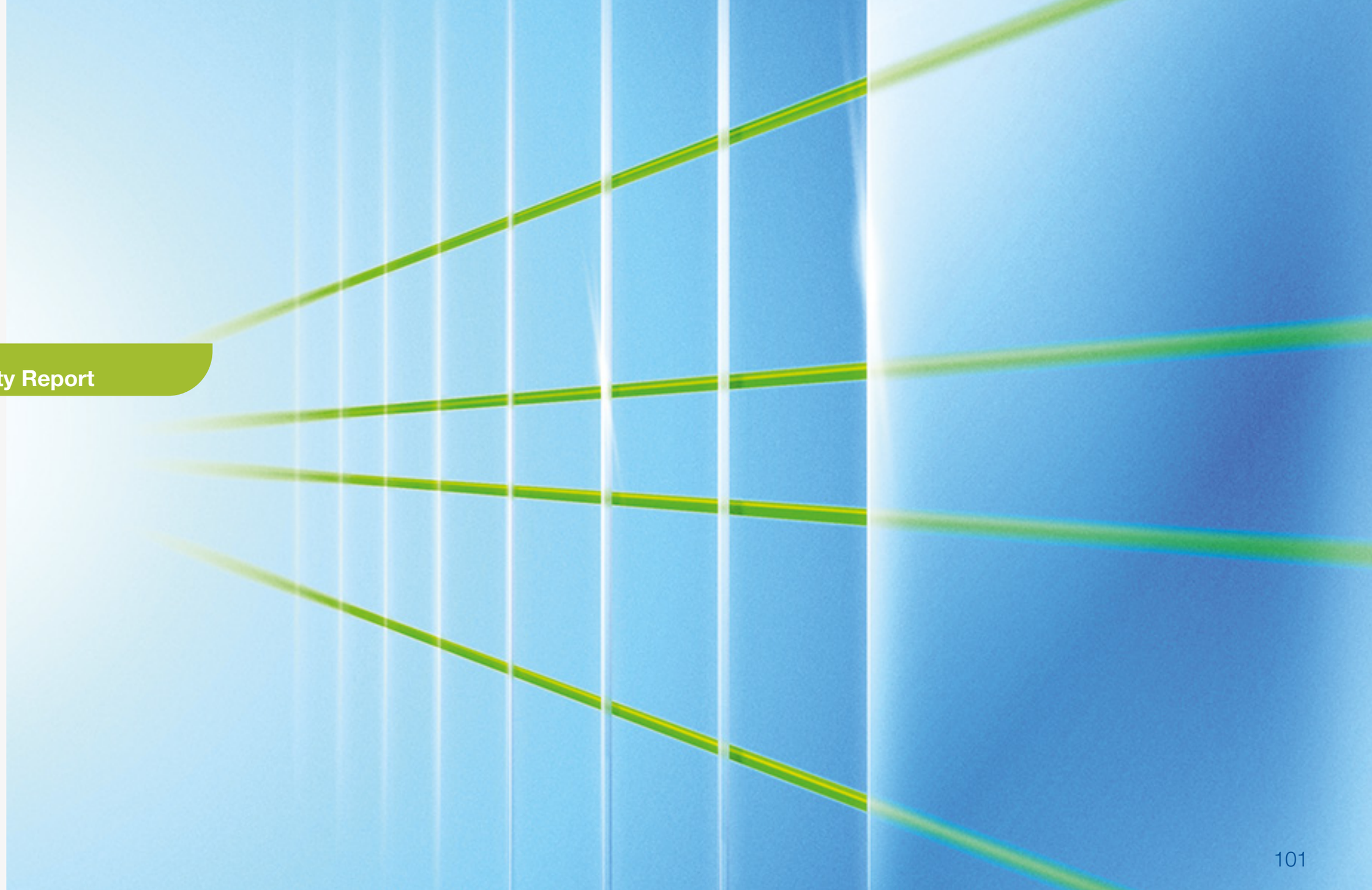
To maintain a high share of renewable energy, the maintenance and renewal of the Daugava HPPs' capacity is especially important. Reconstruction of the Riga HPP was completed in 2022. The reconstruction projects of the Plavinas and Ķegums HPPs are ongoing.

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

In addition, the Group is actively working on solutions for wind power and energy storage. During the reporting year, the development of onshore high-capacity WPPs continued, with ornithologists, bat and habitat experts carrying out surveys and studies of potential construction sites. Based on the results of the surveys, the possible location of the WPPs and associated infrastructure is being clarified to avoid significant negative impacts on the environment, including habitats and species of high conservation value. To reduce the impact of the WPPs on wild bird populations, an agreement has been concluded with the Latvian Ornithological Society on cooperation in the protection of wild birds, as well as on informing and involving the public.

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

Annexes to the Sustainability Report



Green Bond Report

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

- The green bond programme was launched in 2015, with the first tranche of EUR 75 million. Thus, Latvenergo AS became the first state-owned company in Eastern Europe to issue green bonds. In 2016, Latvenergo AS released an additional tranche in the amount of EUR 25 million, thus concluding a green bond programme in the amount of EUR 100 million. These bonds were repaid in June 2022.
- In May 2021, EUR 50 million worth of green bonds were issued, and, in May 2022, bonds in the amount of EUR 100 million were issued. After the end of the reporting year, in February 2023, another tranche in the amount of EUR 50 million was released, thus concluding a green bond programme in the amount of EUR 200 million.

Green bonds issued by Latvenergo AS are listed on the Nasdaq Riga AS Baltic Bond List. At the end of the reporting year, the amount of outstanding bonds was EUR 150 million, constituting 20% 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, which was updated in 2020, 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.

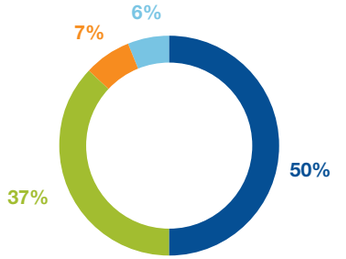
The funds raised within the green bond programme were allocated to generation and distribution projects. The largest eligible projects are the Daugava HPP hydropower unit reconstruction programme and the building and reconstruction of distribution power lines and transformer points.

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

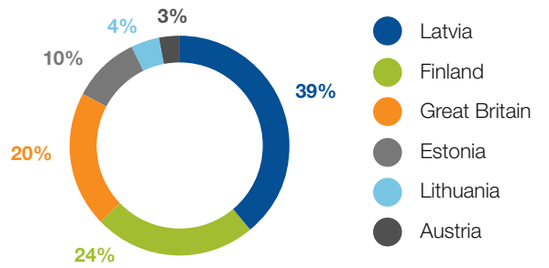
- renewable energy and related infrastructure – reconstruction of existing hydropower units, as well as construction of new bioenergy and wind energy capacities and reconstruction of existing capacities
- energy efficiency – building and reconstruction of distribution networks, including smart grid projects, 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

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

Investors by region

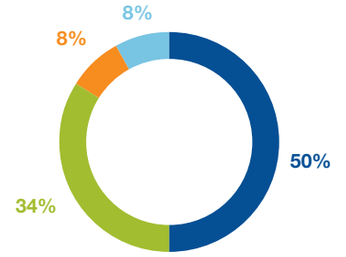


according to the coupon payment of May 2022

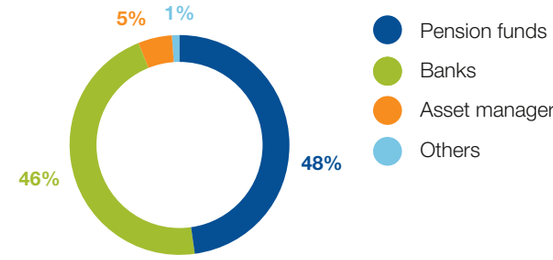


according to the bond issuance of May 2022

Investors by type

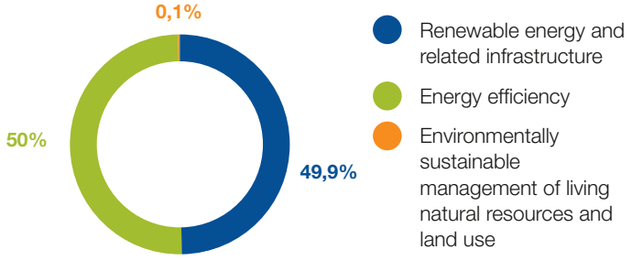


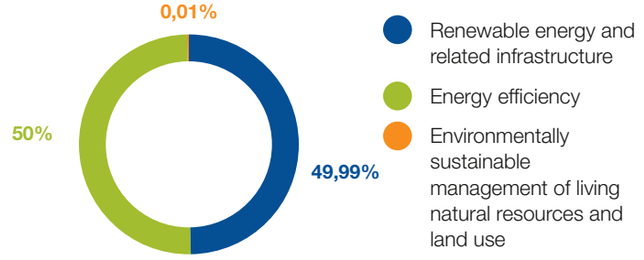
according to the coupon payment of May 2022



* according to the bond issuance of May 2022

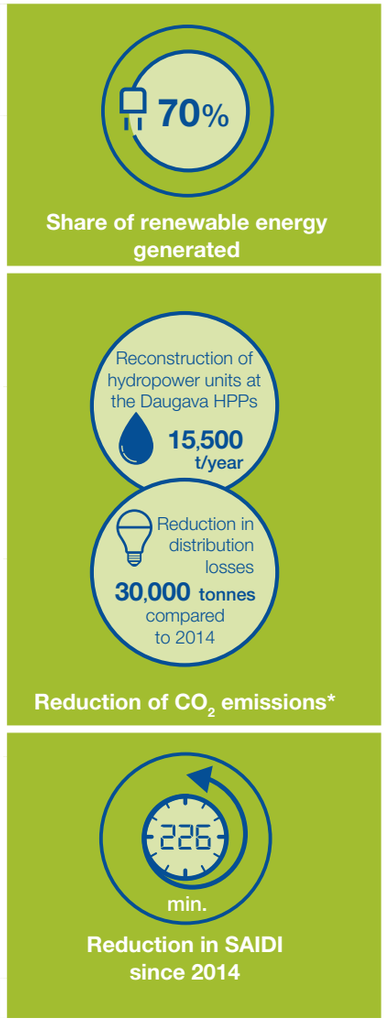
Investment by project group





Use of proceeds and benefits from the project implementation

Group operating segment (share of total allocated proceeds)	Project category	Eligible projects	Allocated proceeds, MEUR	Allocated proceeds, 2021 issue	Allocated proceeds, 2022 issue	Project objectives and benefits
GENERATION 50%		Reconstruction of hydropower units and technological equipment at the Daugava and Aiviekste HPPs	**74.94**	24.95	49.99	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 15,500 tonnes per year. Latvenergo Group is the largest green energy producer in the Baltics, and, in 2022, the share of electricity generated from renewable energy sources by the Group was 70%. In 2021, full reconstruction of the Aiviekste HPP was completed.
		Protection of biodiversity	**0.06**	0.05	0.01	Reducing the impact of the Daugava HPPs on fish stocks and biodiversity in the Daugava River basin. Every year, around 400 fish spawning nests are placed in the Daugava River. A 40 km long stretch of the Perse River has been cleaned from obstructions and the impact of the cleaning of the Perse and Vedze Rivers on biodiversity has been assessed.
DISTRIBUTION 50%		Building and reconstruction of electricity lines and transformer points	**69.32**	22.3	47.02	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 35% and SAIDI by 48%). The reduction of CO_2 emissions resulting from the decrease in distribution losses is around 30,000 tonnes.
		Smart meters	**5.68**	2.7	2.98	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 million smart meters have been installed; these account for around 98% of the total fleet of electricity meters and measure 98% of the total amount of electricity consumed by customers.
		TOTAL	**150.00****	**50.00****	**100.00****	



* The potential reduction in CO_2 emissions resulting from the reconstruction of the Daugava HPP hydropower units is up to 15,539 tonnes per year (at specific CHPP-2 emissions in the condensation mode of 0.366 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 29,785 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 2022

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)	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		**1,097.7**	**59.6**																
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		
Electricity generation from wind power	4.3.	0.1	0.0	100							Y	Y	Y	N/A	Y	Y	0.0		
Electricity generation from hydropower	4.5.	409.0	22.2	100							Y	Y	N/A	N/A	Y	Y	22.2		
Transmission and distribution of electricity	4.9.	300.6	16.3	100							Y	N/A	Y	Y	Y	Y	16.3	E	
Storage of thermal energy	4.11.		0.0	100							Y	Y	Y	N/A	Y	Y	0.0	E	
District heating/cooling distribution	4.15.	3.4	0.2	100							Y	Y	N/A	Y	Y	Y	0.2		
Cogeneration of heat/cool and power from bioenergy	4.20.	6.6	0.4	100							Y	Y	N/A	Y	Y	Y	0.4		
Production of heat/cool from bioenergy	4.24.	6.4	0.3	100							Y	Y	N/A	Y	Y	Y	0.3		
Infrastructure enabling low-carbon road transport and public transport	6.15.	0.2	0.0	100							Y	Y	Y	Y	Y	Y	0.0	E	
Turnover of taxonomy-aligned activities (A.1)		**726.4**	**39.4**														**39.4**		
A.2. Taxonomy-eligible-but-not-aligned activities																			
Electricity generation from fossil gaseous fuels	4.29.	87.1	4.7																
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	4.30.	232.9	12.6																
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	4.31.	51.4	2.8																
Turnover of taxonomy-eligible-but-not-aligned activities (A.2)		**371.4**	**20.2**																
TOTAL (A.1 + A.2)		**1,097.7**	**59.6**																
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES		**744.1**	**40.4**																
Taxonomy-non-eligible activities		**744.1**	**40.4**																
TOTAL (A+B)		**1,841.8**	**100.0**																

Proportion of OPEX from products or services associated with Taxonomy-aligned economic activities in 2022

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)	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		**113.0**	**55.1**																
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		
Electricity generation from wind power	4.3.	0.0	0.0	100							Y	Y	Y	N/A	Y	Y	0.0		
Electricity generation from hydropower	4.5.	13.9	6.8	100							Y	Y	N/A	N/A	Y	Y	6.8		
Transmission and distribution of electricity	4.9.	80.2	39.2	100							Y	N/A	Y	Y	Y	Y	39.2	E	
Storage of thermal energy	4.11.	0.0	0.0	100							Y	Y	Y	N/A	Y	Y	0.0	E	
District heating/cooling distribution	4.15.	0.7	0.3	100							Y	Y	N/A	Y	Y	Y	0.3		
Cogeneration of heat/cool and power from bioenergy	4.20.	0.5	0.3	100							Y	Y	N/A	Y	Y	Y	0.3		
Production of heat/cool from bioenergy	4.24.	0.6	0.3	100							Y	Y	N/A	Y	Y	Y	0.3		
Infrastructure enabling low-carbon road transport and public transport	6.15.	0.3	0.2	100							Y	Y	Y	Y	Y	Y	0.2	E	
Turnover of taxonomy-aligned activities (A.1)		**96.3**	**47.0**														**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.	16.7	8.1																
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	4.31.																		
Turnover of taxonomy-eligible-but-not-aligned activities (A.2)		**16.7**	**8.1**																
TOTAL (A.1 + A.2)		**113.0**	**55.1**																
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES		**91.9**	**44.9**																
Taxonomy-non-eligible activities		**91.9**	**44.9**																
TOTAL (A+B)		**204.9**	**100.0**																

Proportion of CAPEX from products or services associated with Taxonomy-aligned economic activities in 2022

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)	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		**107.3**	**88.2**																
A.1. Taxonomy-aligned activities																			
Electricity generation using solar photovoltaic technology	4.1.	6.2	5.1	100							Y	N/A	Y	N/A	Y	Y	5.1		
Electricity generation from wind power	4.3.	0.4	0.3	100							Y	Y	Y	N/A	Y	Y	0.3		
Electricity generation from hydropower	4.5.	12.0	9.8	100							Y	Y	N/A	N/A	Y	Y	9.8		
Transmission and distribution of electricity	4.9.	84.6	69.6	100							Y	N/A	Y	Y	Y	Y	69.6	E	
Storage of thermal energy	4.11.	0.0	0.0	100							Y	Y	Y	N/A	Y	Y	0.0	E	
District heating/cooling distribution	4.15.	0.5	0.4	100							Y	Y	N/A	Y	Y	Y	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		
Production of heat/cool from bioenergy	4.24.	1.0	0.9	100							Y	Y	N/A	Y	Y	Y	0.9		
Infrastructure enabling low-carbon road transport and public transport	6.15.	0.8	0.7	100							Y	Y	Y	Y	Y	Y	0.7	E	
Turnover of taxonomy-aligned activities (A.1)		**105.6**	**86.8**														**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.	1.7	1.4																
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	4.31.																		
Turnover of taxonomy-eligible-but-not-aligned activities (A.2)		**1.7**	**1.4**																
TOTAL (A.1 + A.2)		**107.3**	**88.2**																
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES		**14.4**	**11.8**																
Taxonomy-non-eligible activities		**14.4**	**11.8**																
TOTAL (A+B)		**121.7**	**100.0**																

GRI Index

Latvenergo Group has reported in accordance with the GRI Standards for the period from 1 January 2022 until 31 December 2022. GRI Sector Standard for energy/electric utilities is not yet developed. Sector-specific information is disclosed using GRI G4 Electric Utilities Sector Disclosures.

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; 25–31	✓
	2. Activities and workers		
2-6	Activities, value chain and other business relationships	37–38, 44	✓
2-7	Employees	84	✓
2-8	Workers who are not employees	86	✓
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	46–51	✓
EU2	Net energy output broken down by primary energy source and by regulatory regime	46–51	✓
EU3	Number of residential, industrial, institutional and commercial customer accounts	52, 57	✓
EU4	Length of above and underground transmission and distribution lines by regulatory regime	57–59	✓
EU5	Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework	98	✓
	3. Governance		
2-9	Governance structure and composition	23–32	✓
2-10	Nomination and selection of the highest governance body	25–31	✓
2-11	Chair of the highest governance body	25–31	✓
2-12	Role of the highest governance body in overseeing the management of impacts	25–31	✓
2-13	Delegation of responsibility for managing impacts	25–31	✓
2-14	Role of the highest governance body in sustainability reporting	25–31	✓
2-15	Conflicts of interest	72	✓
2-16	Communication of critical concerns	72	✓
2-17	Collective knowledge of the highest governance body	25–31	✓
2-18	Evaluation of the performance of the highest governance body	25–31	✓
2-19	Remuneration policies	25–31	✓
2-20	Process to determine remuneration	25–31	✓
2-21	Annual total compensation ratio	25–31	✓
	4. Strategy, policies and practices		
2-22	Statement on sustainable development strategy	5–6, 11–16	✓
2-23	Policy commitments	11–16	✓
2-24	Embedding policy commitments	11–16	✓
2-25	Processes to remediate negative impacts	72	✓
2-26	Mechanisms for seeking advice and raising concerns	72	✓
2-27	Compliance with laws and regulations	72	✓
2-28	Membership associations	42	✓
	5. Stakeholder engagement		
2-29	Approach to stakeholder engagement	39–41, 64–65	✓
2-30	Collective bargaining agreements	84	✓
3-1	Process to determine material topics	64–65	✓
3-2	List of material topics	64–65	✓

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			67, 39–41	✓
	✓		Electric Utilities Sector Disclosures (G4)	EU11	Average generation efficiency of plants	67	✓
	✓			EU30	Average plant availability factor	67	✓
Contribution to the economy	✓	✓	3-3 Management of material topics 2021			68, 39–41	✓
	✓	✓	201 Economic Performance 2016	201-1	Direct economic value generated and distributed	69	✓
	✓	✓		201-3	Defined benefit plan obligations and other retirement plans	68	✓
	✓	✓		201-4	Financial assistance received from government	69	✓
Efficiency and availability of distribution system		✓	3-3 Management of material topics 2021			70, 39–41	✓
		✓	Electric Utilities Sector Disclosures (G4)	EU12	Distribution losses as a percentage of total energy	70	✓
		✓		EU26	Percentage of population unserved in licensed distribution or service areas	70	✓
		✓		EU27	Number of residential disconnections for non-payment	70	✓
		✓		EU28	Power outage frequency (SAIFI)	71	✓
		✓		EU29	Average power outage duration (SAIDI)	71	✓
Compliance and fair business	✓	✓	3-3 Management of material topics 2021			72, 39–41	✓
	✓	✓	205 Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	73	✓
	✓	✓		205-3	Confirmed incidents of corruption and actions taken	73	✓
	✓	✓	206 Anti-competitive Behavior 2016	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	73	✓

SOCIAL TOPICS							
Customer satisfaction	✓	✓	3-3 Management of material topics 2021			75–77, 39–41	✓
Emergency planning	✓	✓	3-3 Management of material topics 2021			81, 39–41	✓
Occupational health and safety	✓	✓	3-3 Management of material topics 2021			85–86, 39–41	✓
	✓	✓	403 Occupational Health and Safety 2018	403-1	OHS management system	85–86	✓
	✓	✓		403-2	Hazard identification, risk assessment, and incident investigation	85–86	✓
	✓	✓		403-3	Occupational health services	85–86	✓
	✓	✓		403-4	Worker participation, consultation, and communication on OHS	85–86	✓
	✓	✓		403-5	Worker training on OHS	85–86	✓
	✓	✓		403-6	Promotion of worker health	85–86	✓
	✓	✓		403-7	Prevention and mitigation of OHS impacts directly linked by business relationships	85–86	✓
	✓	✓		403-8	Workers covered by an OHS management system	87	✓
	✓	✓		403-9	Work-related injuries	87	✓
	✓	✓	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			78, 39–41	✓
		✓	Electric Utilities Sector Disclosures (G4)	EU25	Number of injuries and fatalities to the public involving company assets	78	✓
Public policy engagement	✓	✓	3-3 Management of material topics 2021			82, 39–41	✓
	✓	✓	415 Public Policy 2016	415-1	Political contributions	82	✓
Employee involvement and development	✓	✓	3-3 Management of material topics 2021			88–89, 39–41	✓
	✓	✓	402 Labor-Management Relations 2016	402-1	Minimum notice periods regarding operational changes	90	✓
	✓	✓	404 Training and Education 2016	404-1	Average hours of training per year	90	✓
	✓	✓	Electric Utilities Sector Disclosures (G4)	EU15	Percentage of employees eligible to retire in the next 5 and 10 years	90	✓
Personal data security	✓	✓	3-3 Management of material topics 2021			78, 39–41	✓
	✓	✓	418 Customer Privacy 2016	418-1	Complaints concerning breaches of customer privacy and losses of customer data	78	✓
Information availability	✓	✓	3-3 Management of material topics 2021			79, 39–41	✓
	✓	✓	417 Marketing and Labeling	417-3	Incidents of non-compliance concerning marketing communications	79	✓

ENVIRONMENTAL TOPICS							
Environmental compliance	✓	✓	3-3 Management of material topics 2021			93, 39–41	✓
Air pollution and climate change	✓	✓	3-3 Management of material topics 2021			94, 39–41	✓
	✓	✓	305 Emissions 2016	305-1	Direct (Scope 1) GHG emissions	95–97	✓
	✓	✓		305-2	Indirect (Scope 2) GHG emissions	95–97	✓
	✓	✓		305-3	Indirect (Scope 3) GHG emissions	95–97	✓
	✓	✓		305-4	GHG emissions intensity	95–97	✓
	✓	✓		305-7	NO_x, SO_x, and other significant air emissions	98	✓
Resource and energy consumption	✓		3-3 Management of material topics 2021			98, 39–41	✓
	✓		301 Materials 2016	301-1	Materials used by weight or volume	99	✓
	✓		302 Energy 2016	302-1	Energy consumption within the organization	99	✓
	✓		303 Water 2018	303-3	Water withdrawal	99	✓
Renewable energy and strengthening of energy independence	✓		3-3 Management of material topics 2021			100, 39–41	✓

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
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
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 114 (the ‚Subject Matter') as of 31 December 2022.

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'). Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented 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 Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and 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 with the Group's Consolidated Annual Report for the financial year 2022;
- 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;
- a reconciliation of the reviewed information with the sustainability information in the Group's Consolidated Annual Report for the financial year 2022.

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 2022 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 2023 (unaudited) – 31.05.2023

For the 6 months of 2023 (unaudited) – 31.08.2023

For the 9 months of 2023 (unaudited) – 30.11.2023

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		2022	2021	2020	2019	2018
Total electricity supply, incl.:	GWh	7,346	9,260	8,854	9,259	9,984
- Retail*	GWh	5,452	6,706	6,394	6,505	6,954
- Wholesale**	GWh	1,894	2,554	2,460	2,754	3,030
Total natural gas supply, incl.:	GWh	1,040	1,026	516	303	147
- Retail	GWh	930	1,026	516	303	147
- Wholesale	GWh	110	–	–	–	–
Electricity generated	GWh	3,822	4,517	4,249	4,880	5,076
Thermal energy generated	GWh	1,777	2,072	1,702	1,842	2,274
Number of employees		3,316	3,153	3,295	3,423	3,508
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

EUR'000

Financial figures	2022	2021	2020	2019	2018
Revenue***	1,841,801	1,065,219	773,391	841,636	838,805
EBITDA***	360,209	198,813	277,894	243,526	281,947
Operating profit	193,961	81,890	121,350	100,365	81,983
Profit before tax	184,545	74,930	112,699	92,072	74,734
Profit for the year	183,874	71,623	116,309	94,359	75,955
Dividends paid to equity holder of the Parent Company	70,160	98,246	127,071	132,936	156,418
Assets	3,855,330	3,475,890	3,358,835	3,864,941	3,798,819
Non–current assets	3,078,635	2,894,502	2,976,192	2,798,712	3,364,534
Equity	2,356,419	2,123,448	2,118,242	2,265,487	2,320,065
Borrowings	875,918	795,029	743,199	882,671	814,343
Net debt[1] ***	763,161	697,950	555,876	563,959	505,419
Net cash flows generated from operating activities	173,143	131,749	291,194	315,433	302,869
Adjusted funds from operations (FFO) [2]	378,222	219,534	269,479	271,593	209,732
Capital expenditure	121,666	126,728	168,855	229,427	220,607

Financial ratios	2022	2021	2020	2019	2018	Formulas
EBITDA margin	20%	19%	36%	29%	34%	EBITDA / revenue
Operating profit margin	10.5%	7.7%	15.7%	11.9%	9.8%	Operating profit / revenue
Profit before tax margin	10.0%	7.0%	14.6%	10.9%	8.9%	Profit before tax / revenue
Profit margin	10.0%	6.7%	15.0%	11.2%	9.1%	Profit for the year / revenue
Adjusted FFO / net debt	52%	35%	48%	51%	42%	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	61%	61%	63%	59%	61%	Equity at the end of the reporting year / assets at the end of the reporting year
Net debt / EBITDA	2.0	3.2	2.0	2.2	1.8	(Net debt at the beginning of the reporting year + net debt at the end of the reporting year) / 2 / EBITDA
Net debt / equity	0.32	0.33	0.26	0.25	0.22	Net debt at the end of the reporting year / equity at the end of the reporting year
Current ratio	1.2	1.4	1.5	1.2	1.5	Current assets at the end of the reporting year / current liabilities at the end of the reporting year
Return on assets (ROA)	5.0%	2.1%	3.2%	2.5%	1.8%	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)	8.2%	3.4%	5.3%	4.1%	2.9%	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	16.3%	5.5%	7.7%	4.8%	2.6%	(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)***	6.3%	2.9%	4.2%	3.4%	2.5%	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	88%	63%	126%	62%	104%	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 until 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership)

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 + changes in receivables from contracts with customers and other receivables) – changes in trade and other liabilities –compensation from the state-on-state support for the installed capacity of CHPPs

Latvenergo AS

Operational figures		2022	2021	2020	2019	2018
Total electricity supply, incl.:	GWh	4,700	5,304	5,318	5,502	5,826
- Retail*	GWh	3,540	3,999	4,235	4,211	4,406
- Wholesale**	GWh	1,161	1,305	1,083	1,290	1,419
Total natural gas supply, incl.:	GWh	905	804	453	294	145
- Retail	GWh	795	804	453	294	145
- Wholesale	GWh	110	–	–	–	–
Electricity generated	GWh	2,678	4,495	4,215	4,832	5,028
Thermal energy generated	GWh	1,531	1,800	1,475	1,603	2,007
Number of employees		1,329	1,269	1,267	1,328	1,355
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

EUR'000

Financial figures	2022	2021	2020	2019	2018
Revenue	1,231,015	592,785	385,612	437,529	435,199
EBITDA	280,325	85,275	197,889	112,651	160,927
Operating profit	198,812	52,367	111,630	45,108	33,803
Profit before tax	209,362	79,520	154,848	101,227	212,760
Profit for the year	209,362	79,520	154,848	101,227	212,733
Dividends paid to equity holder of the Parent Company	70,160	98,246	127,071	132,936	156,418
Assets	3,305,536	2,915,587	2,760,155	3,136,958	3,141,109
Non–current assets	2,434,746	2,215,793	2,307,985	2,615,113	2,661,307
Equity	2,018,694	1,761,070	1,746,436	1,949,287	1,993,823
Borrowings	863,938	782,322	733,392	872,899	802,268
Net debt[1] ***	763,670	689,904	548,511	555,348	494,944
Net cash flows generated from operating activities	305,063	355,549	446,162	378,142	394,395
Capital expenditure	30,040	29,545	50,999	48,269	41,350

*Including operating consumption

** Including sale of energy purchased within the mandatory procurement on the Nord Pool

*** Figures and ratios until 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership)

1) Net debt = borrowings at the end of the reporting year – cash and cash equivalents at the end of the reporting year

Financial ratios	2022	2021	2020	2019	2018	Formulas
EBITDA margin	22.8%	14.4%	51.3%	25.7%	37.0%	EBITDA / revenue
Operating profit margin	16.2%	8.8%	28.9%	10.3%	7.8%	Operating profit / revenue
Profit before tax margin	17.0%	13.4%	40.2%	23.1%	48.9%	Profit before tax / revenue
Profit margin	17.0%	13.4%	40.2%	23.1%	48.9%	Profit for the year / revenue
Equity–to–asset ratio	61%	60%	63%	62%	63%	Equity at the end of the reporting year / assets at the end of the reporting year
Net debt / equity	0.38	0.39	0.31	0.29	0.25	Net debt at the end of the reporting year / equity at the end of the reporting year
Current ratio	1.5	1.8	2.3	1.8	2.0	Current assets at the end of the reporting year / current liabilities at the end of the reporting year
Return on assets (ROA)	6.7%	2.8%	5.3%	3.2%	6.3%	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)	11.1%	4.5%	8.4%	5.1%	9.7%	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)***	7.3%	2.1%	4.4%	1.7%	1.2%	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	88%	63%	126%	62%	104%	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 a leader in green energy generation 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

With Russia's invasion of Ukraine in 2022, Europe experienced a process of reorganization and adaptation of the natural gas market, gradually abandoning Russian gas and replacing it with supplies of liquefied natural gas. This process affected the supply of not only natural gas, but also other energy resources, which contributed to a significant increase in their prices. In 2022, the Nord Pool system price was 2.2 times higher than in 2021 (+118%), reaching 136 EUR/MWh. The rapid rise in electricity prices in the Nord Pool region continued to be affected by record-high energy resource prices and lower generation of hydropower plants in the Nordics. The electricity price in the Baltics is affected by gas-fired power plants. Given that the price of natural gas in 2022 was about 2.8 times higher, exceeding 132 EUR/MWh (in 2021, it was 47 EUR/MWh), the price of electricity also increased significantly. The electricity price in Latvia increased 2.5 times. In August, a historical average monthly price record was reached, exceeding 467 EUR/MWh.

In 2022, Europe gained a new energy balance with liquefied natural gas (LNG) supplies, gradually abandoning Russian gas, while also reducing gas consumption. The high import of LNG during the reporting year with lower consumption of natural gas due to warmer weather contributed to the increase in the natural gas reserve fill rate in Europe's gas storage facilities to 83% at the end of December (a year ago – 54%).

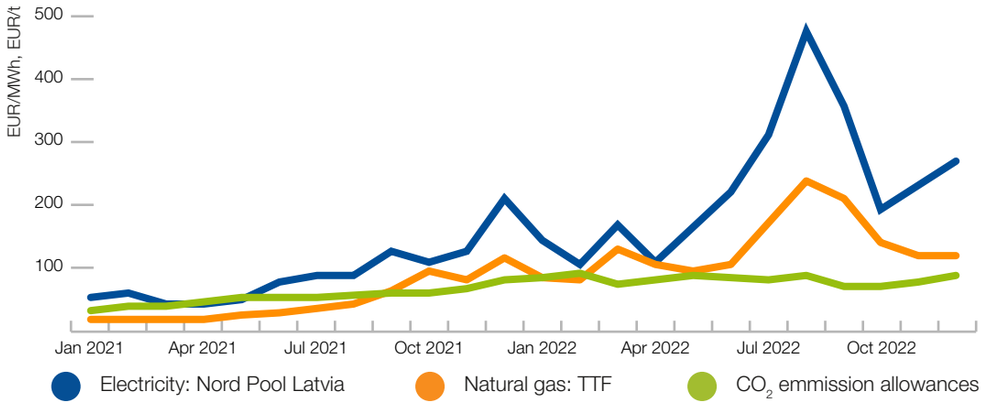
Record-high electricity and energy resource prices

Average electricity price in Nord Pool regions, EUR/MWh (monthly)

Region	2022	2021	Δ, %
Latvia	225.9	88.6	155%
Lithuania	229.2	90.2	154%
Estonia	192.0	86.5	122%
France	275.9	108.8	154%
Great Britain	239.4	137.1	75%
Germany	235.5	96.6	144%
Denmark	213.7	87.8	143%
Poland	166.7	86.7	92%
Finland	153.5	72.2	113%
Norway	117.0	56.8	106%
Sweden	100.3	57.8	74%

The average price of CO_2 emission allowances (EUA DEC.22) was 1.5 times higher than a year ago, reaching 81.0 EUR / t. The rise in allowance prices was impacted by rising raw material prices, a lower amount of emission allowances allocated to the market, and the decision of the European Parliament on the sale of quotas for the partial financing of REPowerEU in the amount of EUR 20 billion to reduce Europe's dependence on Russian energy resources. At the end of the reporting year, the EU approved a 62% reduction in emissions by 2030.

Energy resource prices



Significant Events

State aid for the reduction of energy prices

Taking into account the extraordinary increase in energy prices, in January 2022, the Saeima of the Republic of Latvia adopted a law on measures to reduce it. The aim of this law is to mitigate the negative socioeconomic impact on the well-being of the population and economic growth which is associated with this unprecedented sharp rise in energy prices. The original law provided for various types of support measures to legal and natural persons to partially compensate the rising costs of energy resources for four months (from 1 January to 30 April 2022). Meanwhile, the amendments made to the Law in August and September stipulate that support measures will also be realised from 1 September 2022 to 31 May 2023. The implementation of the support measures specified by law is ensured through the state budget programme "Contingency Funds". Various state support mechanisms for reducing energy prices have been established in Estonia and Lithuania.

Latvenergo is purposefully moving towards developing wind energy in Latvia

On 22 July, 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. The objective of the joint venture is to build wind farms in Latvia with a total capacity of at least 800 MW by 2030, which will ensure a significant increase in renewable electricity generation capacity and contribute to Latvia's progress towards energy independence, security and climate neutrality, while reducing GHG emissions, preserving natural diversity and developing a circular economy.

Meanwhile, on 16 September, Latvenergo and RWE – the global leader in renewable energy – signed a memorandum of cooperation to develop, build and manage offshore wind projects off the coast of Latvia. The new partnership is focused on participating in the upcoming auctions for the rights to develop the Latvian-Estonian joint project ELWIND for the delivery of 1 gigawatt (GW) of offshore wind energy, as well as development of offshore wind farms in other Latvian offshore areas.

Russia's invasion of Ukraine

On 24 February 2022, the Russian Federation launched an invasion of the Republic of Ukraine. Shortly after the invasion, the EU and the rest of the world, including global bodies, imposed a wide-ranging set of restrictive measures against Russia which is updated and expanded on a regular basis.

The restrictive measures imposed had no significant impact on the Group's performance; no significant direct losses related to the restrictive measures have been incurred. Latvenergo Group has evaluated its contracts, and as a result several of them were terminated. Latvenergo Group has not entered into any significant direct agreements with companies in Russia, Belarus, or Ukraine which could have a significant negative impact on the Group's operations in the current situation. The general economic downturn could have an additional impact on Latvenergo Group's financial results.

Assessing the possible risks related to Russia's invasion of Ukraine, on 21 April 2022, amendments to the Energy Law of the Republic of Latvia were accepted which stipulate that the purchase and storage of natural gas to ensure energy supply reserves on behalf of the state shall be organised by Latvenergo AS. Thanks to timely deliveries of gas reserves from Norway, the USA, and Qatar, the generation of electricity and thermal energy in Latvenergo AS thermal power plants was successfully ensured in accordance with the planned production regime for the reporting year, ensuring the necessary amount of natural gas for state reserves as well. On 31 December 2022, the natural gas reserves recognized in the Group's balance sheet comprised EUR 241.6 million (31/12/2021: – EUR 115.5 million); this has increased the current assets and net borrowings of the Group accordingly.

As of 1 January 2023, natural gas from Russia is prohibited by law in Latvia. Latvenergo AS has not imported natural gas from Russia since 24 February 2022, switching to supplies of liquefied natural gas from other countries. Therefore, this ban will not affect the natural gas supply of Latvenergo AS. In September 2022, Latvenergo AS participated in the long-term liquid natural gas (LNG) terminal capacity allocation procedure organised by Klaipėdos nafta AB and obtained the rights to use the Klaipėdos nafta terminal's annual capacity of 6 TWh for the next 10 years for regular supplies of natural gas. In 2022, Latvenergo AS concluded contracts for the supply of 3 TWh of LNG from the USA and Norway for the first half of 2023.

Operating Results

Generation

Latvenergo Group is the largest green electricity producer in the Baltics. In 2022, Latvenergo Group produced 24% of the total electricity generated in the Baltics. The total amount generated by Latvenergo Group's power plants comprised 3,822 GWh of electricity and 1,777 GWh of thermal energy.

Latvenergo Group is a leader in green energy generation in the Baltics

In 2022, the amount of power generated at the Daugava HPPs was at about the same level as in 2021, reaching 2,670 GWh. The amount of power generated at the Daugava HPPs was impacted by slightly higher water inflow in the river Daugava. According to data from the Latvian Environment, Geology and Meteorology Centre, the average water inflow in the Daugava River in the reporting year was 506 m^3/s, while in the year 2021 it was 497 m^3/s.

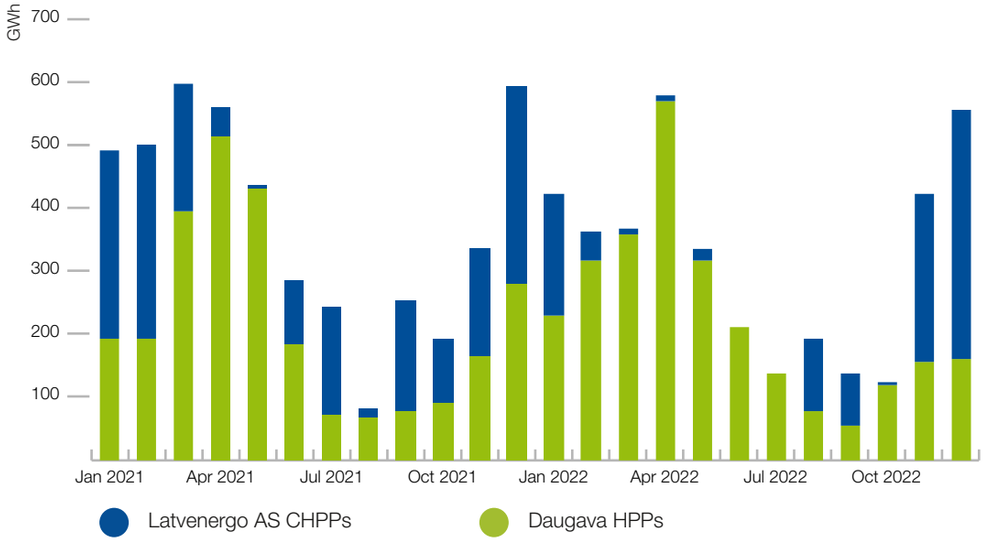
The amount generated at the Latvenergo AS CHPPs comprised 1,123 GWh, which is 39% lower than a year ago. The decrease in the amount of power generated at the CHPPs was impacted by the price of natural gas, the main fuel resource in the Latvenergo AS CHPPs' operation, which was almost three

times higher. Also, the price of CO_2 emission allowances was 53% higher. The operation of the CHPPs is adjusted to the conditions of the electricity market and heat demand.

With the decrease in the electricity output at the Latvenergo AS CHPPs, the share of electricity generated from renewable energy sources at Latvenergo Group reached 70%, which is one of the highest levels historically (in 2021: 59%).

The total amount of thermal energy generated by Latvenergo Group decreased by 14% due to warmer weather conditions in the heating season. Data from the Central Statistical Bureau show that the average air temperature in Riga in the reporting year was +3.0 C°, whereas in the respective period a year ago it was +1.8 C°.

Electricity generation at Daugava HPPs and Latvenergo AS CHPPs



Trade

Latvenergo Group is one of the largest energy traders in the Baltics, offering its customers electricity and natural gas, as well as a wide range of related products and services, under the Elektrum brand.

The number of electricity customers increased by 8%

In 2022, total electricity consumption in the Baltics was on average 5% lower compared to 2021, reaching 27.7 TWh. The decrease was affected by warmer weather conditions at the beginning of the year and higher prices of electricity throughout 2022.

In the reporting year, there was an 8% increase in the number of electricity customers, which comprised more than 818 thousand, including more than 175 thousand foreign customers. The electricity customer portfolio shows a positive increase in both the business and household customer segments, mainly due to the increase in the number of customers within households in Lithuania.

In 2022, the Group supplied 5,452 GWh of electricity to its customers in the Baltics, which is 19% less than a year ago. The decrease was mainly impacted by the adjustment of electricity sales strategy for large business customers.

The overall amount of retail electricity trade outside Latvia accounted for about 35%. The electricity trade volume in Latvia was 3,540 GWh, while in Lithuania it was 1,174 GWh and in Estonia it was 738 GWh.

Meanwhile, the number of natural gas customers increased by 15%, comprising more than 21 thousand at the end of December. Given the increase in natural gas prices on the market, demand in Latvia decreased by almost 30% compared to the year 2021. Despite this, natural gas sales in the Baltics increased by 1.3%, reaching 1,040 GWh.

With the introduction of state support programmes for the use of renewable energy, the demand for solar panels increased significantly. The number of contracts for the installation of solar panels and trade of solar park components in the Baltics increased almost 5 times compared to the year 2021, exceeding 6,200. The total installed solar panel capacity (including remote solar parks) provided to Latvenergo Group's retail customers in the Baltics reached 38 MW; thus, Latvenergo is one of the leading providers of this service in the Baltics. 2/3 of panels are installed for customers outside Latvia.

Moving towards the goal set in the strategy – to expand and diversify the generation portfolio with green technologies – we continue to develop solar park projects. Currently, we have four Elektrum solar parks in operation with a total capacity of 11 MW. Meanwhile, there are 12 solar park projects in the project or construction stage with a total capacity exceeding 190 MW; their gradual commissioning is expected from 2023-2025.

During the reporting year, the interest of customers in individual energy technology solutions grew significantly. Elektrum offers its customers in the Baltics the most efficient heat pump technologies, natural gas heating boilers, e-charging equipment, and other solutions.

In 2022, the Elektrum Drive electric car charging network grew, reaching 195 charging ports. In 2022, more than 24,000 electric vehicle charges were made, comprising 480 MWh. In July, the most powerful electric car charging station in the Baltics was unveiled, comprising 11 public charging ports, four of which are ultra-fast ports with a charging capacity of up to 150 kilowatts (kW). In November, an agreement was signed with the e-mobi network, which enables Elektrum customers to charge electric cars at more than 300 ports in Latvia.

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).

The efficiency programme of Sadales tīkls AS was completed

At the end of the reporting year, the efficiency programme of Sadales tīkls AS started in 2017 was completed; it comprised process reviews, decreasing the number of employees and transportation units, and optimizing the number of technical and support real estate bases. Within the programme, the number of workplaces at Sadales tīkls AS has been reduced by about 900. The amount of smart electricity meters installed by the company exceeded 1,057 thousand, which is almost 98% of the total number of electricity meters of customers of Sadales tīkls AS.

Under the law on measures to reduce the extraordinary rise in energy prices, all end-users of electricity from 1 January to 30 April 2022 were granted state aid for the reduction of the electricity distribution system service fee of 100%, which was fully compensated from the state budget. Meanwhile, from 1 October 2022 to 30 April 2023, a reduction of the electricity distribution system service fee of 100% will be applied to legal entities, excepting state and local government institutions and including legal entities that use the system service tariff intended for households.

In 2022, the amount of electricity distributed was 6,241 GWh, which is 4% less than in 2021. It was affected by lower consumption due to the higher price of electricity and warmer winter.

In 2022, the intense period of storms and the delays in material deliveries due to Russia's invasion of Ukraine significantly impacted SAIDI and SAIFI indicators. However, excluding mass damage, the safety and quality of electricity supply is increasing every year – SAIDI decreased by 5 minutes and SAIFI by 0.3 times compared to 2021.

Considering the increase in costs due to the rapid increase in electricity prices caused by the energy crisis and general inflation, including the planned tariff increase of the transmission system operator Augstsprieguma tīkls AS, Sadales tīkls AS developed and submitted a new tariff project for PUC evaluation in November. Currently, work is being done on clarifying the tariff changes. The new distribution tariff could enter into force on 1 July 2023.

Financial Results

In 2022, Latvenergo Group's revenue reached EUR 1,841.8 million, which was EUR 776.6 million or 73% more than a year ago. This was mainly impacted by EUR 711.2 million higher energy sales revenues mainly due to higher electricity market prices.

Latvenergo Group's EBITDA increased by 81%

Latvenergo Group's EBITDA increased by EUR 161.4 million or 81% compared to the year 2021, reaching EUR 360.2 million. This was positively impacted mainly by the adjustment of electricity sales prices to the market situation and the successfully concluded derivative financial instruments, which partially limited the negative impact of the increase in costs due to the significant increase in the prices of energy resources in the market. The results were negatively affected by greater expenses of purchased natural gas and electricity. In 2022, the electricity spot price in Latvia was 2.5 times higher compared to the year 2021. Meanwhile, the price of natural gas was almost three times higher, and the average price of CO_2 emission allowances was 53% higher.

The Group's profit for the reporting year reached EUR 183.9 million, which was EUR 112.3 million more than in the previous year.

Investments

In 2022, the total amount of investment comprised EUR 121.7 million, which is 4% or EUR 5.1 million lower compared to the year 2021.

Investment in power distribution network assets – approximately 2/3 of the total

To ensure high-quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power distribution network. In the reporting year, the amount invested in power distribution network assets represented 70% of total investment.

We continued the hydropower unit reconstruction of the Daugava HPPs. By the end of the reporting year, work completed within the scope of the contract exceeded EUR 200 million. The hydropower unit reconstruction programme for the Daugava HPPs provides for the reconstruction of 11 hydropower units in order to ensure environmentally safe, sustainable and competitive operations and efficient water resource management. In 2022, one hydro unit of Riga HPP was put into operation; thus, a total of 8 of the 11 hydro units included in the programme have already been reconstructed as of 31 December 2022. The total reconstruction costs will exceed EUR 250 million. Reconstruction will ensure functionality of the hydropower units for more than 40 years.

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.

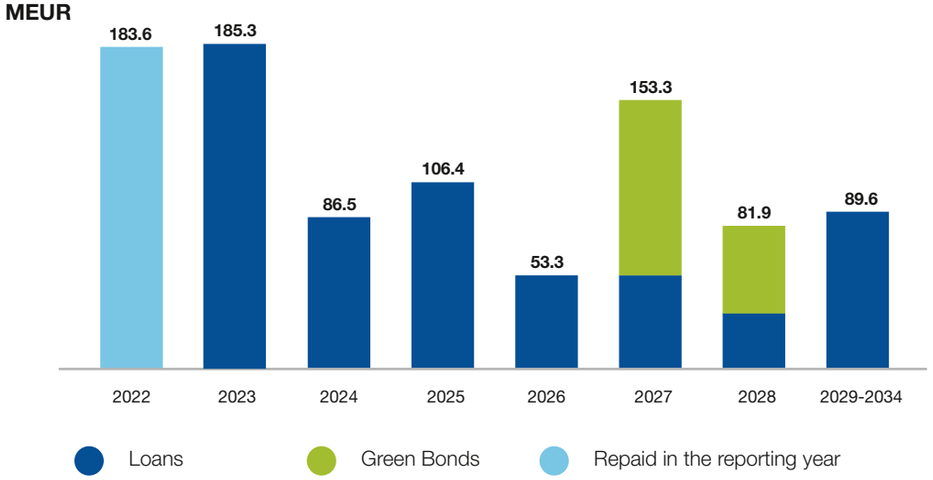
Continuing bond issuance within the framework of the third bond programme in the amount of EUR 200 million, on May 5, 2022, Latvenergo AS issued five-year green bonds with a total nominal value of EUR 100 million, a maturity date of 5 May 2027, a fixed annual interest rate (coupon) and a yield of 2.42%. Meanwhile, after the end of the reporting year, on February 22, 2023, Latvenergo AS concluded the programme 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.

Latvenergo once again receives the award for best investor relations

Also, in 2022, Latvenergo AS attracted new long-term loans from commercial banks in the amount of EUR 200 million for the financing and refinancing of green investments of Latvenergo Group.

As of 31 December 2022, the Group's borrowings amount to EUR 875.9 million (31 December 2021: EUR 795.0 million), including long-term loans in the amount of EUR 756.2 million (31 December 2021: EUR 795.0 million), which include long-term loans from commercial banks and international financial institutions, as well as green bonds in the amount of EUR 150 million.

Latvenergo Group's long-term debt repayment schedule



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.

After the reporting year, on 9 February 2023, Latvenergo AS for the third time won the award for the best investor relations among all bond issuers on the Nasdaq Baltic regulated markets in the Baltic countries. Since 2012, the bonds have been issued with consistently high investor valuations.

After the reporting year, on 9 March 2023, Moody's published an updated Credit Opinion of Latvenergo AS. The rating of Latvenergo AS remains unchanged: Baa2 with a stable outlook. The credit rating Baa2 for Latvenergo AS has been stable since 2015, confirming the consistency of operations and financial soundness of Latvenergo Group.

Corporate Governance

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2022 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 2022, 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 2022.

Non-financial Report

Latvenergo Group has prepared a non-financial report in accordance with the Law on the Financial Instruments Market.

Non-financial report is prepared in accordance with the *GRI Standards*

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 2022 which is available on the Latvenergo website. The report is prepared in accordance with the GRI Standards requirements.

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.

Latvenergo Group's medium-term strategy was approved in March 2022

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 pay–out 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 2022 targets and the new strategy can be found in the Sustainability Report 2022.

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.

In order to hedge the price risk, the Latvenergo Group and Latvenergo AS enter into long–term fixed price customer contracts for hedging electricity generation price risk, uses 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.

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, 36% of the Group's and 36% of the Parent Company's non–current borrowings had a fixed interest rate with an average duration of 1,8 years for the Group and 1,9 years for the parent Company as of 31 December 2022.

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.

As of 31 December 2022, 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.

To manage the foreign currency exchange risk, the Financial Risk Management Policy envisages use of foreign exchange forward contracts. In 2022, several EUR/USD forward foreign currencies exchange transactions have been concluded 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 2022, the Parent Company has outstanding five forward foreign currencies exchange contracts in the amount of USD 153,482 thousand with an execution date of 22 February and 26 April 2023.

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 2022, Latvenergo Group's liquid assets (cash and cash equivalents – short–term deposits up to 3 months) reached EUR 112.8 million (31 December 2021: EUR 97.1million), while the Latvenergo AS liquid assets reached EUR 100.3 million (31/12/2021: EUR 92.4 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 period

On 15 February 2023 Latvenergo AS implemented a placement of six-year green bonds in total nominal value of EUR 50 million with a fixed annual interest rate and a yield to maturity of 4.952%. The issuance of notes is being implemented under Latvenergo AS EUR 200 million third programme for the issuance of notes.

On 9 March 2023 the international credit rating agency Moody's Investors Service has updated Latvenergo AS credit analysis. The rating of Latvenergo AS remains unchanged Baa2 with a stable outlook.

On 24 March 2023 Sadales tīkls AS signed an agreement with the Ministry of Economics of Republic of Latvia on receiving funding from the European Union Recovery Fund in the amount of EUR 41.9 million.

On 11 April 2023, the Cabinet of Ministers of the Republic of Latvia supported amendments to the Electricity Market Law (hereinafter - the Law) prepared by the Ministry of Climate and Energy, in order to introduce the norms set by the European Union Council Regulation (EU) 2022/1854 of 6 October 2022, on emergency measures for tackling high energy prices. The amendments to the Law provide that from 1 December 2022 to 30 June 2023, electricity producers will be subject to a maximum revenue amount of 180 euros per megawatt hour for the electricity sold. The part of revenue that exceeds the maximum revenue amount (surplus revenue) must be invested by producers in their companies to promote investments in decarbonization technologies, renewable energy resources, and energy efficiency. The proposed amendments to the Law on the use of surplus revenue are in line with the Latvenergo Group's medium-term operational strategy for 2022-2026, which aims to promote the development of a portfolio of renewable energy generation. Therefore, the planned amendments to the Law will not have a negative impact on the financial indicators of the Latvenergo Group. The final decision on the amendments to the Law will be made by the Saeima of the Republic of Latvia

All other significant events that would materially affect the financial position 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 2022 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 2023 and budgetary framework for 2023, 2024 and 2025" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2023 (for the reporting year 2022) amounts to 64% or EUR 134.0 million and calculated corporate income tax EUR 26.7 million. The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

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The Management Board of Latvenergo AS:

Mārtiņš Čakste Chairman of the Management Board	**Dmitrijs Juskovecs** Member of the Management Board	**Guntars Baļčūns** Member of the Management Board	**Kaspars Cikmačs** Member of the Management Board	**Harijs Teteris** Member of the Management Board

18 April 2023

Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Revenue	6	1,841,801	1,065,219	1,231,015	592,785
Other income	7	31,174	29,428	28,690	27,746
Raw materials and consumables	8	(1,333,708)	(740,127)	(891,138)	(458,470)
Personnel expenses	9	(116,993)	(105,623)	(52,812)	(45,413)
Other operating expenses	10	(62,065)	(50,084)	(35,430)	(31,373)
EBITDA*		**360,209**	**198,813**	**280,325**	**85,275**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a,14 a, 15	(166,248)	(116,923)	(81,513)	(32,908)
Operating profit		**193,961**	**81,890**	**198,812**	**52,367**
Finance income	11	1,414	2,110	10,767	11,391
Finance costs	11	(10,830)	(9,070)	(10,802)	(9,216)
Dividends from subsidiaries	16	–	–	10,585	24,978
Profit before tax		**184,545**	**74,930**	**209,362**	**79,520**
Income tax	12	(671)	(3,307)	–	–
Profit for the year		**183,874**	**71,623**	**209,362**	**79,520**
Profit attributable to:					
- Equity holder of the Parent Company	21 c	183,443	70,675	209,362	79,520
- Non–controlling interests		431	948	–	–
Basic earnings per share (in euros)	21 c	0.232	0.089	0.265	0.101
Diluted earnings per share (in euros)	21 c	0.232	0.089	0.265	0.101

* 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)

The notes on pages 132 to 178 are an integral part of these Financial Statements

Statement of Comprehensive Income

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Profit for the year		**183,874**	**71,623**	**209,362**	**79,520**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods:					
- gains / (losses) from change in hedge reserve	21 a, 24	(109,483)	33,219	(109,483)	33,219
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		**(109,483)**	**33,219**	**(109,483)**	**33,219**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
- gains on revaluation of non–current assets	14 a, 21 a	227,695	–	227,695	–
- gains on remeasurement on defined benefit plan	21 a, 27	645	1,098	210	121
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**228,340**	**1,098**	**227,905**	**121**
Other comprehensive income for the year		**118,857**	**34,317**	**118,422**	**33,340**
TOTAL comprehensive income for the year		**302,731**	**105,940**	**327,784**	**112,860**
Attributable to:					
- Equity holder of the Parent Company		302,300	104,992	327,784	112,860
- Non–controlling interests		431	948	–	–

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The Management Board of Latvenergo AS:

Mārtiņš Čakste
Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

18 April 2023

Statement of Financial Position

EUR'000

	Notes	Group 31/12/2022	Group 31/12/2021	Parent Company 31/12/2022	Parent Company 31/12/2021
ASSETS					
Non-current assets					
Intangible assets	13 a	51,789	53,557	18,397	17,406
Property, plant, and equipment	14 a	3,005,370	2,826,654	1,242,660	1,066,973
Right–of–use assets	15	10,526	8,312	5,066	5,143
Investment property	14 b	2,297	3,316	2,222	3,602
Non-current financial investments	16	40	40	647,320	645,218
Non–current loans to related parties	29 e	–	–	510,468	477,010
Other non-current receivables	18 c	482	2,544	482	441
Deferred income tax assets		–	79	–	–
Derivative financial instruments	24	8,131	–	8,131	–
Total non-current assets		**3,078,635**	**2,894,502**	**2,434,746**	**2,215,793**
Current assets					
Inventories	17	295,638	192,132	261,586	171,287
Current intangible assets	13 b	31,664	24,266	31,664	24,266
Receivables from contracts with customers	18 a	314,109	181,136	233,192	110,638
Other current receivables	18 b, c	17,521	59,740	36,451	45,402
Deferred expenses		2,408	1,235	2,191	949
Current loans to related parties	29 e	–	–	202,840	229,368
Prepayment for income tax		–	65	–	–
Derivative financial instruments	24	2,598	25,735	2,598	25,466
Cash and cash equivalents	19	112,757	97,079	100,268	92,418
Total current assets		**776,695**	**581,388**	**870,790**	**699,794**
TOTAL ASSETS		**3,855,330**	**3,475,890**	**3,305,536**	**2,915,587**

EUR'000

	Notes	Group 31/12/2022	Group 31/12/2021	Parent Company 31/12/2022	Parent Company 31/12/2021
EQUITY AND LIABILITIES					
EQUITY					
Share capital	20	790,368	790,368	790,368	790,368
Reserves	21 a	1,282,683	1,175,355	910,683	795,731
Retained earnings		276,242	151,430	317,643	174,971
Equity attributable to equity holder of the Parent Company		**2,349,293**	**2,117,153**	**2,018,694**	**1,761,070**
Non-controlling interests		7,126	6,295	–	–
Total equity		**2,356,419**	**2,123,448**	**2,018,694**	**1,761,070**
LIABILITIES					
Non-current liabilities					
Borrowings	23	574,754	614,075	561,551	603,728
Lease liabilities	15	8,648	6,540	4,206	4,085
Deferred income tax liabilities		667	2,955	–	–
Provisions	27	15,566	15,421	7,552	7,407
Derivative financial instruments	24	–	2,332	–	2,332
Deferred income from contracts with customers	28 I) a	133,116	137,019	735	802
Other deferred income	28 I) b, c	121,180	146,115	115,798	139,958
Other non-current liabilities		265	–	–	–
Total non-current liabilities		**854,196**	**924,457**	**689,842**	**758,312**
Current liabilities					
Borrowings	23	301,164	180,954	302,387	178,594
Lease liabilities	15	2,027	1,888	960	1,141
Trade and other payables	26	165,274	189,018	133,768	176,061
Deferred income from contracts with customers	28 II) a	29,330	15,031	13,714	67
Other deferred income	28 II) b, c	24,901	24,906	24,152	24,154
Derivative financial instruments	24	122,019	16,188	122,019	16,188
Total current liabilities		**644,715**	**427,985**	**597,000**	**396,205**
Total liabilities		**1,498,911**	**1,352,442**	**1,286,842**	**1,154,517**
TOTAL EQUITY AND LIABILITIES		**3,855,330**	**3,475,890**	**3,305,536**	**2,915,587**

The notes on pages 132 to 178 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

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Chairman of the Management Board

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Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

18 April 2023

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 2020		**790,348**	**1,154,367**	**165,672**	**2,110,387**	**7,855**	**2,118,242**	**790,348**	**766,115**	**189,973**	**1,746,436**
Increase of share capital	20	20	–	–	**20**	–	**20**	20	–	–	**20**
Dividends for 2020	21 b	–	–	(98,246)	**(98,246)**	(2,508)	**(100,754)**	–	–	(98,246)	**(98,246)**
Disposal of non-current assets revaluation reserve	21 a	–	(13,329)	13,329	**–**	–	**–**	–	(3,724)	3,724	**–**
Total transactions with owners and other changes in equity		**20**	**(13,329)**	**(84,917)**	**(98,226)**	**(2,508)**	**(100,734)**	**20**	**(3,724)**	**(94,522)**	**(98,226)**
Profit for the year		–	–	70,675	**70,675**	948	**71,623**	–	–	79,520	**79,520**
Other comprehensive income for the year	21 a	–	34,317	–	**34,317**	–	**34,317**	–	33,340	–	**33,340**
Total comprehensive income for the year		**–**	**34,317**	**70,675**	**104,992**	**948**	**105,940**	**–**	**33,340**	**79,520**	**112,860**
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**

The notes on pages 132 to 178 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

Mārtiņš Čakste
Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

18 April 2023

Statement of Cash Flows

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Cash flows from operating activities					
Profit before tax		**184,545**	**74,930**	**209,362**	**79,520**
Adjustments:					
- Depreciation, amortisation and impairment of intangible assets, property, plant, and equipment (PPE) and right-of-use assets	13 a, 14 a, 15	166,248	116,923	81,513	32,908
- Loss from disposal of non-current assets		43,229	47,637	36,760	42,650
- Interest expense	11	10,493	8,877	10,508	9,033
- Interest income	11	(27)	(1,558)	(9,380)	(10,840)
- Fair value loss / (income) on derivative financial instruments	8	9,022	13,057	8,753	13,325
- Dividends from subsidiaries	16	–	–	(10,585)	(24,978)
- Decrease in provisions	27	480	(2,334)	222	(991)
- Unrealised loss / (gain) on currency translation differences	11	29	(30)	5	(31)
Cash flows from operations before changes in working capital		**414,019**	**257,502**	**327,158**	**140,596**
(Increase) / decrease in inventories		(103,526)	(123,375)	(90,318)	(120,807)
(Increase) / decrease in receivables from contracts with customers and other receivables		(89,847)	(50,545)	(95,101)	(20,030)
Increase / (decrease) in trade and other liabilities		(35,696)	62,145	(49,662)	86,289
Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net	29 e	–	–	221,894	276,415
Cash generated from operating activities		**184,950**	**145,727**	**313,971**	**362,463**
Interest paid		(9,098)	(9,462)	(8,909)	(9,331)
Interest paid on leases	15	(88)	(81)	(26)	(15)
Interest received		27	2,432	27	2,432
Paid corporate income tax		(2,648)	(6,867)	–	–
Net cash flows generated from operating activities		**173,143**	**131,749**	**305,063**	**355,549**

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Cash flows from investing activities					
Loans issued to subsidiaries, net	29 e	–	–	(225,482)	(327,164)
Repayment of loans to related parties	29 e	–	86,672	–	86,672
Purchase of intangible assets and PPE		(164,854)	(189,749)	(75,214)	(92,055)
Dividends received from subsidiaries	16	–	–	156	2,927
Proceeds from redemption of other financial investments		–	16,836	–	16,836
Investments in subsidiaries		–	–	(2,102)	–
Net cash flows used in investing activities		**(164,854)**	**(86,241)**	**(302,642)**	**(312,784)**
Cash flows from financing activities					
Repayment of issued debt securities (bonds)	23	(100,000)	–	(100,000)	–
Proceeds on issued debt securities (bonds)	23	100,000	50,000	100,000	50,000
Proceeds on borrowings from financial institutions	23	207,846	79,997	200,013	75,000
Repayment of borrowings from financial institutions	23	(129,118)	(77,928)	(123,801)	(75,830)
Received financing from European Union		4	748	–	748
Lease payments	15	(1,583)	(1,195)	(623)	(280)
Proceeds from non-controlling interests' contributions to share capital		400	–	–	–
Dividends paid to non-controlling interests	21 b	–	(2,508)	–	–
Dividends paid to equity holder of the Parent Company	21 b	(70,160)	(98,246)	(70,160)	(98,246)
Net cash flows generated from / (used in) financing activities		**7,389**	**(49,132)**	**5,429**	**(48,608)**
Net increase / (decrease) in cash and cash equivalents		**15,678**	**(3,624)**	**7,850**	**(5,843)**
Cash and cash equivalents at the beginning of the year	19	97,079	100,703	92,418	98,261
Cash and cash equivalents at the end of the year	**19**	**112,757**	**97,079**	**100,268**	**92,418**

The notes on pages 132 to 178 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

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Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

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.

Latvenergo AS heads the Latvenergo Group (hereinafter – the Group) that includes the following subsidiaries (Note 16):

- Sadales tīkls AS (since 18 September 2006) with 100% interest held,
- Elektrum Eesti OÜ (since 27 June 2007) and its subsidiaries Elektrum Latvija SIA (since 18 September 2012), Energiaturu Võrguehitus OÜ (since 25 August 2021) all with 100% interest held,
- Elektrum Lietuva, UAB (since 7 January 2008) with 100% interest held,
- Enerģijas publiskais tirgotājs SIA (since 25 February 2014) with 100% interest held,
- Latvijas vēja parki SIA (since 22 July 2022) with 80% interest held,
- Liepājas enerģija SIA (since 6 July 2005) with 51% interest held.

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.

Latvenergo AS shareholding in subsidiaries, associates and other non–current financial investments are disclosed in Note 16.

The Management Board of Latvenergo AS:

- Since 1 February 2021 the Management Board of Latvenergo AS was comprised of the following members: Guntars Baļčūns (Chairman of the Board), Kaspars Cikmačs, Arnis Kurgs and Uldis Mucinieks,
- Since 3 January 2022 the Management Board of Latvenergo AS was comprised of the following members: Mārtiņš Čakste (Chairman of the Board), Dmitrijs Juskovecs, Guntars Baļčūns, Kaspars Cikmačs, Harijs Teteris.

The Supervisory Board of Latvenergo AS:

- Since 11 June 2020 the Supervisory Board of Latvenergo AS was comprised of the following members: Ivars Golsts (Chairman), Kaspars Rokens (Deputy Chairman), Toms Siliņš, Aigars Laizāns and Gundars Ruža.

The Supervisory body – Audit Committee:

- Since 3 February 2021 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 2022 on 18 April 2023. The Financial Statements are subject to Shareholder's approval on the Shareholder's Meeting.

2. Summary of significant 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 2022 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ended 31 December 2022 and comparative information for 2021. Where it has been necessary, comparatives for 2021 are reclassified using the same principles applied for preparation of the Financial Statements for 2022.

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.

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

a) Standards issued and which became effective, and are relevant for the Company's and the Group'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 have adopted starting from 1 January 2022:

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

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

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

These amendments had no impact on the Group's and the Parent Company's financial statements.

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

The amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the IASB amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Group and the Parent Company, as a lessee, did not use such concessions and the Group's and the Parent Company's financial statements are not impacted by this amendment.

b) Standards and its amendments issued and not yet effective, but are relevant for the Company's and the Group's operations

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

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

- **IAS 1 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 amendments clarify the meaning of the right to defer settlement, as well as the requirement for this right to exist at the end of the reporting period, also that the management's intention does not affect the current or non-current classification, and that the options of the counterparty, which could result in settlements by transferring the company's own capital instruments, do not affect the current or non-current classification. Also, the amendments clarify that the classification of liabilities will be affected only by those covenants that the company must comply with on or before the reporting date. Additional disclosures are also required for non-current liabilities arising from loan agreements subject to covenants due within twelve months after the end of the reporting period. The amendments have not yet been endorsed by the EU. The Group and the Parent Company will assess whether they may have a material effect on the Group's and the Parent Company's financial position.

- **IFRS 16 Lease Liability in a Sale and Leaseback (Amendments)**

The amendments become effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted. The amendments are intended to improve the seller's lessee's requirements, to assess the lease obligations arising in the sale and leaseback transaction according to IFRS 16, while not making changes in the accounting policies applicable to sales and non-leaseback transactions. Notably, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the

seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application - the beginning of the annual reporting period in which the company first applied IFRS 16. The Amendments have not yet been endorsed by the EU. The Group and the Parent Company will assess whether they may have a material effect on the Group's and the Parent Company's financial position.

- **IAS 12 'Income Taxes' and its amendments related to Deferred Tax on Assets and Liabilities arising from a Single Transaction**

Effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Group and the Parent Company will assess whether they may have a material effect on the Group's and the Parent Company's financial position.

Other amendments to IFRSs have also been made, but they will not have an impact on the Group's and the Parent Company's operations and financial statements:

- IFRS 17 'Insurance Contracts' and its amendments, effective for annual reporting periods beginning on 1 January 2023,
- 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, with effective date postponed indefinitely by IASB.

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). For purchases from non–controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the Group's equity.

c) Distributions of non-cash assets to owners

The Parent Company recognises a liability for dividend payable to its owner when it declares a distribution and has an obligation to distribute the assets concerned to its owner. A liability to distribute non-cash assets as a dividend to its owner is measured at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the Parent Company shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution. When dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable is recognised in profit or loss.

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.

For assets measured at fair value, gains and losses is either recorded in profit or loss or in other comprehensive income. For investments in equity instruments that are not held for trading, this depends on whether the Group and the Parent Company have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

All financial instruments are initially measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date when the Group and the Parent Company commits to purchase or sell the asset.

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 in the statement of profit or loss position 'Other operating expenses'.

Equity instruments

The Group and the Parent Company subsequently measure all equity investments at fair value. Where the Group's or the Parent Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income (OCI), there is no subsequent reclassification of fair value gains and losses to profit or loss following the de–recognition of the investment. 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 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.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

The Group and the Parent Company derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group and the Parent Company also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is 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 and financial liabilities 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 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 assets as of 31 December 2021							
Receivables from contracts with customers	18 a	181,136	–	–	110,638	–	–
Other current financial receivables	18 b	57,498	–	–	43,212	–	–
Loans to related parties	29 e	–	–	–	706,378	–	–
Derivative financial instruments	24 l	–	25,735	–	–	25,466	–
Cash and cash equivalents	19	97,079	–	–	92,418	–	–
		335,713	**25,735**	**–**	**952,646**	**25,466**	**–**

		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 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**
Financial liabilities as of 31 December 2021							
Borrowings	23	795,029	–	–	782,322	–	–
Derivative financial instruments	24 l	–	5,933	12,587	–	5,933	12,587
Lease liabilities	15	8,428	–	–	5,226	–	–
Trade and other financial current payables	26	163,950	–	–	166,517	–	–
		967,407	**5,933**	**12,587**	**954,065**	**5,933**	**12,587**

a) Market risk

I) Foreign currencies exchange risk

As of 31 December 2022 and 31 December 2021 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. In 2022, several EUR/USD forward foreign currencies exchange transactions have been concluded 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 2022, the Parent Company has outstanding five forward foreign currencies exchange contracts in the amount of USD 153,482 thousand with an execution date of 22 February and 26 April 2023.

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 2022 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 687 thousand higher (2021: EUR 750 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 678 thousand higher (2021: EUR 739 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 133 million (2021: EUR 169 million) (Note 24 II). 36% of both the total Group's and the Parent Company's long-term borrowings as of 31 December 2022 (31/12/2021: 37% and 38% respectively) had fixed interest rate (considering the effect of the interest rate swaps) and average fixed rate duration was 1.8 years for the Group and 1.9 years for the Parent Company (2021: 1.5 years for the Group and 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 would have been EUR 2,536 thousand lower (over the next 12 months period after 31/12/2021: EUR 633 thousand), the Parent Company's profit for the year would have been EUR 2,474 thousand lower (over the next 12 months period after 31/12/2021: EUR 631 thousand).

As of 31 December 2022, 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 1,623 thousand higher (31/12/2021: EUR 2,688 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 1,671 thousand lower (31/12/2021: EUR 2,778 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. To hedge the risk related to changes in the price of electricity and natural gas the Parent Company during 2022 and 2021 has purchased electricity forward and future contracts 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.

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	
		31/12/2022	31/12/2021	31/12/2022	31/12/2021
Receivables from contracts with customers	18 a	314,109	181,136	233,192	110,638
Other current financial receivables	18 b	17,089	57,498	36,253	43,212
Loans to related parties	29 e	–	–	713,308	706,378
Cash and cash equivalents	19	112,757	97,079	100,268	92,418
Derivative financial instruments	24	10,729	25,735	10,729	25,466
		454,684	**361,448**	**1,093,750**	**978,112**

Under IFRS 9 the Group and the Parent Company measure the probability of default upon initial recognition of a receivable 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).

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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Investment level credit rating*	112,757	97,079	100,268	92,418
	112,757	**97,079**	**100,268**	**92,418**

* 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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Aa3	66,596	47,149	55,722	44,111
Baa1	43,644	37,085	43,154	36,030
Baa2	1,363	12,361	1,362	12,277
Baa3	1,154	484	30	–
	112,757	**97,079**	**100,268**	**92,418**

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 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	50137	**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**	**186,747**	**1,075,523**	**420,836**	**102,737**	**343,867**	**183,449**	**1,050,889**
As of 31 December 2021											
Borrowings from financial institutions		82,164	179,927	241,707	154,564	**658,362**	79,723	175,468	238,351	151,638	**645,180**
Issued debt securities (bonds)		102,205	250	750	50,366	**153,571**	102,205	250	750	50,366	**153,571**
Derivative financial instruments		17,604	1,451	1,681	421	**21,157**	17,604	1,451	1,681	421	**21,157**
Lease liabilities*		2,085	1,635	3,765	1,237	**8,722**	1,214	972	2,457	813	**5,456**
Trade and other current financial payables	26	163,950	–	–	–	**163,950**	166,517	–	–	–	**166,517**
		368,008	**183,263**	**247,903**	**206,588**	**1,005,762**	**367,263**	**178,141**	**243,239**	**203,238**	**991,881**

* The carrying amount of the lease (discounted) for the Group is EUR 10,675 thousand and for the Parent Company EUR 5,166 thousand (31 December 2021: Group – EUR 8,428 thousand, Parent Company – EUR 5,226 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 2022 nor 2021), 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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Total equity	2,356,419	2,123,448	2,018,694	1,761,070
Total assets	3,855,330	3,475,890	3,305,536	2,915,587
Capital Ratio	**61%**	**61%**	**61%**	**60%**

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 Management of the Group and the Parent Company has assessed the situation at the end of the reporting period and has determined that the spread of Covid-19 and 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 d.

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. As a result of valuation, depreciated replacement cost was determined for each asset. 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 was 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 was determined. Remaining useful lives of property, plant and equipment items after revaluation were 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
- 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:

- 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:

- 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 with 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) Safety reserves of energy supply

In accordance with the "Energy Law", the parent company has purchased natural gas in order to ensure the necessary amount of natural gas for the state safety reserves of energy supply. The management has evaluated that the parent company has no influence and control over the transaction and acts as an agent, because the parent company organised the purchase of natural gas, ensured the receipt and storage of the goods till the moment of transfer on behalf of the state, and payment for the natural gas was received in full. Considering that the parent company does not have the right to use the reserve in economic activity and payment has been received in full, the safety reserves of energy supply is recognized in off-balance sheet.

V) 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 (Note 6).

d) Recognition and reassessment of provisions

As of 31 December 2022, the Group had set up provisions for post–employment benefits and termination benefits totalling EUR 15.6 million (31/12/2021: EUR 15.7 million) and the Parent Company in amount of EUR 7.6 million (31/12/2021: EUR 7.5 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. According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits were recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it was planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it was intended to reduce gradually the number of employees by the year 2022. The key assumptions made to determine the amount of provisions are provided in Note 27.

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 derivative financial instruments are 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 in financial statements fair values of financial instruments as specified by banks are disclosed. 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 disclosed 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 2022, the nominal pre–tax discount rate used to determine the fair value of investments is 5.92% (2021: 4.47%) 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 subsidiary – Energiaturu Võrguehitus OÜ) and Elektrum Lietuva 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
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**
2021											
Revenue											
External customers	754,357	303,289	7,573	**1,065,219**	–	**1,065,219**	562,765	30,020	**592,785**	–	**592,785**
Inter-segment	1,068	1,175	46,422	**48,665**	(48,665)	**–**	1,044	25,226	**26,270**	(26,270)	**–**
TOTAL revenue	**755,425**	**304,464**	**53,995**	**1,113,884**	**(48,665)**	**1,065,219**	**563,809**	**55,246**	**619,055**	**(26,270)**	**592,785**
Results											
EBITDA	**80,386**	**105,732**	**12,695**	**198,813**	**–**	**198,813**	**70,968**	**14,307**	**85,275**	**–**	**85,275**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(25,169)	(80,841)	(10,913)	**(116,923)**	–	**(116,923)**	(21,773)	(11,135)	**(32,908)**	–	**(32,908)**
Segment profit before tax	**55,217**	**24,891**	**1,782**	**81,890**	**(6,960)**	**74,930**	**49,195**	**3,172**	**52,367**	**27,153**	**79,520**
Segment assets at the end of the year	**1,473,344**	**1,801,062**	**104,221**	**3,378,627**	**97,263**	**3,475,890**	**1,341,057**	**130,516**	**1,471,573**	**1,444,014**	**2,915,587**
Segment liabilities at the end of the year	**299,658**	**190,597**	**19,027**	**509,282**	**843,160**	**1,352,442**	**329,381**	**20,196**	**349,577**	**804,940**	**1,154,517**
Other disclosures											
Capital expenditure	32,545	84,786	9,397	**126,728**	–	**126,728**	20,123	9,422	**29,545**	–	**29,545**

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
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:									
Other revenue	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**
2021									
Revenue from contracts with customers recognised over time:									
Trade of energy and related supply services	661,210	3,228	–	**664,438**	**664,438**	487,642	–	**487,642**	**487,642**
Distribution system services	1	282,949	–	**282,950**	**282,950**	–	–	**–**	**–**
Heat sales	84,123	91	10	**84,224**	**84,224**	71,215	10	**71,225**	**71,225**
Sales of goods and energy related solutions	5,756	–	–	**5,756**	**5,756**	2,972	–	**2,972**	**2,972**
Other revenue	3,267	16,949	5,636	**25,852**	**25,852**	936	26,600	**27,536**	**27,536**
Total revenue from contracts with customers	**754,357**	**303,217**	**5,646**	**1,063,220**	**1,063,220**	**562,765**	**26,610**	**589,375**	**589,375**
Other revenue:									
Other revenue	–	72	1,927	**1,999**	**1,999**	–	3,410	**3,410**	**3,410**
Total other revenue	**–**	**72**	**1,927**	**1,999**	**1,999**	**–**	**3,410**	**3,410**	**3,410**
TOTAL revenue, including	**754,357**	**303,289**	**7,573**	**1,065,219**	**1,065,219**	**562,765**	**30,020**	**592,785**	**592,785**
Latvia	416,545	303,288	7,289	**727,122**	**727,122**	399,513	28,392	**427,905**	**427,905**
Outside Latvia	337,812	1	284	**338,097**	**338,097**	163,252	1,628	**164,880**	**164,880**

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 2022	Group 2021	Parent Company 2022	Parent Company 2021
EBITDA		**360,209**	**198,813**	**280,325**	**85,275**
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets		(166,248)	(116,923)	(81,513)	(32,908)
Segment profit before tax		**193,961**	**81,890**	**198,812**	**52,367**
Finance income	11	1,414	2,110	10,767	11,391
Finance costs	11	(10,830)	(9,070)	(10,802)	(9,216)
Dividends received from subsidiaries	16	–	–	10,585	24,978
Profit before tax		**184,545**	**74,930**	**209,362**	**79,520**

Reconciliation of assets

EUR'000

	Notes	Group 31/12/2022	Group 31/12/2021	Parent Company 31/12/2022	Parent Company 31/12/2021
Segment operating assets		**3,742,533**	**3,378,627**	**1,844,640**	**1,471,573**
Non-current financial investments	16	40	40	647,320	645,218
Loans to related parties	29 e	–	–	713,308	706,378
Prepayment for income and other taxes		–	144	–	–
Cash and cash equivalents	19	112,757	97,079	100,268	92,418
Total assets		**3,855,330**	**3,475,890**	**3,305,536**	**2,915,587**

Reconciliation of liabilities

EUR'000

	Notes	Group 31/12/2022	Group 31/12/2021	Parent Company 31/12/2022	Parent Company 31/12/2021
Segment operating liabilities		**553,258**	**509,282**	**380,290**	**349,577**
Deferred income tax liabilities		667	2,955	–	–
Borrowings	23	875,918	795,029	863,938	782,322
Derivative financial instruments	24	–	4,312	–	4,312
Provisions and other payables		69,068	40,864	42,614	18,306
Total liabilities		**1,498,911**	**1,352,442**	**1,286,842**	**1,154,517**

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 2022 for the Group amounted to EUR 171,919 thousand and for the Parent Company EUR 171,912 thousand (2021: EUR 71,406 thousand and EUR 71,388 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. The Group and Parent Company use the following criteria to identify contracts with customers:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- each party's rights regarding the goods or services to be transferred can be identified,
- the payment terms for the goods or services to be transferred can be identified,
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract),
- it is probable that the company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

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.

Performance obligations are promises in the contracts (either explicitly stated or implied) with Group's and the Parent Company's customers to transfer to the customers either distinct goods or services, or series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Promised goods or services represent separate performance obligations if the goods or services are distinct. A promised good or service is considered distinct if the customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract). Both of these criteria must be met to conclude that the good or service is distinct.

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.

Revenue from satisfied performance obligations under such contracts is recognised over time, if one of the following criteria is met:

- customer simultaneously receives and consumes the benefits,
- customer controls the asset as it is created or enhanced,
- the Group's and Parent Company's performance does not create an asset with an alternative use and the Group and Parent Company has a right to payment for performance completed.

Revenue from satisfaction of performance obligations is recognised based on identified transaction price. Transaction price reflects the amount to which the Group and the Parent Company expect to be entitled to in exchange for goods and services. It is allocated to the distinct performance obligations based on standalone selling prices of the goods or services promised in the contract. The Group and the Parent Company allocate transaction price to the distinct performance obligations in proportion to their observable stand-alone selling prices and recognises revenue as those performance obligations are satisfied.

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 has been received 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 2022	Group 2021	Parent Company 2022	Parent Company 2021
Revenue from contracts with customers recognised over time:					
Trade of energy and related supply services	IFRS 15	1,356,094	664,438	1,052,486	487,642
Distribution system services	IFRS 15	278,169	282,950	–	–
Heat sales	IFRS 15	150,694	84,224	133,634	71,225
Sales of goods and energy related solutions	IFRS 15	25,252	5,756	12,247	2,972
Other revenue	IFRS 15	29,615	25,852	29,291	27,536
TOTAL revenue from contracts with customers		**1,839,824**	**1,063,220**	**1,227,658**	**589,375**
Other revenue:					
Lease of other assets	IFRS 16	1,977	1,999	3,357	3,410
TOTAL other revenue		**1,977**	**1,999**	**3,357**	**3,410**
TOTAL revenue		**1,841,801**	**1,065,219**	**1,231,015**	**592,785**

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 2022 is EUR 179,707 thousand for the Group (2021: EUR 13,008 thousand).

The Group's and the Parent Company's revenue from contracts with customers based on the timing of revenue recognition:

EUR'000

	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Goods and services transferred over time	1,760,646	1,055,018	1,159,820	584,348
Goods and services transferred at a point in time	79,178	8,202	67,838	5,027
TOTAL revenue from contracts with customers	**1,839,824**	**1,063,220**	**1,227,658**	**589,375**

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	
	2022	2021	2022	2021
Latvia	1,191,082	725,123	916,437	424,553
Outside Latvia	648,742	338,097	311,221	164,822
TOTAL revenue from contracts with customers	**1,839,824**	**1,063,220**	**1,227,658**	**589,375**

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	
	2022	2021	2022	2021
Mandatory procurement PSO fees*	7,931	62,603	8,767	64,537
Distribution system services	30,780	23,478	90,892	171,200
Transmission system services	706	1,744	720	1,758
Insurance intermediation	1,468	579	1,440	578
TOTAL revenue recognised applying agent accounting principle	**40,885**	**88,404**	**101,819**	**238,073**

* In accordance with 'Law on measures to reduce extraordinary rise in energy prices' adopted by the Saeima of the Republic of Latvia and Regulations of the Cabinet of Ministers of the Republic of Latvia No. 50 'Regulations regarding the trade and use of electricity', the government granted support to all end-users for mandatory procurement PSO fees from 1 January to 30 April 2022 and from 1 September to 31 December 2022 by 100% of the fee, which was reimbursed from the state budget.

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	
		31/12/2022	31/12/2021	31/12/2022	31/12/2021
Non–current deferred income from connection fees	28 I, a	132,381	136,217	–	–
Current deferred income from connection fees	28 II, a	15,386	14,794	–	–
Non-current other deferred income	28 I, a	735	802	735	802
Current other deferred income	28 II, a	13,944	237	13,714	67
TOTAL liabilities		**162,446**	**152,050**	**14,449**	**869**

Movement in deferred income from contracts with customers (non–current and current part)

EUR'000

	Notes	Group		Parent Company	
		2022	2021	2022	2021
At the beginning of the year		**152,050**	**154,704**	**869**	**1,676**
Received connection fees for connection to distribution system	28	11,840	12,556	–	–
Recognised deferred income	28	13,647	–	13,647	–
Credited to the Statement of Profit or Loss		(15,091)	(15,210)	(67)	(807)
At the end of the year		**162,446**	**152,050**	**14,449**	**869**

7. Other income

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
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		2,457	2,536	1,539	1,803
Net gain on sale of assets held for sale and property, plant and equipment		2,955	1,167	2,702	1,321
Compensations and insurance claims		816	779	294	503
Other operating income		956	956	165	129
TOTAL other income		**31,174**	**29,428**	**28,690**	**27,746**

8. Raw materials and consumables

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Energy costs:					
Electricity and costs of related supply services		708,114	369,388	374,581	180,864
Electricity transmission services costs	29 a	72,583	73,747	2,999	3,053
Natural gas and other energy resources costs		517,052	259,160	492,537	248,699
Losses / (gains) on fair value changes on energy futures, forwards, and swaps	24 l	10,096	13,373	9,827	13,642
		1,307,845	**715,668**	**879,944**	**446,258**
Raw materials, spare parts and maintenance costs		25,863	24,459	11,194	12,212
TOTAL raw materials and consumables used		**1,333,708**	**740,127**	**891,138**	**458,470**

Significant increase in energy costs impacted mainly by significant increase in the prices of energy resources in the market. In 2022, the electricity spot price in Latvia was 2.5 times higher compared to the year 2021. Meanwhile, the price of natural gas was almost three times higher.

9. Personnel expenses

EUR'000

	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Wages and salaries	89,184	78,564	39,838	34,359
State social insurance contributions	19,800	17,918	9,242	7,952
Expenditure of employment termination	3,044	3,719	846	392
Pension costs – defined contribution plan	4,892	4,739	2,219	2,014
Benefits defined in the Collective Agreement and other benefits system costs	1,572	1,674	667	696
Capitalised personnel expenses	(1,499)	(991)	–	–
TOTAL personnel expenses, including remuneration to the management	**116,993**	**105,623**	**52,812**	**45,413**
Remuneration to the management:				
Wages and salaries	551	2,347	184	855
State social insurance contributions	127	547	43	201
Expenditure of employment termination	–	5	–	–
Pension costs – defined contribution plan	4	18	–	10
Benefits defined in the Collective Agreement and other benefits system costs	6	14	–	–
TOTAL remuneration to the management*	**688**	**2,931**	**227**	**1,066**

* 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 2022	Group 2021	Parent Company 2022	Parent Company 2021
Number of employees at the end of the year	3,164	3,153	1,274	1,269
Average number of employees during the year	3,154	3,233	1,270	1,273

10. Other operating expenses

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Selling expenses and customer services		10,178	35,649	3,775	31,267
Information technology maintenance		5,726	5,693	5,371	5,359
Transportation expenses		6,483	5,308	1,823	1,710
Environment protection and work safety		8,893	8,424	7,771	7,284
Real estate maintenance and utilities expenses		5,740	5,368	3,775	3,887
Lease of real estate and fixed assets		90	84	48	54
Telecommunications services		2,565	2,592	2,148	2,221
Real estate tax		941	980	651	699
Public utilities regulation fee		1,513	1,714	699	781
Audit fee		103	93	46	46
Changes in impairment losses on financial assets		2,879	(27,382)	2,351	(27,129)
Net losses from sale of assets held for sale and disposal of PPE		5,379	2,951	41	(349)
Other expenses		11,575	8,610	6,931	5,543
TOTAL other operating expenses		**62,065**	**50,084**	**35,430**	**31,373**

In addition to audit services, in 2022 and 2021 auditors did not provide any other services.

11. Finance income and costs

a) Finance income

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Interest income		27	564	27	564
Interest income on loans to related parties		–	994	9,353	10,276
Interest income on interest rate swaps		279	–	279	–
Gains on fair value changes on interest rate swaps	24	1,074	316	1,074	316
Net gain on issued debt securities (bonds)		34	111	34	111
Net gain on redemption of other financial investments		–	94	–	94
Net gain on currency exchange rate fluctuations		–	31	–	30
TOTAL finance income		**1,414**	**2,110**	**10,767**	**11,391**

b) Finance costs

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Interest expense on borrowings from financial institutions		7,989	7,029	8,066	7,247
Interest expense on issued debt securities (bonds)		2,679	2,041	2,679	2,041
Interest expense on assets lease		136	138	80	83
Capitalised borrowing costs	14 a	(310)	(331)	(310)	(331)
Net losses on currency exchange rate fluctuations		29	–	5	–
Other finance costs		307	193	282	176
TOTAL finance costs		**10,830**	**9,070**	**10,802**	**9,216**

12. Income tax

Accounting policy

Corporate income tax

Latvia

Corporate income tax is paid on distributed profits which has been generated as of 1 January 2018 and not previously taxed (less dividends received from subsidiaries) and deemed profit distributions. 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

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, representation costs, non–business related disbursements and transfer pricing adjustments. The tax rate on the net dividends paid out of retained earnings is 20/80. Since 2019, it is possible to apply a tax rate of 14/86 to dividend payments. This more favourable tax rate can be used for dividend payments up to the average dividend pay–out of the previous three financial years, taxed 20/80 rate. In calculating the average dividend payment for the three preceding financial years, 2018 was the first year to be considered. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

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 2022	Group 2021	Parent Company 2022	Parent Company 2021
Current income tax for the year	2,880	6,832	–	–
Deferred income tax on foreseeable profit distributions of subsidiaries	(2,288)	(3,446)	–	–
Deferred income tax relating to temporary differences	79	(79)	–	–
TOTAL income tax	**671**	**3,307**	**–**	**–**

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 2020									
Cost	–	58,173	52,617	315	**111,105**	10,800	49,593	198	**60,591**
Accumulated amortisation	–	(20,983)	(40,094)	–	**(61,077)**	(5,934)	(38,464)	–	**(44,398)**
Net book amount	**–**	**37,190**	**12,523**	**315**	**50,028**	**4,866**	**11,129**	**198**	**16,193**
Year ended 31 December 2021									
Additions	2,546	–	–	6,907	**9,453**	–	–	4,321	**4,321**
Transfers	–	2,444	4,095	(6,539)	**–**	17	4,002	(4,019)	**–**
Disposals	–	–	(81)	–	**(81)**	–	(81)	–	**(81)**
Impairment charge	–	–	81	–	**81**	–	81	–	**81**
Amortisation charge	–	(3,000)	(2,924)	–	**(5,924)**	(459)	(2,649)	–	**(3,108)**
Closing net book amount as of 31 December 2021	**2,546**	**36,634**	**13,694**	**683**	**53,557**	**4,424**	**12,482**	**500**	**17,406**
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**

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.

	Group		Parent Company	
	2022	2021	2022	2021
	Number of allowances	Number of allowances	Number of allowances	Number of allowances
At the beginning of the year	**1,248,869**	**977,325**	**1,231,852**	**958,122**
Allowances allocated free of charge*	145,019	8,664	137,074	–
Purchased allowances	632,966	1,105,000	632,966	1,105,000
Written off verified allowances	(906,491)	(837,120)	(902,628)	(831,270)
Sold allowances	(4,000)	(5,000)	–	–
At the end of the year	**1,116,363**	**1,248,869**	**1,099,264**	**1,231,852**
including estimated allowances used during the reporting year (unverified)	(653,800)	(834,267)	(653,800)	(834,267)
Allowances available at the end of the year	**462,563**	**414,602**	**445,464**	**397,585**

* 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 2022 was nil (31/12/2021: nil).

Current intangible assets

EUR'000

	Group		Parent Company	
	2022	2021	2022	2021
Net book amount at the beginning of the year	**24,266**	**3,157**	**24,266**	**3,157**
Additions	46,643	64,500	46,643	64,500
Disposals	(39,245)	(43,391)	(39,245)	(43,391)
Closing net book amount at the end of the year	**31,664**	**24,266**	**31,664**	**24,266**

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.

The acquisition cost comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self–constructed item of PPE includes the cost of materials, services and workforce. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group or the Parent Company and the cost of an item can be measured reliably. All other repair and maintenance expenses are charged directly to the Statement of Profit or Loss when the expenditure is incurred.

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 fixed assets 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 fixed assets. 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 are 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 fixed assets 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 2020													
Cost or revalued amount	426,279	2,045,830	3,006,885	649,011	156,217	89,518	**6,373,740**	341,001	2,045,830	623,104	101,718	66,188	**3,177,841**
Accumulated depreciation and impairment	(235,197)	(1,267,350)	(1,383,296)	(552,964)	(102,623)	(4,984)	**(3,546,414)**	(212,151)	(1,267,350)	(538,808)	(83,293)	(4,669)	**(2,106,271)**
Net book amount	**191,082**	**778,480**	**1,623,589**	**96,047**	**53,594**	**84,534**	**2,827,326**	**128,850**	**778,480**	**84,296**	**18,425**	**61,519**	**1,071,570**
Year ended 31 December 2021													
Additions	–	–	–	4,969	–	112,286	**117,255**	–	–	–	–	25,203	**25,203**
Invested in share capital	20	–	–	–	–	–	**20**	20	–	–	–	–	**20**
Transfers	10,457	23,096	83,272	7,285	14,320	(138,430)	**–**	7,442	23,096	7,205	5,553	(43,296)	**–**
Reclassified (to) / from investment property, net	(3,182)	–	–	–	–	–	**(3,182)**	(692)	–	–	–	–	**(692)**
Reclassified to non–current assets for sale	(27)	–	–	–	(78)	–	**(105)**	(20)	–	–	–	–	**(20)**
Disposals	(34)	(69)	(5,197)	(43)	(74)	(39)	**(5,456)**	(84)	(69)	(42)	(136)	(20)	**(351)**
Reversed impairment charge (Note 14 d I)	9,187	–	–	27,537	–	4,699	**41,423**	9,187	–	27,537	–	4,669	**41,393**
Depreciation	(13,120)	(25,157)	(70,241)	(30,913)	(11,196)	–	**(150,627)**	(9,587)	(25,157)	(29,655)	(5,751)	–	**(70,150)**
Closing net book amount as of 31 December 2021	**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**
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) / from 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	(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**

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 2022, cost of fully depreciated PPE which are still in use for the Group amounted to EUR 253,461 thousand (31/12/2021: EUR 305,295 thousand) and for the Parent Company amounted to EUR 210,035 thousand (31/12/2021: EUR 277,392 thousand).

In 2022 the Group and the Parent Company have capitalised borrowing costs in the amount of EUR 310 thousand (2021: EUR 331 thousand) (see Note 11). Rate of capitalised borrowing costs was of 1.43% (2021: 1.45%).

Information about the pledged property, plant and equipment is disclosed in Note 23 I.

b) 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 investment properties are initially recognised at cost and subsequently measured 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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Cost at the beginning of the year	1,784	–	2,023	1,455	3,807	1,455	2,700	4,005	1,861	1,427	4,561	5,432
Accumulated depreciation and impairment at the beginning of the year	(199)	–	(292)	(943)	(491)	(943)	(674)	(1,155)	(285)	(943)	(959)	(2,098)
Net book amount at the beginning of the year	**1,585**	**–**	**1,731**	**512**	**3,316**	**512**	**2,026**	**2,850**	**1,576**	**484**	**3,602**	**3,334**
Reclassified from / (to) property, plant and equipment	–	1,597	823	1,585	823	3,182	–	(766)	315	1,458	315	692
Disposal	–	–	(31)	(18)	(31)	(18)	–	–	(1,678)	(18)	(1,678)	(18)
Sold	–	–	(1,799)	(348)	(1,799)	(348)	–	–	–	(348)	–	(348)
Depreciation	(12)	(12)	–	–	(12)	(12)	(17)	(58)	–	–	(17)	(58)
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**
Cost at the end 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 end of the year	(211)	(199)	(34)	(292)	(245)	(491)	(691)	(674)	(1)	(285)	(692)	(959)
Net book amount at the end 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**

* leased property, plant and equipment and real estate related to distribution and transmission system assets

The Group and the Parent Company apply the cost model in valuation of investment properties. Land or 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, after decision of the Group's or the Parent Company's management are initially recognised as investment properties at cost and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses.

c) 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 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**
As of 31 December 2021			
Revalued	2,044,719	3,031,424	5,076,143
Accumulated depreciation	(1,268,369)	(1,400,001)	(2,668,370)
Revalued net book amount	**776,350**	**1,631,423**	**2,407,773**
At amounts stated on historical cost basis			
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**
As of 31 December 2021			
Cost	453,213	1,531,323	1,984,536
Accumulated depreciation	(191,691)	(518,820)	(710,511)
Net book amount	**261,522**	**1,012,503**	**1,274,025**

Assets of Hydropower plants

Assets of Hydropower plants were revalued in 2022. 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 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 2022 the carrying amounts of property, plant and equipment of hydropower plants increased by EUR 228,112 thousand. Increase of property, plant, and equipment in the amount of EUR 227,695 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 417 thousand was recognised in the Statement of Profit or Loss.

The nominal pre–tax discount rate used in valuation was 10.25%. If the pre-tax rate would have been increased by 0.5% then the value of the revalued assets of hydropower plants would have been decreased by EUR 62,419 thousand (2021: by EUR 83,042 thousand). If the pre–tax rate would have been decreased by 0.5%, the value of the revalued assets of hydropower plants would have been increased by EUR 69,108 thousand (2021: by EUR 97,977 thousand). If electricity price would have been increased by 5%, the value of assets would have been increased by EUR 114,722 thousand (2021: by EUR 112,031 thousand), if the prices would have been by 5% less, the value of assets would have been decrease by EUR 114,722 thousand (2021: by EUR 112,031 thousand).

At the end of the year, the management of Latvenergo AS has estimated that the increase in the cost of engineering constructions exceeded 10% since the previous revaluation, as well the discount rate and energy prices in the year period has substantially increased. Anticipating that the increase in the engineering construction costs could remain significant and substantial over an extended period, the interest rates affecting discount rates have steadily increased and the energy prices has significantly increased, that could result in significantly higher value for hydropower plants, therefore the Parent Company in February 2023 has been started the valuation process for hydropower plants. Considering that the revaluation process is complex and complicated, independent, external, certified valuation experts has been involved in revaluation.

Distribution system assets

Distribution system electrical equipment was revalued as of 1 April 2020. 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.

Distribution system electricity lines were revalued as of 1 January 2021 and the revaluation result has been recognised in the Financial statements of 2020 as an adjusting event.

External valuation expert used cost approach 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 2022, the management of Sadales tīkls AS has assessed internal and external indicators that a 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 2022. 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 2022 does not need to be carried out.

d) 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 the Comprehensive Income within PPE revaluation reserve 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, and 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 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 2022 (2021: EUR 23,990 thousand) (Note 7). Consequently, EUR 137,450 thousand remained recognised as deferred income as of 31 December 2022 (31/12/2021: EUR 161,440 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 2022, the future discounted cash flows generated by the operation of Latvenergo AS CHPPs are evaluated in the amount of EUR 28,607 thousand (31/12/2021: EUR 26,527 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 2022 – EUR 166,057 thousand (31/12/2021: EUR 187,967 thousand).

As a result of the above transactions, in 2022 reversal of impairment was recorded in the amount of EUR 6,230 thousand for Latvenergo AS CHPPs (2021: additional impairment EUR 36,724 thousand) and included within class of assets: 'Land, buildings and facilities' and 'Technology equipment and machinery'. The recognised reversal of 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 2022 amounted to EUR 199,181 thousand (31/12/2021: EUR 205,411 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 2022-2028 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 2023, 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 10.25% (2021: 7.5%). As a result of calculation in the reporting year, the future discounted cash flows generated by Latvenergo AS CHPPs are evaluated as EUR 28,607 thousand (2021: EUR 26,527 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 2022, 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*		Inflation rate	
	1 pp increase	1 pp decrease	10% increase	10% decrease	10% increase	10% decrease	1 pp increase	1 pp decrease
Possible changes of CHPPs assets value	(1,400)	1,500	45,900	(50,800)	(27,800)	25,500	(4,100)	3,900

*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. The cash–generating unit is defined as the distribution system assets. 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	2022	2021
Discount rate	5.92%	4.37%
Long-term growth rate, applicable from 2033*	2.0%	1.8%

* Macroeconomic assumptions for price index changes according to the information published by the Ministry of Finance

The aggravation of the geopolitical situation in the year under review led to a rapid increase in inflation, changes in material prices and an increase in interest rates. The impairment assessment also takes into account price forecasts for the main revenue and cost streams and the approval provided by the regulator - assumptions related to capital investment plans. Taking into account the mentioned factors, the decrease in the value of is no additional impairment loss recognised in 2022 (2021: no impairment loss recognised). The assumptions of the Sadales tīkls AS management are based on the information available at the time of approval of the financial statement. The impact of future events on Sadales tīkls AS future operations may differ from the current assessment.

As of 31 December 2022, 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	1 pp decrease
Possible changes of distribution system assets value	no impairment	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.

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.

Lessee

To assess whether the contract is a lease or contains a lease, the Group and the Parent Company assess whether:
- the contract provides for the use of an identified asset: the asset may be designated, directly or indirectly, and must be physically separable or represent the total capacity of the asset from the physically separable asset. If the supplier has a significant right to replace the asset, the asset is not identifiable;
- the Group and the Parent Company have the right to obtain all economic benefits from the use of the identifiable asset over its useful life;
- the Group and the Parent Company have the right to determine the use of the identifiable asset. The Group and the Parent Company have the right to determine the manner in which the asset will be used, when it can decide how and for what purpose the asset will be used. Where the relevant decisions about how and for what purpose an asset is used are predetermined, the Group and the Parent Company should assess whether it has the right to operate the asset, or the Group and the Parent Company have developed an asset in a manner that predetermines how and for what purpose the asset will be used.

At initial measurement or in the case of reassessment of a lease that contains a lease component or several lease components, the Group and the Parent Company attribute each of the lease components to their relative individual price.

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 fully accounted without additional exemption.

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.

Right–of–use 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, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the incremental interest rate.

Lease liabilities include the present value of the following lease payments:
- fixed lease payments (including in–substance fixed lease payments), less any lease incentives receivable;
- variable leases payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects lessee exercising that option.

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
As of 31 December 2020		
Cost	10,970	5,619
Accumulated amortisation	(2,717)	(1,133)
Net book amount	**8,253**	**4,486**
Year ended 31 December 2021		
Recognised changes in lease agreements	1,925	1,723
Depreciation	(1,866)	(1,066)
Closing net book amount as of 31 December 2021	**8,312**	**5,143**
As of 31 December 2021		
Cost	12,871	7,342
Accumulated amortisation	(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 amortisation	(6,258)	(3,370)
Net book amount	**10,526**	**5,066**

Lease liabilities

EUR'000

	Notes	Group	Parent Company
As of 31 December 2020		**8,344**	**4,540**
Of which are:			
- Non–current		6,783	3,734
- Current		1,561	806
Year ended 31 December 2021			
Recognised changes in lease agreements		1,906	1,725
Payments for lease liabilities		(1,960)	(1,122)
Recognised interest liabilities		138	83
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

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

	Notes	Group		Parent Company	
		2022	**2021**	**2022**	**2021**
Depreciation for the right-of-use assets (land buildings and facilities)		2,047	1,866	1,171	1,066
Interest expense on lease liabilities (included in finance costs)		136	138	80	83
Short–term lease expenses		90	84	48	54
Variable lease payments not included in the lease liabilities		31	–	31	–
TOTAL expenses from leases		**2,304**	**2,088**	**1,330**	**1,203**

In the Statement of Cash Flows for the year ended 31 December 2022, lease payments of the Group in amount of EUR 372 thousand (the Parent Company: EUR 505 thousand) have been made by non–cash offsetting and included in cash flows from operating activities in working capital adjustments (2021: the Group in amount of EUR 400 thousand and the Parent Company in amount of EUR 525 thousand). Other lease payments of the Group in amount of EUR 1,671 thousand (the Parent Company: EUR 649 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) (2021: the Group EUR 1,275 thousand and the Parent Company EUR 294 thousand).

c) Income from leases

EUR'000

	Notes	Group		Parent Company	
		2022	**2021**	**2022**	**2021**
Income from leases (the Group and the Parent Company is the lessor)	6	1,977	1,999	3,357	3,410

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	
	2022	**2021**	**2022**	**2021**
< 1 year	1,969	1,973	3,357	3,410
1–5 years	2,198	2,203	7,794	2,402
> 5 years	1,486	1,602	1,486	1,602
TOTAL rental income	**5,653**	**5,778**	**12,637**	**7,414**

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	31/12/2022		31/12/2021	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Investments in subsidiaries:						
Sadales tīkls AS	Latvia	Electricity distribution	100%	641,450	100%	641,450
Enerģijas publiskais tirgotājs SIA	Latvia	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti OÜ	Estonia	Electricity and natural gas trade	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity and natural gas trade	100%	600	100%	98
Latvijas vēja parki SIA	Latvia	Development of wind parks and generation of electricity	80%	1,600	–	–
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, electricity generation	51%	3,556	51%	3,556
TOTAL				**647,281**		**645,179**
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				**647,320**		**645,218**

The Group's non–current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2022		31/12/2021	
			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 associate'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 2022 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	
	2022	2021	2022	2021
At the beginning of the year	**40**	**40**	**645,218**	**645,218**
Invested in share capital	–	–	2,102	–
At the end of the year	**40**	**40**	**647,320**	**645,218**

Summarised financial information for subsidiaries

EUR'000

Subsidiaries	Equity		Net profit / (loss) for the year		Dividends from subsidiaries*		Carrying amount of interest from investment	
	31/12/2022	31/12/2021	2022	2021	2022	2021	31/12/2022	31/12/2021
Subsidiaries of the Parent Company:								
Sadales tīkls AS	970,630	1,001,041	(20,415)	10,429	10,429	22,050	641,450	641,450
Enerģijas publiskais tirgotājs SIA	40	40	–	–	–	–	40	40
Elektrum Eesti OÜ	1,127	828	455	156	156	239	35	35
Elektrum Lietuva, UAB	956	(202)	656	(580)	–	77	600	98
Latvijas vēja parki SIA	1,809	–	(191)	–	–	–	1,600	–
Liepājas enerģija SIA	14,469	13,193	1,276	1,393	–	2,612	3,556	3,556
	989,031	**1,014,900**	**(18,219)**	**11,398**	**10,585**	**24,978**	**647,281**	**645,179**
Subsidiaries of Elektrum Eesti OÜ:								
Total Elektrum Eesti OÜ interests	**2,936**	**2,408**	**541**	**188**	**–**	**–**	**4,754**	**4,754**

* in 2022 dividends from subsidiaries received in cash in the amount of EUR 156 thousand and with non–cash offset in the amount of EUR 10,429 thousand (2021: EUR 2,928 thousand received in cash and with non–cash offset in the amount of EUR 22,050 thousand)

As of 31 December 2022, subsidiary Elektrum Eesti OÜ had investments with the 100% interest held in the subsidiaries Energiaturu Võrguehitus OÜ and Elektrum Latvija SIA. Energiaturu Võrguehitus OÜ provides microgrid electricity services in Estonia. On 26 August 2021 Elektrum Eesti OÜ acquired 90% of ownership interest in Energiaturu Võrguehitus OÜ (10% shares of Energiaturu Võrguehitus OÜ was held by SNL Energia 1 OÜ, therefore total participation interest by the Group was 100%), 100% in SNL Energia 1 OÜ and 100% in Baltic Energy System OÜ. In 2022 Baltic Energy System OÜ and SNL 1 Energia OÜ merged under Energiaturu Võrguehitus OÜ.

Summarised financial information for non-controlling interests

EUR'000

Non-controlling interest of subsidiaries	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Latvijas vēja parki SIA (20%)	28	–	347	–	–	–	14	–
Liepājas enerģija SIA (49%)	14,232	14,904	5,651	2,963	9,223	8,061	3,571	3,342

Business combinations and acquisition of ownership interests

On 22 July 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.

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) All other 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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Raw materials and materials	18,888	17,978	1,084	847
Natural gas	241,588	115,462	241,588	115,461
Goods for sale	12,802	3,896	3,259	754
Other inventories	16,585	8,121	16,055	8,059
Unfinished products and orders	5,128	–	–	–
Prepayments for natural gas and other inventories	2,027	47,786	469	46,901
Allowance for raw materials and other inventories	(1,380)	(1,110)	(869)	(735)
TOTAL inventories	**295,638**	**192,132**	**261,586**	**171,287**

Changes in the allowance for raw materials and materials at warehouses are included in the Statement of Profit or Loss position 'Raw materials and consumables used'.

Movement on the allowance for inventories

EUR'000

	Group		Parent Company	
	2022	2021	2022	2021
At the beginning of the year	**1,110**	**991**	**735**	**607**
Charged / (credited) to the Statement of Profit or Loss	270	119	134	128
At the end of the year	**1,380**	**1,110**	**869**	**735**

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).

Receivables from contracts with customers grouped by the expected credit loss (ECL) assessment model, net

EUR'000

	Group		Parent Company	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Individually assessed receivables with lifetime ECL assessment (counterparty model)	59,630	37,995	46,609	16,837
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	254,479	143,141	186,583	93,801
TOTAL receivables from contracts with customers	**314,109**	**181,136**	**233,192**	**110,638**

a) Receivables from contracts with customers, net

EUR'000

	Group		Parent Company	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Receivables from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	214,542	133,497	152,285	87,828
- Electricity and related services customers (counterparty model)	36,133	22,493	14,953	–
- Heating customers (portfolio model)	54,228	21,233	49,237	18,807
- Other receivables from contracts with customers (portfolio model)	5,622	5,384	1,444	1,150
- Other receivables from contracts with customers (counterparty model)	23,541	15,557	18,181	12,792
- Subsidiaries (counterparty model)	–	–	13,503	4,070
	334,066	**198,164**	**249,603**	**124,647**
Allowances for expected credit loss from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	(17,642)	(14,748)	(15,938)	(13,621)
- Electricity and related services customers (counterparty model)	(18)	(28)	–	–
- Heating customers (portfolio model)	(448)	(361)	(422)	(343)
- Other receivables from contracts with customers (portfolio model)	(1,823)	(1,864)	(23)	(20)
- Other receivables from contracts with customers (counterparty model)	(26)	(27)	(20)	(22)
- Subsidiaries (counterparty model)	–	–	(8)	(3)
	(19,957)	**(17,028)**	**(16,411)**	**(14,009)**
Receivables from contracts with customers, net:				
- Electricity, natural gas trade and related services customers (portfolio model)	196,900	118,749	136,347	74,207
- Electricity and related services customers (counterparty model)	36,115	22,465	14,953	–
- Heating customers (portfolio model)	53,780	20,872	48,815	18,464
- Other receivables from contracts with customers (portfolio model)	3,799	3,520	1,421	1,130
- Other receivables from contracts with customers (counterparty model)	23,515	15,530	18,161	12,770
- Subsidiaries (counterparty model)	–	–	13,495	4,067
	314,109	**181,136**	**233,192**	**110,638**

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					
		31/12/2022			31/12/2021			31/12/2022			31/12/2021		
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%	248,926	(543)	**248,383**	139,516	(301)	**139,215**	183,322	(418)	**182,904**	91,096	(209)	**90,887**
Less than 30 days	3%	3,601	(108)	**3,493**	2,530	(76)	**2,454**	1,843	(55)	**1,788**	1,759	(53)	**1,706**
Past due 30 - 59 days	20%	1,930	(386)	**1,544**	901	(179)	**722**	1,493	(299)	**1,194**	711	(142)	**569**
Past due 60 - 89 days	50%	722	(361)	**361**	281	(138)	**143**	462	(231)	**231**	240	(120)	**120**
Past due 90 - 179 days	60%	1,079	(648)	**431**	428	(252)	**176**	713	(428)	**285**	296	(177)	**119**
Past due 180 - 359 days	75%	994	(745)	**249**	721	(541)	**180**	652	(489)	**163**	597	(448)	**149**
Past due more than 360 days	100%	10,179	(10,179)	**–**	11,758	(11,758)	**–**	7,929	(7,929)	**–**	9,530	(9,530)	**–**
Individually assessed	90%	5,691	(5,673)	**18**	2,508	(2,257)	**251**	5,691	(5,673)	**18**	2,508	(2,257)	**251**
Insolvent debtors*	100%	1,270	(1,270)	**–**	1,471	(1,471)	**–**	861	(861)	**–**	1,048	(1,048)	**–**
TOTAL		**274,392**	**(19,913)**	**254,479**	**160,114**	**(16,973)**	**143,141**	**202,966**	**(16,383)**	**186, 583**	**107,785**	**(13,984)**	**93,801**

* 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	
		31/12/2022	31/12/2021	31/12/2022	31/12/2021
Receivables of electricity and related services customers		36, 133	22,493	14,954	–
Allowances for expected credit loss on receivables of electricity and related services customers		(18)	(28)	–	–
Other receivables from contracts with customers		23, 541	15,557	18,180	12,792
Allowances for expected credit loss on other receivables from contracts with customers		(26)	(27)	(20)	(22)
Receivables from subsidiaries	29 b	–	–	11,070	3,787
Accrued income from subsidiaries	29 c	–	–	2,433	283
Allowances for expected credit loss on subsidiaries receivables	29 b	–	–	(8)	(3)
TOTAL		**59, 630**	**37,995**	**46,609**	**16,837**

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 2022 amounted to EUR 48,768 thousand (31/12/2021: EUR 18,455 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	
	2022	2021	2022	2021
At the beginning of the year	**17,028**	**44,269**	**14,009**	**41,005**
Receivables written off during the year as uncollectible	(2,372)	(30,094)	(2,284)	(29,679)
Allowances for expected credit losses	5,301	2,853	4,686	2,683
At the end of the year	**19,957**	**17,028**	**16,411**	**14,009**

b) Other financial receivables (assessed on the counterparty model basis)

EUR'000

	Level of SICR	Group		Parent Company	
		31/12/2022	31/12/2021	31/12/2022	31/12/2021
Current financial receivables:					
Unsettled revenue on mandatory procurement PSO fee recognised as assets*	Stage 1	108	36,588	–	–
Receivables for lease	Stage 1	34	16	31	14
	Stage 3	1	2	1	1
Other current financial receivables	Stage 1	16,084	20,448	9,347	20,124
	Stage 3	2,098	2,027	4,606	1,583
Other accrued income	Stage 1	280	–	280	–
Allowances for expected credit loss	Stage 1	(73)	(140)	(66)	(114)
	Stage 3	(1,443)	(1,443)	(1,132)	(1,133)
Receivables for lease from subsidiaries (Note 29 b)	Stage 1	–	–	13	21
Other financial receivables from subsidiaries (Note 29 b)	Stage 1	–	–	21,037	21,196
Other accrued income from subsidiaries (Note 29 c)	Stage 1	–	–	2,150	1,534
Allowances for expected credit loss on subsidiaries receivables (Note 29 b)	Stage 1	–	–	(14)	(14)
TOTAL other financial receivables		**17,089**	**57,498**	**36,253**	**43,212**

* by applying agent principle unsettled revenue on mandatory procurement PSO fee is recognised as assets in net amount, as difference between revenue and costs recognised under the mandatory procurement

As of 31 December 2022 the Group and the Parent Company have no significant concentration of credit risk with respect to other financial receivables except the commodities exchange – Nasdaq Commodities – the net debt of which to the Group as of 31 December 2022 amounted to EUR 9,178 thousand (31/12/2021: EUR 20,047 thousand) and the Group's receivable from State of guaranteed fee for the installed electrical capacity of cogeneration power plants and unsettled revenue on mandatory procurement PSO fee recognised as assets – EUR 108 thousand (31/12/2021: EUR 36,588 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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Non–current non–financial receivables	482	2,544	482	441
Current non–financial receivables	432	2,242	198	2,190
TOTAL non–financial receivables	**914**	**4,786**	**680**	**2,631**

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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Cash at bank	112,757	97,079	100,268	92,418
TOTAL cash and cash equivalents	**112,757**	**97,079**	**100,268**	**92,418**

In existing rate environment, cash at bank balances practically don't earn any interests. If cash balances at banks exceed certain limits, the banks apply the European Central Bank's deposit facility rate for cash balances above set limits.

The carrying amounts of cash are assumed to approximate their fair values.

20. Share capital

As of 31 December 2022, the registered share capital of the Latvenergo AS is EUR 790,368 thousand (31/12/2021: EUR 790,368 thousand) and consists of 790,368 thousand ordinary shares (31/12/2021: 790,368 thousand) with the nominal value of EUR 1 per share (31/12/2021: EUR 1 per share). All shares have been fully paid.

On 14 June 2021, in accordance with the Directive No. 119 of the Cabinet of Ministers of the Republic of Latvia, dated 26 February 2021 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 20 thousand was invested in the share capital of Latvenergo AS (Note 14 a).

21. Reserves, dividends and earnings per share

a) Reserves

EUR'000

	Notes	Group					Parent Company			
		Non–current assets revaluation reserve	Hedge reserve	Post–employment benefit plan revaluation reserve	Other reserves	TOTAL	Non–current assets revaluation reserve	Hedge reserve	Post–employment benefit plan revaluation reserve	TOTAL
As of 31 December 2020		**1,171,154**	**(14,001)**	**(2,896)**	**110**	**1,154,367**	**781,773**	**(14,001)**	**(1,657)**	**766,115**
Disposal of revaluation reserve	14 a	(13,329)	–	–	–	**(13,329)**	(3,724)	–	–	**(3,724)**
Gains on re–measurement of defined post–employment benefit plan	27 a	–	–	1,098	–	**1,098**	–	–	121	**121**
Gains from fair value changes of derivative financial instruments	24 l	–	33,219	–	–	**33,219**	–	33,219	–	**33,219**
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 post–employment 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**

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 2022 the dividends declared and paid to equity holders of the Parent Company for 2021 were EUR 70,160 thousand or EUR 0.08877 per share (in 2021 for 2020: EUR 98,246 thousand or EUR 0.12431 per share).

According to the Law "On state budget for 2023 and budgetary framework for 2023, 2024 and 2025" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2023 (for the reporting year 2022) amounts to 64% or EUR 134.0 million and calculated corporate income tax EUR 26.7 million. 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	
	2022	2021	2022	2021
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	183,443	70,675	209,362	79,520
Weighted average number of shares (thousand)	790,368	790,360	790,368	790,360
Basic earnings per share (in euros)	0.232	0.089	0.265	0.101
Diluted earnings per share (in euros)	0.232	0.089	0.265	0.101

22. Changes in liabilities arising from financing activities

The changes in lease liabilities (Note 15):

EUR'000

	Group		Parent Company	
	2022	2021	2022	2021
Net book amount at the beginning of the year	**8,428**	**8,344**	**5,226**	**4,540**
Recognised changes in lease agreements	4,261	1,906	1,094	1,725
Paid lease payments in cash	(1,671)	(1,275)	(649)	(294)
Paid lease payments by non-cash offset	(372)	(400)	(505)	(524)
Change in accrued liabilities	(107)	(285)	(80)	(304)
Recognised interest liabilities	136	138	80	83
Closing net book amount at the end of the year	**10,675**	**8,428**	**5,166**	**5,226**

In 2022, 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 2,161 thousand and for the Parent company increase in the amount of EUR 2,087 thousand (2021: the Group – decrease of EUR 239 thousand, the Parent Company – decrease of EUR 238 thousand).

In 2021, 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 896 thousand and for the Parent company in the amount of EUR 144 thousand (2021: the Group – EUR 873 thousand, the Parent Company – EUR 97 thousand).

23. Borrowings

EUR'000

	Group		Parent Company	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Non-current portion of non-current borrowings from financial institutions	424,867	564,209	411,664	553,862
Non-current portion of issued debt securities (bonds)	149,887	49,866	149,887	49,866
Total non-current borrowings from financial institutions	**574,754**	**614,075**	**561,551**	**603,728**
Current portion of non-current borrowings from financial institutions	177,778	79,186	175,798	76,866
Current portion of issued debt securities (bonds)	–	100,055	–	100,055
Overdraft from financial institutions	119,478	–	119,478	–
Accrued interest on non-current borrowings from financial institutions	2,161	495	2,047	455
Accrued coupon interest on issued debt securities (bonds)	1,747	1,218	1,747	1,218
Total current borrowings from financial institutions	**301,164**	**180,954**	**299,070**	**178,594**
TOTAL borrowings from financial institutions	**875,918**	**795,029**	**860,621**	**782,322**
Current borrowings from related parties*	–	–	3,317	–
Total current borrowings	**301,164**	**180,954**	**302,387**	**178,594**
TOTAL borrowings	**875,918**	**795,029**	**863,938**	**782,322**

Movement in borrowings

EUR'000

	Group		Parent Company	
	2022	2021	2022	2021
At the beginning of the year	**795,029**	**743,199**	**782,322**	**733,392**
Received borrowings from financial institutions	207,846	79,997	200,013	75,000
Repaid borrowings from financial institutions	(129,118)	(77,928)	(123,801)	(75,830)
Proceeds from issued debt securities (bonds)	100,000	50,000	100,000	50,000
Borrowings received from related parties*	–	–	3,317	–
Repayment of issued debt securities (bonds)	(100,000)	–	(100,000)	–
Change in accrued interest on borrowings from financial institutions	2,195	19	2,121	18
Changes in outstanding value of issued debt securities (bonds)	(34)	(258)	(34)	(258)
At the end of the year	**875,918**	**795,029**	**863,938**	**782,322**

Borrowings by categories of lenders

EUR'000

	Group		Parent Company	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
International Financial Institutions	273,306	286,304	273,306	286,304
Commercial banks	450,978	357,586	435,681	344,879
Issued debt securities (bonds)	151,634	151,139	151,634	151,139
Total borrowings from financial institutions	**875,918**	**795,029**	**860,621**	**782,322**
Related parties*	–	–	3,317	–
TOTAL borrowings	**875,918**	**795,029**	**863,938**	**782,322**

* Within the framework of the Agreement ´On Provision of Mutual Financial Resources´, as of 31 December 2022, Parent Company had a current borrowing from Enerģijas publiskais tirgotājs SIA in the amount of EUR 3,317 thousand (31/12/2021: nil), 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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Fixed rate non–current and current borrowings:				
- < 1 year (current portion of non–current borrowings)	1,747	101,273	1,747	101,273
- 1–5 years	100,000	–	100,000	–
- > 5 years	49,887	49,866	49,887	49,866
Total fixed rate borrowings	**151,634**	**151,139**	**151,634**	**151,139**
Floating rate non–current and current borrowings:				
- < 1 year (current borrowings)	119,692	–	119,692	–
- < 1 year (current portion of non–current borrowings)	179,704	79,660	177,610	77,300
- 1–5 years	303,329	413,279	293,199	405,750
- > 5 years	121,559	150,951	118,486	148,133
Total floating rate borrowings	**724,284**	**643,890**	**708,987**	**631,183**
TOTAL borrowings	**875,918**	**795,029**	**860,621**	**782,322**

Borrowings from financial institutions by repricing of interest, including the impact of derivative instruments

EUR'000

	Group		Parent Company	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
- < 1 year	606,983	600,401	591,686	587,695
- 1–5 years	219,048	69,762	219,048	69,762
- > 5 years	49,887	124,866	49,887	124,865
TOTAL borrowings	**875,918**	**795,029**	**860,621**	**782,322**

As of 31 December 2022, and as of 31 December 2021 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 2022, 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 28 million (31/12/2021: EUR 29 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 21 million and the claims on the receivable's accounts in the amount of EUR 7 million (31/12/2021: EUR 26 million and EUR 3 million, respectively).

II) Un–drawn borrowing facilities

As of 31 December 2022, the un–drawn committed non–current credit facilities amount to EUR 200 million (31/12/2001: EUR 35 million).

As of 31 December 2022, the Group had entered into seven overdraft agreements with total notional amount of EUR 296 million (31/12/2021: two overdraft agreements of EUR 63million) of which five overdraft agreements were entered by the Parent Company with total notional amount of EUR 290 million. In respect of all the overdraft agreements all conditions precedent have been met. At the end of the reporting year EUR 123.3 million of credit lines were used of which EUR 119.5 million were used by the Parent Company.

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non–current borrowings was 1.20% (2021: 1.18%), weighted average effective interest rate for current borrowings from financial institutions was 0.48% (2021: 0.67%). As of 31 December 2022, interest rates for non–current borrowings in euros were 6 months EURIBOR + 0.69% (31/12/2021: + 0.72%) for the Group and 6 months EURIBOR+ 0.68% (31/12/2021: + 0.72%) for Latvenergo AS. As of 31 December 2022, the total notional amount of interest rate swap agreements concluded by the Group amounted to EUR 133.3 million (31/12/2021: EUR 169.0 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). Meanwhile, after the end of the reporting year, 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 2022 was EUR 150 million (31/12/2021: 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 2022, the carrying amount of issued debt securities (bonds) exceeds their fair value by EUR 22.7 million (31/12/2021: the fair value exceeded the carrying amount by EUR 545 thousand). 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 31/12/2022 Assets	Group 31/12/2022 Liabilities	Group 31/12/2021 Assets	Group 31/12/2021 Liabilities	Parent Company 31/12/2022 Assets	Parent Company 31/12/2022 Liabilities	Parent Company 31/12/2021 Assets	Parent Company 31/12/2021 Liabilities
Interest rate swaps	24 II	10,279	–	–	(4,312)	10,279	–	–	(4,312)
Energy forwards, futures, and swaps	24 III	450	(120,520)	25,735	(14,208)	450	(120,520)	25,466	(14,208)
Currency exchange forwards	24 IV	–	(1,499)	–	–	–	(1,499)	–	–
Total outstanding fair values of derivatives		**10,729**	**(122,019)**	**25,735**	**(18,520)**	**10,729**	**(122,019)**	**25,466**	**(18,520)**

EUR'000

	Group 31/12/2022 Assets	Group 31/12/2022 Liabilities	Group 31/12/2021 Assets	Group 31/12/2021 Liabilities	Parent Company 31/12/2022 Assets	Parent Company 31/12/2022 Liabilities	Parent Company 31/12/2021 Assets	Parent Company 31/12/2021 Liabilities
Non–current	8,131	–	–	(2,332)	8,131	–	–	(2,332)
Current	2,598	(122,019)	25 735	(16,188)	2,598	(122,019)	25,466	(16,188)
TOTAL fair values of derivative financial instruments	**10,729**	**(122,019)**	**25 735**	**(18,520)**	**10,729**	**(122,019)**	**25,466**	**(18,520)**

Gains / (losses) on fair value changes as a result of realised hedge agreements

EUR'000

	Notes	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Included in the Statement of Profit or Loss	**8**				
Interest rate swaps	11 a	1,074	316	1,074	316
Energy forwards, futures, and swaps	8	(10,096)	(13,373)	(9,827)	(13,642)
		(9,022)	**(13,057)**	**(8,753)**	**(13,326)**
Included in the other comprehensive income	**21 a**				
Interest rate swaps	24 II	13,517	4,876	13,517	4,876
Energy forwards, futures, and swaps	24 III	(121,501)	28,336	(121,501)	28,336
Currency exchange forwards	24 IV	(1,499)	7	(1,499)	7
		(109,483)	**33,219**	**(109,483)**	**33,219**
Total loss on fair value changes		**(118,505)**	**20,162**	**(118,236)**	**19,893**

II) Interest rate swaps

As of 31 December 2022, the Group and the Parent Company had interest rate swap agreements with total notional amount of EUR 133 million (31/12/2021: EUR 169 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 2022, fixed interest rates vary from 0.087% to 1.979% (31/12/2021: 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 133 million were eligible for hedge accounting and were assessed prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2021: 100% with notional amount of EUR 169 million). All contracts are designed as cash flow hedges. During the prospective and retrospective testing, in 2022 an ineffective portion in the amount of EUR 1.1 million (2021: EUR 0.3 million) has been identified and recognised in the Statement of Profit or Loss.

Fair value changes of interest rate swaps

EUR'000

	Group 2022 Assets	Group 2022 Liabilities	Group 2021 Assets	Group 2021 Liabilities	Parent Company 2022 Assets	Parent Company 2022 Liabilities	Parent Company 2021 Assets	Parent Company 2021 Liabilities
Outstanding fair value at the beginning of the year	**–**	**(4,312)**	**–**	**(9,504)**	**–**	**(4,312)**	**–**	**(9,504)**
Included in Statement of Profit or Loss	–	1,074	–	316	–	1,074	–	316
Included in other comprehensive Income	10,279	3,238	–	4,876	10,279	3,238	–	4,876
Outstanding fair value at the end of the year	**10,279**	**–**	**–**	**(4,312)**	**10,279**	**–**	**–**	**(4,312)**

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 2022, 36% (31/12/2021: 37%) of the Group's and 36% (31/12/2021: 38%) 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 1.8 years for the Group and 1.9 years for the Parent Company (2021: 1.5 years for the Group and the Parent Company).

III) Energy forwards, futures, and swaps

As of 31 December 2022, the Group have entered into 12 electricity future contracts (31/12/2021: 44 contracts) with total outstanding electricity purchase volume of 70,080 MWh (31/12/2021: 899,324 MWh) and notional value of EUR 8 million (31/12/2021: EUR 63 million). Electricity future contracts are concluded for the maturities from one month to one quarter with expiration date during the period from 1 January to 31 December 2023. As of 31 December 2022 the Group and the Parent Company have entered into 48 natural gas price swap contracts (31/12/2021: 37 contracts) with total outstanding natural gas purchase volume of 1,162,000 MWh (31/12/2021: 3,067,000 MWh) and notional value of EUR 218 million (31/12/2021: EUR 121 million). Natural gas swap contracts are concluded with the maturities for one month and with termination date during the period of 1 January to 31 December 2023.

The Group and the Parent Company enter into electricity future contracts in the Nasdaq Commodities exchange, as well as concludes natural gas price swap contracts with other counterparties. Electricity future contracts are used for fixing the price of electricity sold in the Nord Pool AS power exchange. 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.

31 natural gas swap contracts with total outstanding volume of 934,000 MWh as of 31 December 2022 are designated to comply with hedge accounting treatment (31/12/2021: 23 contracts of 1,387,000 MWh) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period. 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 2022 Assets	Group 2022 Liabilities	Group 2021 Assets	Group 2021 Liabilities	Parent Company 2022 Assets	Parent Company 2022 Liabilities	Parent Company 2021 Assets	Parent Company 2021 Liabilities
Outstanding fair value at the beginning of the year		**25,735**	**(14,208)**	**1,557**	**(4,993)**	**25,466**	**(14,208)**	**1,557**	**(4,993)**
Included in the Statement of Profit or Loss	8	181	(10,277)	(785)	(12,588)	450	(10,277)	(1,054)	(12,588)
Included in other comprehensive income		(25,466)	(96,035)	24,963	3,373	(25,466)	(96,035)	24,963	3,373
Outstanding fair value at the end of the year		**450**	**(120,520)**	**25,735**	**(14,208)**	**450**	**(120,520)**	**25,466**	**(14,208)**

IV) Currency exchange forwards

As of 31 December 2022 the Group and the Parent Company several EUR/USD forward foreign currencies exchange transactions have been concluded in order to limit the currency risk of the payments in US dollars planned in the natural gas purchase agreement concluded in 2022. As at 31 December 2022 the Parent Company has outstanding five forward foreign currencies exchange contracts with notional principal amount of the outstanding USD 153,482 thousand with an execution date of 22 February and 26 April 2023 (31/12/2021: nil).

Fair value changes of forward currencies exchange contracts EUR'000

	Group 2022 Assets	Group 2022 Liabilities	Group 2021 Assets	Group 2021 Liabilities	Parent Company 2022 Assets	Parent Company 2022 Liabilities	Parent Company 2021 Assets	Parent Company 2021 Liabilities
Outstanding fair value at the beginning of the year	**–**	**–**	**–**	**(7)**	**–**	**–**	**–**	**(7)**
Included in other comprehensive income	–	(1,499)	–	7	–	(1,499)	–	7
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: Fair value measurement using – Significant observable inputs (Level 2)	Group: Fair value measurement using – Significant unobservable inputs (Level 3)	Group: TOTAL	Parent Company: Fair value measurement using – Quoted prices in active markets (Level 1)	Parent Company: Fair value measurement using – Significant observable inputs (Level 2)	Parent Company: Fair value measurement using – Significant unobservable inputs (Level 3)	Parent Company: TOTAL
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**
As of 31 December 2021									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	–	–	2,407,773	**2,407,773**	–	–	776,350	**776,350**
Non-current financial investments	16	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:									
Energy forwards, futures and swaps	24	–	25,735	–	**25,735**	–	25,466	–	**25,466**
Assets for which fair values are disclosed									
Investment properties	14 b	–	–	3,316	**3,316**	–	–	3,602	**3,602**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	172,313	–	**172,313**
- Fixed rate loans	29 e	–	–	–	**–**	–	534,065	–	**534,065**
Current financial receivables	18 a, b	–	–	238,634	**238,634**	–	–	153,850	**153,850**
Cash and cash equivalents	19	–	97,079	–	**97,079**	–	92,418	–	**92,418**

There have been no transfers for assets between Level 1, Level 2 and Level 3 during the reporting period.

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: Fair value measurement using – Significant observable inputs (Level 2)	Group: Fair value measurement using – Significant unobservable inputs (Level 3)	Group: TOTAL	Parent Company: Fair value measurement using – Quoted prices in active markets (Level 1)	Parent Company: Fair value measurement using – Significant observable inputs (Level 2)	Parent Company: Fair value measurement using – Significant unobservable inputs (Level 3)	Parent Company: TOTAL
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**
As of 31 December 2021									
Liabilities measured at fair value									
Derivative financial instruments, including:									
Interest rate swaps	24	–	4,312	–	**4,312**	–	4,312	–	**4,312**
Energy forwards, futures, and swaps	24	–	14,208	–	**14,208**	–	14,208	–	**14,208**
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	151,139	–	**151,139**	–	151,139	–	**151,139**
Borrowings from financial institutions	23	–	643,890	–	**643,890**	–	631,183	–	**631,183**
Trade and other financial current payables	26	–	–	163,950	**163,950**	–	–	166,517	**166,517**

There have been no transfers for liabilities between Level 1, Level 2 and Level 3 during the reporting period.

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 31/12/2022	Group: Carrying amount 31/12/2021	Group: Fair value 31/12/2022	Group: Fair value 31/12/2021	Parent Company: Carrying amount 31/12/2022	Parent Company: Carrying amount 31/12/2021	Parent Company: Fair value 31/12/2022	Parent Company: Fair value 31/12/2021
Financial assets								
Fixed rate loans to related parties	–	–	–	–	446,571	534,065	414,187	545,297
Financial liabilities								
Issued debt securities (bonds)	151,634	151,139	128,948	151,683	151,634	151,139	128,948	151,683

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 31/12/2022	Group 31/12/2021	Parent Company 31/12/2022	Parent Company 31/12/2021
Financial liabilities:					
Payables for materials and services		38,750	60,945	17,794	29,672
Payables for electricity and natural gas		20,642	78,053	1,489	57,297
Payables to related parties	29 b	8,191	10,969	24,026	30,541
Accrued expenses		27,204	10,889	21,351	5,832
Accrued expenses from related parties	29 d	–	327	31,191	41,359
Other financial current payables		13,024	2,767	4,051	1,816
TOTAL financial liabilities		**107,811**	**163,950**	**99,902**	**166,517**
Non–financial liabilities:					
Taxes other than income tax		38,418	12,405	27,159	4,095
Contract liabilities		15,707	9,822	5,368	4,289
Other current payables		3,338	2,841	1,339	1,160
TOTAL non–financial liabilities		**57,463**	**25,068**	**33,866**	**9,544**
TOTAL trade and other current payables		**165,274**	**189,018**	**133,768**	**176,061**

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 presented in the Statement of Financial Position at the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Provisions are used only for expenditures for which the provisions were originally recognised and are reversed if an outflow of resources is no longer probable.

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 31/12/2022	Group 31/12/2021	Parent Company 31/12/2022	Parent Company 31/12/2021
Non-current:				
- post–employment benefits (recognised in profit or loss)	14,413	13,623	6,395	6,040
- post–employment benefits (recognised in equity)	1,153	1,798	1,157	1,367
	15,566	**15,421**	**7,552**	**7,407**
Current:				
- termination benefits	–	311	–	133
	15,566	**15,732**	**7,552**	**7,540**

a) 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 2022	Group 2021	Parent Company 2022	Parent Company 2021
At the beginning of the year		**15,421**	**15,698**	**7,407**	**7,233**
Current service cost		1,029	1,485	497	672
Interest cost		511	145	246	67
Post–employment benefits paid		(750)	(809)	(388)	(444)
Losses as a result of changes in actuarial assumptions	21 a	(645)	(1,098)	(210)	(121)
At the end of the year		**15,566**	**15,421**	**7,552**	**7,407**

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 2022	Group 2021	Parent Company 2022	Parent Company 2021
At the beginning of the year		**15,421**	**15,698**	**7,407**	**7,233**
(Credited) / charged to the Statement of Comprehensive Income	21 a	(645)	(1,098)	(210)	(121)
Charged to the Statement of Profit or Loss		790	821	355	295
At the end of the year		**15,566**	**15,421**	**7,552**	**7,407**

Weighted average discount rate used for discounting benefit obligations was 3.32% (2021: 0.92%), 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 6.0% (2021: 3.0%) 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	31/12/2022	1,779	(1,483)	1,737	(1,477)	1,936	(1,625)	799	(664)	780	(661)	869	(727)
	31/12/2021	1,866	(1,677)	1,966	(1,650)	2,184	(1,807)	830	(744)	874	(732)	972	(801)

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 2023.

Expected contributions to post–employment benefit plan for the year ending 31 December 2023 is EUR 4.7 million.

The weighted average duration of the defined benefit obligation is 19.94 years (2021 – 19.80 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	31/12/2022	2,454	2,780	10,332	**15,566**	1,755	1,340	4,457	**7,552**
	31/12/2021	1,947	2,405	11,069	**15,421**	1,532	1,064	4,811	**7,407**

b) Termination benefits

Accounting policy

Termination benefits are measured in accordance with IAS 19 and are payable when employment is terminated by the Group Companies before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group and the Parent Company recognise termination benefits at the earlier of the following dates: (a) when the Group entity can no longer withdraw the offer of those benefits; and (b) when the Group entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value. Management judgements related to the measurement of provisions for termination benefits is disclosed in Note 4 d.

Termination benefits paid out are included in the Statement of Profit or Loss position 'Personnel expenses' within expenditure of employment termination (Note 9), while termination benefits and projected future liability values for 2021 to 2022 are recognised as a liability in the Statement of Financial Position and as accrued costs within expenditure of employment termination (Note 9):

EUR'000

	Group		Parent Company	
	2022	2021	2022	2021
At the beginning of the year	**311**	**2,803**	**133**	**757**
Termination benefits paid	(1,133)	(4,281)	–	(148)
Changes in provisions	822	1,789	(133)	(476)
At the end of the year	**–**	**311**	**–**	**133**

According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits were recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it was planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by the year 2022. The efficiency program has ended in the reporting year.

Assumptions used in calculation of termination benefits as of 31 December 2021 were as follows – average employee earnings at the time of termination equal average earnings per year, with projected increase (salary indexation) in the year 2022 by 7,9%, average employee length of service at the time of termination, the State Social Insurance Contributions rate was 23.59% in 2022.

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 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 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		Parent Company	
		31/12/2022	31/12/2021	31/12/2022	31/12/2021
I) Non-current deferred income					
a) contracts with customers					
From connection fees	6	132,381	136,217	–	–
Other deferred income		735	802	735	802
		133,116	**137,019**	**735**	**802**
b) operating lease					
Other deferred income		321	342	321	342
		321	**342**	**321**	**342**
c) other					
On grant for the installed electrical capacity of CHPPs		113,460	137,450	113,460	137,450
On financing from European Union funds		7,329	8,220	1,973	2,114
Other deferred income		70	103	44	52
		120,859	**145,773**	**115,477**	**139,616**
TOTAL non-current deferred income		**254,296**	**283,134**	**116,533**	**140,760**
II) Current deferred income					
a) contracts with customers					
From connection fees	6	15,386	14,794	–	–
Other deferred income		13,944	237	13,714	67
		29,330	**15,031**	**13,714**	**67**
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		891	896	142	144
		24,881	**24,886**	**24,132**	**24,134**
TOTAL current deferred income		**54,231**	**39,937**	**37,866**	**24,221**
TOTAL deferred income		**308,527**	**323,071**	**154,399**	**164,981**

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		Parent Company	
		2022	2021	2022	2021
At the beginning of the year		**323,071**	**349,916**	**164,981**	**189,177**
Received deferred income (financing and other income)		13,647	848	13,647	848
Received connection fees for connection to distribution system	6	11,840	12,556	–	–
Other deferred income credited to the Statement of Profit or Loss		(24,920)	(24,907)	(24,142)	(24,106)
Deferred income from contracts with customer and operating lease credited to the Statement of Profit or Loss		(15,111)	(15,342)	(87)	(938)
At the end of the year		**308,527**	**323,071**	**154,399**	**164,981**

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			
	2022	2021	2022		2021	
	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	49,152	23,359	69,136	49,036	43,646	23,206
- Sales of property, plant and equipment	–	2	27	–	171	–
- Lease of assets	1,034	1,039	1,457	1,034	1,483	1,039
- Interest income	–	1,341	9,353	–	9,282	1,341
TOTAL	**50,186**	**25,741**	**79,973**	**50,070**	**54,582**	**25,586**
Purchases of goods, PPE, and services:						
- Purchases of goods and services	99,884	79,188	268,123	30,020	346,314	8,362
- *including gross expenses from transactions with Sadales tīkls AS recognised in net amount*	–	–	*92,691*	–	*226,712*	–
- Purchases of property, plant and equipment and construction services	3,296	2,540	76	715	76	563
- Lease of assets	1,114	676	168	788	145	296
TOTAL	**104,294**	**82,404**	**268,367**	**31,523**	**346,535**	**9,221**

* Other related parties included transmission system operator – Augstsprieguma tīkls AS, Pirmais Slēgtais Pensiju Fonds AS and other entities controlled by the management members of Latvenergo Group

EUR'000

	Notes	Group		Parent Company	
		31/12/2022	31/12/2021	31/12/2022	31/12/2021
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	–	–	35,120	25,004
- Other related parties*		15,873	12,404	15,701	11,866
- Loss allowances for expected credit loss from receivables of subsidiaries	18 a, b	–	–	(22)	(16)
- Loss allowances for expected credit loss from receivables of other related parties*		(19)	(22)	(19)	(21)
		15,854	**12,382**	**50,780**	**36,833**
Payables to related parties:	26				
- Subsidiaries		–	–	22,369	28,415
- Other related parties*		8,191	10,969	1,658	2,126
		8,191	**10,969**	**24,027**	**30,541**
c) Accrued income raised from transactions with related parties:					
- For goods sold / services provided for subsidiaries	18 a, b	–	–	2,483	435
- For interest received from subsidiaries	18 a, b	–	–	2,100	1,381
		–	**–**	**4,583**	**1,816**
d) Accrued expenses raised from transactions with related parties:	26				
- For purchased goods / received services from subsidiaries		–	–	31,191	41,032
- For purchased goods / received services from other related parties*		–	327	–	327
		–	**327**	**31,191**	**41,359**

* Other related parties included transmission system operator – Augstsprieguma tīkls AS, Pirmais Slēgtais Pensiju Fonds AS and other entities controlled by the management members of Latvenergo Group

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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Non–current loans to subsidiaries				
Sadales tīkls AS	–	–	494,979	467,786
Elektrum Eesti OÜ	–	–	7,260	7,560
Elektrum Lietuva, UAB	–	–	8,535	1,970
Allowances for expected credit loss	–	–	(306)	(306)
TOTAL non–current loans	**–**	**–**	**510,468**	**477,010**
Current portion of non–current loans				
Sadales tīkls AS	–	–	95,312	97,000
Elektrum Eesti OÜ	–	–	300	300
'Elektrum Lietuva, UAB			904	–
Allowances for expected credit loss	–	–	(57)	(62)
Current loans to subsidiaries				
Sadales tīkls AS	–	–	10,000	10,000
Elektrum Eesti OÜ	–	–	41,700	34,880
Elektrum Lietuva, UAB	–	–	54,746	56,198
Enerģijas publiskais tirgotājs SIA	–	–	–	31,137
Allowances for expected credit loss	–	–	(65)	(85)
TOTAL current loans	**–**	**–**	**202,840**	**229,368**
TOTAL loans to related parties	**–**	**–**	**713,308**	**706,378**

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 2022 will be settled in 2023.

Movement in loans issued to related parties

EUR'000

	Group		Parent Company	
	2022	2021	2022	2021
At the beginning of the year	**–**	**86,620**	**706,378**	**742,229**
Change in current loans in cash (net)	–	–	225,482	319,304
Change in current loans by non–cash offsetting of operating receivables and payables (net)	–	–	(120,831)	(199,767)
Issued non–current loans in cash	–	–	–	7,860
Repayment of loan in cash	–	(86,672)	–	(86,672)
Repaid non–current loans by non–cash offset	–	–	(97,746)	(76,648)
Impairment for expected credit loss	–	52	25	72
At the end of the year	**–**	**–**	**713,308**	**706,378**
incl. loan movement through bank account				
Issued loans to subsidiaries	–	–	921,687	716,106
Repaid loans issued to subsidiaries	–	–	(696,205)	(388,942)
Repaid loans issued to other related parties	–	(86,672)	–	(86,672)
(Repaid) / issued loans, net	**–**	**(86,672)**	**225,482**	**240,492**

Interest received from related parties

EUR'000

	Group		Parent Company	
	2022	2021	2022	2021
Interest received	26	1,341	9,378	10,623
TOTAL	**26**	**1,341**	**9,378**	**10,623**

I) 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 31/12/2022	Outstanding loan amount 31/12/2021	Interest rate	Maturity date
29 September 2011	316,271	12,538	20,919	6 months EURIBOR + fixed rate	1 September 2025
6 February 2013	42,686	–	2,134	fixed rate	10 September 2022
18 September 2013	42,686	4,269	8,537	fixed rate	10 August 2023
29 October 2014	90,000	20,000	30,000	fixed rate	10 September 2024
20 October 2015	90,000	30,000	40,000	fixed rate	21 October 2025
22 August 2016	60,000	26,667	33,333	fixed rate	22 August 2026
22 August 2016	50,000	25,000	30,000	fixed rate	14 June 2027
14 December 2018	260,000	175,811	203,875	fixed rate	31 January 2030
3 March 2020	200,000	177,067	195,988	fixed rate+ floating rate	25 March 2030
8 March 2022	175,000	118,939	–	6 months EURIBOR + fixed rate	31 March 2032
TOTAL	**1,326,643**	**590,291**	**564,786**		

As of 31 December 2022, total outstanding amount of non–current loans with Sadales tīkls AS amounted to EUR 590,291 thousand (31/12/2021: EUR 564,786 thousand), including current portion of the loan repayable in 2022 – EUR 95,312 thousand (31/12/2021: EUR 97,000 thousand). As of 31 December 2022, 24.3% of non–current loans issued to Sadales tīkls AS (31/12/2021: 5.38%) was bearing floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2022 the effective average interest rate of non–current loans was 1.42% (2021: 1.42%). As of 31 December 2022, for non–current floating rate loans issued to Sadales tīkls AS 6 month EURIBOR ranged from 1.763% to 2.726% (31/12/2021: 6M EURIBOR -0.523%). As of 31 December 2022, impairment for expected credit loss of non–current loans to Sadales tīkls AS in the amount of EUR 354 thousand EUR (31/12/2021: EUR 361 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	
	31/12/2022	31/12/2021
Non–current loan:		
- < 1 year (current portion)	95,312	97,000
- 1 – 5 years	334,109	315,672
- > 5 years	160,870	152,114
	590,291	**564,786**

Concluded non–current loan agreements with Elektrum Eesti OÜ

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 31/12/2022	Outstanding loan amount 31/12/2021	Interest rate	Maturity date
25 August 2021	**7,860**	**7,560**	**7,860**	6 months EURIBOR + fixed rate	24 August 2031

As of 31 December 2022, total outstanding amount of non–current loans with Elektrum Eesti OÜ amounted to EUR 7,560 thousand (31/12/2021: EUR 7,860 thousand), including current portion of the loan repayable in 2022 – EUR 300 thousand (31/12/2021: 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% (2021: 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	
	31/12/2022	31/12/2021
Non–current loan:		
- < 1 year (current portion)	300	300
- 1 – 5 years	900	900
- > 5 years	6,360	6,660
	7,560	**7,860**

Concluded non–current loan agreements with Elektrum Lietuva, UAB

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 31/12/2022	Outstanding loan amount 31/12/2021	Interest rate	Maturity date
31 October 2021	**9,439**	**9,439**	**1,970**	6 months EURIBOR + fixed rate	29 September 2031

As of 31 December 2022, total outstanding amount of non–current loans with Elektrum Lietuva, UAB amounted to EUR 9,439 thousand (31/12/2021: EUR 1,970 thousand), including current portion of the loan repayable in 2022 – EUR 904 thousand (31/12/2021: nil). The annual interest rate according to the loan agreement is 6 (six) months EURIBOR (Euro Interbank Offer Rate) plus margin 0.68% (2021: 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 31/12/2022	Parent Company 31/12/2021
Non–current loan:		
- < 1 year (current portion)	904	–
- 1 – 5 years	4,340	875
- > 5 years	4,195	1,095
	9,439	**1,970**

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 2022 the effective average interest rate was 0.74% (2021: 0.77%). Within the framework of the agreement, as of 31 December 2022, Parent Company had a current borrowing from Enerģijas publiskais tirgotājs SIA in the amount of EUR 3,317 thousand (31/12/2021: nil).

On 29 March 2021 an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs SIA for issue of the current loan to ensure Enerģijas publiskais tirgotājs SIA financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Maturity date of the loan was 31 March 2023 Annual interest rate is fixed at 1.098% (2021: 1.098%). As of 31 December 2022, net outstanding amount of current loan is EUR nil thousand (31/12/2021: EUR 31,137 thousand).

As of 31 December 2022 impairment for expected credit loss of current loans to related parties is recognised in the amount of EUR 64 thousand (31/12/2021: EUR 85 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 2022 the effective average interest rate was 0.74% (2021: 0.77%).

EUR'000

	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Interest received	–	–	18	26
	–	**–**	**18**	**26**

30. Commitments and contingent liabilities

As of 31 December 2022, the Group had commitments amounting to EUR 82.4 million (31/12/2021: EUR 136.8 million) and the Parent Company had commitments amounting to EUR 49,6 million (31/12/2021: EUR 105.0 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 13 February 2023 to Sadales tīkls AS and on 22 February 2022 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.

On 15 February 2023 Latvenergo AS implemented a placement of six-year green bonds in total nominal value of EUR 50 million with a fixed annual interest rate and a yield to maturity of 4.952%. The issuance of notes is being implemented under Latvenergo AS EUR 200 million third programme for the issuance of notes.

On 9 March 2023 the international credit rating agency Moody's Investors Service has updated Latvenergo AS credit analysis. The rating of Latvenergo AS remains unchanged Baa2 with a stable outlook.

On 24 March 2023 Sadales tīkls AS signed an agreement with the Ministry of Economics of Republic of Latvia on receiving funding from the European Union Recovery Fund in the amount of EUR 41.9 million.

On 11 April 2023, the Cabinet of Ministers of the Republic of Latvia supported amendments to the Electricity Market Law (hereinafter - the Law) prepared by the Ministry of Climate and Energy, in order to introduce the norms set by the European Union Council Regulation (EU) 2022/1854 of 6 October 2022, on emergency measures for tackling high energy prices. The amendments to the Law provide that from 1 December 2022 to 30 June 2023, electricity producers will be subject to a maximum revenue amount of 180 euros per megawatt hour for the electricity sold. The part of revenue that exceeds the maximum revenue amount (surplus revenue) must be invested by producers in their companies to promote investments in decarbonization technologies, renewable energy resources, and energy efficiency. The proposed amendments to the Law on the use of surplus revenue are in line with the Latvenergo Group's medium-term operational strategy for 2022-2026, which aims to promote the development of a portfolio of renewable energy generation. Therefore, the planned amendments to the Law will not have a negative impact on the financial indicators of the Latvenergo Group. The final decision on the amendments to the Law will be made by the Saeima of the Republic of Latvia.

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 2022.

This document is signed with a secure digital signature and contains a time stamp

The Management Board of Latvenergo AS:

Mārtiņš Čakste
Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

18 April 2023

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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-2022-12-31-en.zip (SHA-256-checksum: 82f83dded0ba01138cb3d9dc924b0e33650bf8d6e731a01ff1a43cea28f52779), which comprise the statements of financial position as at 31 December 2022, 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 and other explanatory notes.

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 2022, 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.

Key audit matters

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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 2022 have recognized in the Statement of profit or loss revenue from contracts with customers amounting to EUR 1 839 824 thousand and EUR 1 227 658 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. 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.	In relation to revenue recognition, we performed the following procedures, among others: • we gained an understanding of the revenue recognition and measurement for electricity supply, and distribution system services revenue streams; • we have obtained an 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. 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 2022, the Group and the Parent Company have recognized property plant and equipment (PPE) amounting to EUR 3 005 370 thousand and EUR 1 242 660 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 for distribution system assets. 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. Impairment test was significant to our audit as it involves significant management estimates and material judgements.	In relation to impairment assessment of property, plant and equipment, we performed the following procedures: • we gained an understanding of the revaluation and impairment assessment process; • for distribution system and CHP CGU impairment tests we involved our valuation specialists to assist us with the assessment of the impairment test models, 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 d).

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 c) 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 were revalued by applying the income approach model (Note 14 c)). The management used an external appraisal to carry out the revaluation of this PPE group with the revaluation date of 1 April 2022. In the Group's and Parent Company's financial statements, as a result of upward revaluation of HPPs as at the revaluation date a gross revaluation reserve EUR of 227 695 thousand was recognized in equity and reversal of previously recognised impairment of EUR 417 thousand was charged to the Statements of profit or loss in the year 2022. 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 and material judgements.	We involved our valuation specialists to assess 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 c) 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 c).

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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 119 to 120 of the accompanying Annual Report;
- the Management Report, as set out on pages 121 to 127 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 125 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.

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 two, clause 5 and 8 and paragraph three of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56^2, paragraph two, clause 5 and 8 and 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 2 years.

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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. 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 annual report for the year ended 31 December 2022 (the Single Electronic Reporting Format of the Group and the Parent Company financial statements) contained in file latvenergo-2022-12-31-en.zip (SHA-256-checksum: 82f83dded0ba01138cb3d9dc924b0e33650bf8d6e731a01ff1a43cea28f52779).

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 2022 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.

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License 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