Latvenergo

Latvenergo Group Consolidated and Latvenergo AS Annual Report | 2023

Latvenergo Group Consolidated and Latvenergo AS Annual Report

Financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS)

This is pdf format of the annual report further converted to the ESEF report to be considered as the official annual report prepared in accordance with the respective requirements

Contents

FINANCIAL CALENDAR

Interim Condensed Financial Statements:
For the 3 months of 2024 (unaudited) – 31.05.2024
For the 6 months of 2024 (unaudited) – 30.08.2024
For the 9 months of 2024 (unaudited) – 29.11.2024

Key figures

In order to ensure an objective and comparable presentation of the financial results, Latvenergo Group and Latvenergo AS uses various financial figures and ratios that are derived from the financial statements.

Latvenergo Group

Operational figures		2023	2022	2021	2020	2019
Total electricity supply, incl.:	GWh	8,659	7,346	9,260	8,854	9,259
- Retail*	GWh	6,208	5,452	6,706	6,394	6,505
- Wholesale**	GWh	2,450	1,894	2,554	2,460	2,754
Total natural gas supply, incl.:	GWh	1,554	1,040	1,026	516	303
- Retail	GWh	896	930	1,026	516	303
- Wholesale	GWh	658	110	–	–	–
Electricity generated	GWh	5,132	3,822	4,517	4,249	4,880
Thermal energy generated	GWh	1,698	1,777	2,072	1,702	1,842
Number of employees		3,497	3,316	3,153	3,295	3,423
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

EUR'000

Financial figures	2023	2022	2021	2020	2019***
Revenue	2,034,425	1,841,801	1,065,219	773,391	841,636
EBITDA	601,769	360,209	198,813	277,894	243,526
Operating profit	404,596	193,961	81,890	121,350	100,365
Profit before tax	388,529	184,545	74,930	112,699	92,072
Profit for the year	350,917	183,874	71,623	116,309	94,359
Dividends paid to equity holder of the Parent Company	152,538	70,160	98,246	127,071	132,936
Assets	4,127,922	3,855,330	3,475,890	3,358,835	3,864,941
Non–current assets	3,377,267	3,078,635	2,894,502	2,976,192	2,798,712
Equity	2,963,080	2,356,419	2,123,448	2,118,242	2,265,487
Borrowings	629,696	875,918	795,029	743,199	882,671
Net debt 1)	511,240	763,161	697,950	555,876	563,959
Net cash flows generated from operating activities****	575,682	126,499	67,250	281,647	289,826
Adjusted funds from operations (FFO) 2)	513,678	338,977	176,143	249,534	259,237
Capital expenditure	193,349	121,666	126,728	168,855	229,427

Based on the most commonly used financial figures and ratios in the industry, the Latvenergo Group Strategy for 2022-2026 (see also the Management Report – section Further development, and Sustainability Report), as well as the binding financial covenants set in the Group's loan agreements, Latvenergo Group has set here and therefore uses the following financial figures and ratios:

- profitability measures – EBITDA; EBITDA margin; operating profit margin; profit before tax margin; profit margin; return on assets (ROA); return on equity (ROE); adjusted ROE excluding distribution; return on capital employed (ROCE)
- capital structure measures – net debt 1); adjusted FFO 2)/net debt; equity–to–asset ratio; net debt / EBITDA; net debt / equity; current ratio
- a dividend policy measure – dividend pay–out ratio

* Including operating consumption

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

*** Figures and ratios for 2019 - 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership)

**** Comparative figures recalculated, presenting changes in current intangible assets (CO_2 emission rights) in net cash flows from operating activities as changes in current assets

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

2) Adjusted funds from operations (FFO) = Net cash flows generated from operating activities – (changes in inventories and current intangible assets+ changes in receivables from contracts with customers and other receivables+ changes in other financial investments) – changes in trade and other liabilities – compensation from the state-on-state support for the installed capacity of CHPPs

Financial ratios	2023	2022	2021	2020	2019	Formulas
EBITDA margin	30%	20%	19%	36%	29%	EBITDA / revenue
Operating profit margin	19.9%	10.5%	7.7%	15.7%	11.9%	Operating profit / revenue
Profit before tax margin	19.1%	10.0%	7.0%	14.6%	10.9%	Profit before tax / revenue
Profit margin	17.2%	10.0%	6.7%	15.0%	11.2%	Profit for the year / revenue
Adjusted FFO / net debt	81%	46%	28%	45%	48%	Adjusted FFO / ((net debt at the beginning of the reporting year + net debt at the end of the reporting year) /2)
Equity–to–asset ratio	72%	61%	61%	63%	59%	Equity at the end of the reporting year / assets at the end of the reporting year
Net debt / EBITDA	1.1	2.0	3.2	2.0	2.2	(Net debt at the beginning of the reporting year + net debt at the end of the reporting year) / 2 / EBITDA
Net debt / equity	0.17	0.32	0.33	0.26	0.25	Net debt at the end of the reporting year / equity at the end of the reporting year
Current ratio	2.2	1.2	1.4	1.5	1.2	Current assets at the end of the reporting year / current liabilities at the end of the reporting year
Return on assets (ROA)	8.8%	5.0%	2.1%	3.2%	2.5%	Profit for the year / ((assets at the beginning of the reporting year + assets at the end of the reporting year) / 2)
Return on equity (ROE)	13.2%	8.2%	3.4%	5.3%	4.1%	Profit for the year / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2)
Adjusted ROE excluding distribution	19.9%	16.3%	5.5%	7.7%	4.8%	(Group's profit for the year – Sadales tīkls AS profit for the year) / ((Group's equity at the beginning of the reporting year – Sadales tīkls AS equity at the beginning of the reporting year + Group's equity at the end of the reporting year – Sadales tīkls AS equity at the end of the reporting year) / 2)
Return on capital employed (ROCE)***	11.9%	6.3%	2.9%	4.2%	3.4%	Operating profit / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2) + (borrowings at the beginning of the reporting year + borrowings at the end of the reporting year) / 2)
Dividend pay–out ratio	73%	88%	63%	126%	62%	Dividends paid to equity holder of the Parent Company / profit of the Parent Company in the previous year

Latvenergo

Latvenergo AS

Operational figures		2023	2022	2021	2020	2019
Total electricity supply, incl.:	GWh	6,090	4,700	5,304	5,318	5,502
- Retail*	GWh	3,830	3,540	3,999	4,235	4,211
- Wholesale**	GWh	2,261	1,161	1,305	1,083	1,290
Total natural gas supply, incl.:	GWh	1,435	905	804	453	294
- Retail	GWh	777	795	804	453	294
- Wholesale	GWh	658	110	–	–	–
Electricity generated	GWh	5,115	3,800	4,495	4,215	4,832
Thermal energy generated	GWh	1,457	1,531	1,800	1,475	1,603
Number of employees at the end of the reporting year		1,414	1,329	1,269	1,267	1,328
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

EUR'000

Financial figures	2023	2022	2021	2020	2019
Revenue	1,397,179	1,231,015	592,785	385,612	437,529
EBITDA	473,295	280,325	85,275	197,889	112,651
Operating profit	362,267	198,812	52,367	111,630	45,108
Profit before tax	362,660	209,362	79,520	154,848	101,227
Profit for the year	331,561	209,362	79,520	154,848	101,227
Dividends paid to equity holder of the Parent Company	152,538	70,160	98,246	127,071	132,936
Assets	3,474,032	3,305,536	2,915,587	2,760,155	3,136,958
Non–current assets	2,672,436	2,434,746	2,215,793	2,307,985	2,615,113
Equity	2,608,014	2,018,694	1,761,070	1,746,436	1,949,287
Borrowings	618,179	863,938	782,322	733,392	872,899
Net debt[1] ***	511,016	763,670	689,904	548,511	555,348
Net cash flows generated from operating activities****	423,244	258,419	291,049	436,615	352,535
Capital expenditure	64,452	30,040	29,545	50,999	48,269

* Including operating consumption
** Including sale of energy purchased within the mandatory procurement on the Nord Pool
*** Figures and ratios for 2019 - 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership)
**** Comparative figures recalculated, presenting changes in current intangible assets (CO_2 emission rights) in net cash flows from operating activities as changes in current assets
1) Net debt = borrowings at the end of the reporting year – cash and cash equivalents at the end of the reporting year

Financial ratios	2023	2022	2021	2020	2019	Formulas
EBITDA margin	33.9%	22.8%	14.4%	51.3%	25.7%	EBITDA / revenue
Operating profit margin	25.9%	16.2%	8.8%	28.9%	10.3%	Operating profit / revenue
Profit before tax margin	26.0%	17.0%	13.4%	40.2%	23.1%	Profit before tax / revenue
Profit margin	23.7%	17.0%	13.4%	40.2%	23.1%	Profit for the year / revenue
Equity–to–asset ratio	75%	61%	60%	63%	62%	Equity at the end of the reporting year / assets at the end of the reporting year
Net debt / equity	0.20	0.38	0.39	0.31	0.29	Net debt at the end of the reporting year / equity at the end of the reporting year
Current ratio	3.5	1.5	1.8	2.3	1.8	Current assets at the end of the reporting year / current liabilities at the end of the reporting year
Return on assets (ROA)	9.8%	6.7%	2.8%	5.3%	3.2%	Profit for the year / ((assets at the beginning of the reporting year + assets at the end of the reporting year) / 2)
Return on equity (ROE)	14.3%	11.1%	4.5%	8.4%	5.1%	Profit for the year / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2)
Return on capital employed (ROCE)***	11.9%	7.3%	2.1%	4.4%	1.7%	Operating profit / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2) + (borrowings at the beginning of the reporting year + borrowings at the end of the reporting year) / 2)
Dividend pay–out ratio	73%	88%	63%	126%	62%	Dividends paid to equity holder of the Parent Company / profit of the Parent Company in the previous year

Annual Report

– Key Figures
– Management Report
– Financial Statements
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Financial Position
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements
– Independent Auditors' Report

Management Report

Latvenergo Group (the Group) is one of the largest power suppliers and energy generators in the Baltics, operating in electricity and thermal energy generation and trade, natural gas trade, supply of products and services related to electricity consumption and energy efficiency, and electricity distribution services.

Latvenergo Group – one of the largest power suppliers in the Baltics

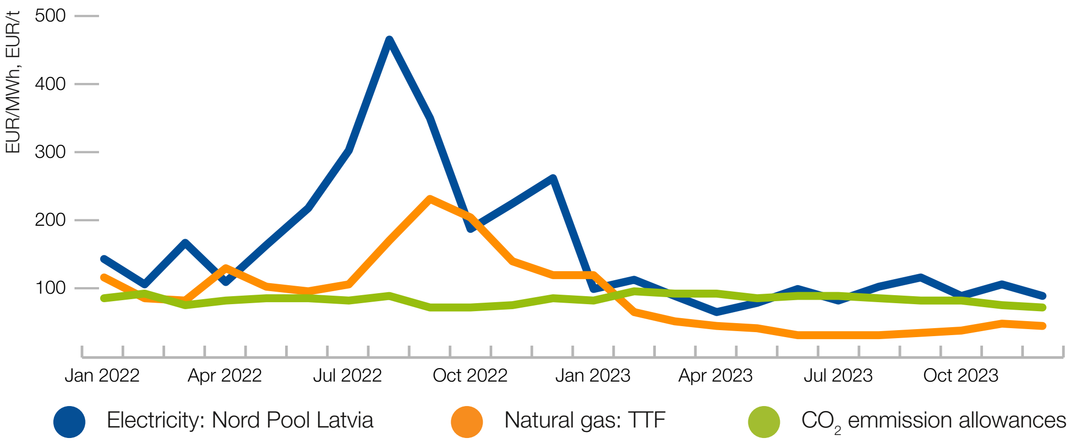
The parent company of Latvenergo Group is Latvenergo AS which is a power supply utility operating in electricity and thermal energy generation and trade, natural gas trade, as well as supply of products and services related to electricity consumption and energy efficiency in Latvia.

Latvenergo Group divides its operations into two operating segments: generation and trade; and distribution.

Operating Environment

In 2023, both the Nord Pool system price and the electricity price in Latvia decreased by 58% compared to the previous year. In the European Union (EU), the reduction in electricity prices was mainly affected by lower natural gas prices and increased electricity generation through renewable energy resources. According to Ember data, in 2023, the installed capacity of wind power plants (WPP) and solar power plants (SPP) in the European Union (EU) increased by 75 GW. Consequently, the development of wind power stations in the EU increased by 13% in 2023, while the development of solar power stations increased by 17%, collectively accounting for 27% of total electricity generation in 2023. Improved hydrological conditions also contributed to a 15% increase in hydroelectric power generation. Additionally, there was a decrease in electricity demand of approximately 2–3%. The electricity market was also stabilized with the help of the European Commission's REPowerEU plan, in response to the difficulties in the world energy market caused by the Russian invasion of Ukraine. The REPowerEU plan envisions implementing energy-saving measures, diversification of energy sources to reduce dependence on Russian fossil fuels and accelerated development of renewable energy resources.

Energy resource prices



Electricity and natural gas prices decreased

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

Region	2023	2022	Δ, %
System price	56.4	135.9	(58%)
Latvia	93.9	225.9	(58%)
Lithuania	94.4	229.2	(59%)
Estonia	90.8	192.0	(53%)
Poland	111.7	166.7	(33%)
Sweden	49.3	100.3	(51%)
Finland	56.5	153.5	(63%)
Denmark	84.3	213.7	(61%)
Norway	56.5	117.0	(52%)
Germany	95.2	235.5	(60%)
France	96.9	275.9	(65%)
Great Britain	108.0	239.4	(55%)

In 2023, the average price of natural gas at the TTF (front month) reached 49 EUR/MWh, which is 63% lower than a year earlier. Slower global economic growth, along with high liquefied natural gas (LNG) imports, increased RES output and reduced natural gas consumption, contributed to an increase in the natural gas reserve fill rate in EU gas storage facilities. In 2023, the average fill rate of natural gas storage facilities, according to Gas Infrastructure Europe data, was 79% (in 2022, it was 61%). Until the end of March 2024, the REPowerEU plan continued, aiming for voluntary measures to reduce gas consumption by 15% in the EU territory.

Latvenergo AS has not imported natural gas from Russia since 24 February 2022, switching to supplies of LNG from other countries. Until 2032, Latvenergo AS has secured the rights to receive for regular natural gas deliveries at the Klaipeda LNG terminal at a volume of 6 TWh per year.

The average price of CO_2 emission allowances (EUA DEC futures) was 5% higher compared to the year 2022, reaching 85.3 EUR / t. However, at the end of the year, there was a downward trend in prices, affected by the reduction in natural gas prices and slower economic development. The European Parliament's decision to allocate additional quotas for financing REPowerEU, aimed at reducing Europe's dependence on Russian energy resources, led to an increased supply of quotas in the short term. The climate goal of the European Commission to reduce CO_2 emissions by 55% by 2030 compared to the levels of 1990 remains relevant.

Operating Results

Generation

Latvenergo Group is one of the largest electricity producers in the Baltics. In 2023, Latvenergo Group produced 1/3 of the total electricity generated in the Baltics. Moreover, 73% of the electricity was generated from renewable energy sources (in 2022: 70%). The total amount generated by Latvenergo Group's power plants comprised 5.1 TWh of electricity and 1.7 TWh of thermal energy.

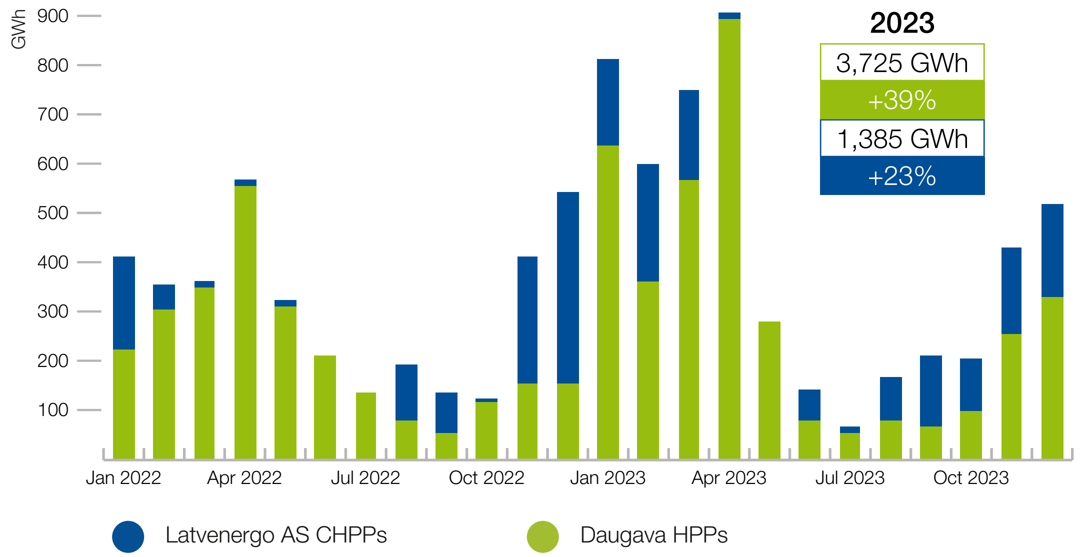
The Daugava HPPs generated the second largest amount of electricity in the last 25 years

The Daugava HPPs generated the largest amount of electricity since 2017 and the second largest amount in the last 25 years – 3.7 TWh, which is 39% more than in 2022. The amount of power generated at the Daugava HPPs was impacted by 56% higher water inflow in the Daugava River. According to data from the Latvian Environment, Geology and Meteorology Centre, the average water inflow in the Daugava River in 2023 was 789 m^3/s, while a year earlier it was 506 m^3/s.

The amount generated at the Latvenergo AS CHPPs increased by 23%, reaching 1.4 TWh. The increase was influenced by relatively low generation in the previous year, which was then affected by high natural gas prices. The operation of the CHPPs is adjusted to the conditions of the electricity market and heat demand.

The amount of thermal energy generated did not significantly change, reaching 1.7 TWh.

Electricity generation at Daugava HPPs and Latvenergo AS CHPPs



Trade

At the end of the reporting year, the number of electricity customers was more than 845 thousand, including almost 227 thousand foreign customers. The electricity customer portfolio shows a positive 3% increase mainly due to the increase in the number of customers within households in Lithuania. Under the *Elektrum* brand, Latvenergo Group has become the second-largest electricity supplier in the household customer segment in Lithuania.

Retail electricity trade increased by 14%

In 2023, the Group supplied 6.2 TWh of electricity to its customers in the Baltics, which is 14% more than a year earlier. The increase in electricity sales volume was mainly impacted by the growth in sales volume in the business customer segment, as well as the increase in sales volume in the household market in Lithuania.

The overall amount of retail electricity trade outside Latvia accounted for about 38%. The electricity trade volume in Latvia was 3.8 TWh, while in Lithuania it was 1.9 TWh and in Estonia it was 0.5 TWh.

Meanwhile, the number of natural gas customers has more than doubled, comprising more than 49 thousand at the end of December. The Group's natural gas sales in the Baltics decreased by 4%, reaching 896 GWh. The decrease is associated with a general decline in natural gas consumption in the Baltic market. In total, 1.6 TWh of natural gas was sold, which is almost half as much as in 2022.

In the reporting year, we continued to develop retail activities of other products and services related to electricity consumption and energy efficiency. The number of contracts for the installation of solar panels and trade of solar park components in the Baltics exceeded 1,600. The total installed solar panel capacity

Completed in 2023

6.2 TWh of electricity sold to Baltic retail customers.

0.9 TWh of natural gas sold to Baltic retail customers.

More than 1,600 contracts were concluded for the installation of solar panels in the Baltics.

More than 44.3 thousand electric vehicle charges were made at the Elektrum Drive electric car charging stations.

(including remote solar parks) provided to Latvenergo Group's retail customers in the Baltics exceeded 70 MW at the end of December; thus, *Latvenergo* is one of the leading providers of this service in the Baltics. Almost 3/4 of panels are installed for customers outside Latvia.

Steady growth in the number of *Elektrum Insured* product line customers in the Baltics continued, reaching about 130 thousand.

In the reporting year, we further strengthened our leading position in the electric vehicle charging station market in Latvia. The *Elektrum Drive* electric car charging network in the Baltics grew, reaching 400 charging ports. In 2023, 44.3 thousand electric vehicle charges were made, comprising 880 MWh, resulting in savings of 530 tonnes of CO_2 emissions. By using the *Elektrum Drive* application, charging is also possible within the e-mobi network in Latvia and at LIDL charging stations in Lithuania – providing customers access to a total of 571 charging points.

Distribution

Distribution segment provides electricity distribution services in Latvia. Sadales tīkls AS is the largest state distribution system operator, covering approximately 99% of the territory of Latvia. Distribution system tariffs are approved by the Public Utilities Commission (PUC).

As of 1 July 2023, the new distribution tariffs of Sadales tīkls AS have come into effect, with the tariff calculation increasing the proportion of the fixed tariff, providing a more appropriate solution to the actual maintenance cost structure of the distribution network. With the introduction of the new tariff, the financial results of the distribution segment have improved.

Under the law on measures to reduce the extraordinary rise in energy prices, from 1 September 2023 to 31 December 2023, a 60% reduction was applied to the fixed component of the electricity distribution tariff (maintenance fee for power) for all households. This reduction was compensated through funds allocated from the state budget.

To ensure a more sustainable approach and predictability of changes for customers in the future, from 1 January 2024 to 31 December 2025, the increase in the capacity payments of the electricity distribution tariff for household users will be applied gradually. The difference between the approved tariff and the one applied to customers will be compensated from dividends of Latvenergo AS paid in the state budget.

Considering the possibilities of obtaining financing, as well as the increase in energy resource prices in the last two years, microgeneration development in the country has been stimulated significantly. In 2022, the volume of new microgenerator connections to the distribution grid reached its peak, and in 2023, overall customer activity remained high. At the end of the reporting year, the total generation capacity of microgenerators and generators connected to the distribution system reached 550 MW. In 2023, the capacity of microgenerators connected to the distribution grid reached almost 70 MW, while the total generation capacity of connected generators increased by 137 MW.

Unfavourable weather conditions significantly affected SAIDI (System Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index) indicators in 2023. However, excluding mass damage, the reliability and quality of electricity supply have been increasing each year, and over the last five years, SAIFI has decreased by 16%, and SAIDI by 21%.

Financial Results

In 2023, Latvenergo Group's revenue reached EUR 2,034.4 million, which was EUR 192.6 million or 10% more than a year earlier. This was mainly impacted by EUR 135.8 million higher energy sales revenues mainly due to a 14% greater amount of electricity sold in retail, higher sales prices, a 39% greater amount of power generated at the Daugava HPPs and an increase in revenue in the distribution segment of 42.1 million EUR, following the introduction of the new distribution tariffs by Sadales tīkls AS starting from 1 July 2023.

Latvenergo Group's EBITDA increased by 67%

Latvenergo Group's EBITDA increased by EUR 241.6 million, which is 67% more than a year earlier, reaching EUR 601.8 million. This was mainly positively impacted by the greater amount of power generated at the Daugava HPPs, lower electricity and natural gas purchase prices and an increase in revenue in the distribution segment. The Group's profit for the reporting year reached EUR 350.9 million.

Investments

In 2023, the total amount of investment comprised EUR 193.3 million, which is 59% or EUR 71.7 million more compared to the previous year, and the largest increase was generated by investments in the development projects of solar power plants.

In the reporting year, investments in distribution comprised EUR 99.6 million, which is half of the Group's total investments. The majority of funds are invested in the construction and reconstruction of power lines and transformers, thereby ensuring high-quality network services, technical performance, and operational safety. The purpose of investments in the distribution segment is to promote the quality and security of the energy supply, reduce the frequency and duration of power supply disruptions caused by planned and unplanned maintenance, and ensure the appropriate voltage quality.

Latvenergo Group purposefully develops renewable generation capacity in the Baltic region

In the reporting year, EUR 34.9 million was allocated towards the development of *Elektrum* solar parks, which is almost 1/5 of Latvenergo Group's total investments. Also, the Daugava HPPs' hydropower unit reconstruction continued. In 2023, EUR 8.2 million was invested in the Daugava HPPs' hydropower unit reconstruction. 8 hydro units included in the programme have already been reconstructed as of 31 December 2023.

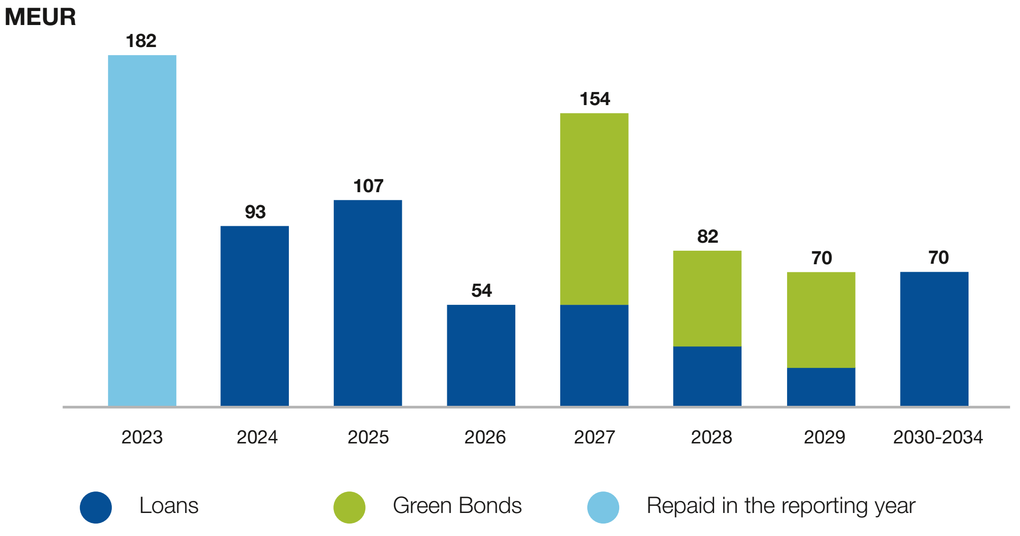
As per Latvenergo Group's strategic plan for 2022-2026, there will be a substantial increase in investments towards expanding the Group's renewable energy production capacity. This will lead to a significant reduction in greenhouse gas emissions and contribute to Latvia's goal of achieving climate neutrality by 2050.

In the reporting year, 3 solar parks with a total capacity of 18.7 MW were put into operation in Lithuania. By the end of the reporting year, we had 6 *Elektrum* solar parks in operation with a total capacity of almost 30 MW in Lithuania. The solar park capacity in Lithuania will be distributed in three revenue streams: selling capacity to customers, leasing capacity to customers, and supplying generated energy to customers. Meanwhile, in Latvia, the first solar park with a total capacity of 11.7 MW is expected to be operational in May 2024. In the Baltic region, the Group has solar and wind park projects in the project or construction stage with a total capacity of about 400 MW, including seven SPP projects in Latvia, with a total capacity of 40 MW, that were added to the Group's RES generation capacity portfolio in early 2024. Also, the development of a new WPP project has been initiated in Lithuania, in the Akmenes district, with a capacity of up to 15 MW. Solar and wind parks are expected to be gradually commissioned in 2024–2025.

Funding

Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner. Planning the sourcing of borrowings in a timely manner is also crucial to ensure loan refinancing risk management and debt repayment in due time.

Latvenergo Group's long-term debt repayment schedule



On February 22, 2023, Latvenergo AS concluded the third bond programme in the amount of EUR 200 million by issuing six-year green bonds with a total nominal value of EUR 50 million with a maturity date of February 22, 2029, and a fixed interest rate (coupon) and yield of 4.952% per year. The bonds are listed on Nasdaq Riga AS.

The bonds were issued in the format of green bonds, according to the Green Bond Framework of Latvenergo AS. The independent research centre CICERO Shades of Green has rated the updated Latvenergo AS Green Bond Framework as Dark Green (the highest category), indicating the compliance of the planned projects with long-term environmental protection and climate change mitigation objectives, as well as good governance and transparency.

As of 31 December 2023, the Group's borrowings amount to EUR 629.7 million, all of which are long-term loans (31 December 2022: EUR 875.9 million, including long-term loans in the amount of EUR 756.2 million). The loan portfolio includes long-term loans from commercial banks and international financial institutions, as well as green bonds in the amount of EUR 200 million.

External funding sources are purposefully diversified in the long run, thus creating a balance between lender categories in the total loan portfolio. In the reporting year, all the binding financial covenants set in Latvenergo Group's loan agreements were met.

Corporate Governance

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2023 is published. It is based on the Corporate Governance Code, which was published in 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice. Evaluating both the governance system of the capital company and its compliance with the principles in 2023, the Management Board considers that Latvenergo AS complies in all material aspects with all the principles set out in the Code, except for the criterion of gender representation on the company's Supervisory Board. For detailed information see the Sustainability Report 2023.

Non-financial Report

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

For detailed information on corporate social responsibility (CSR) activities, description of the policies and procedures in relation to those matters, the outcome of the policies, risks and risk management, and non-financial key performance indicators, please see the Sustainability Report 2023 which is available on the Latvenergo website. The report is prepared in accordance with the GRI Standards requirements.

Non-financial report is in accordance with the GRI Standards

The sustainability report addresses such topics as corporate social responsibility, economic performance, product responsibility, society, employees and the work environment, environmental protection, etc.

Further Development

In March 2022, Latvenergo Group's medium-term strategy for 2022–2026, with new strategic operational and financial objectives, was approved by the Supervisory Board of Latvenergo AS.

New strategic objectives comprise:

- expand and diversify the generation portfolio with green technologies;
- strengthen the position of *Elektrum* as the most valuable energy trader in the Baltics;
- develop electrification of the transport sector;
- ensure a sustainable and economically viable distribution service and improve the security and quality of electricity supply.

Along with the strategy approval, Latvenergo Group's financial targets have been set. The targets are divided into four groups – profitability, capital structure, dividend policy and other.

The financial targets are set to ensure:

- ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk;
- an optimal and industry-relevant capital structure that limits potential financial risks;
- an adequate dividend policy that is consistent with the planned investment policy and capital structure targets;
- an investment grade credit rating to secure funding for the strategy's ambitious investment programme.

Target group	Ratio	Year 2026
Profitability	Return on equity (ROE) excluding Distribution*	> 7%
Capital structure	Adjusted FFO / Net Debt ratio	> 25%
Dividend policy	Dividend payout ratio	> 64%
Other	Moody's credit rating	Maintain an investment grade credit rating

* The profitability of the regulated services provided by the Group is determined by the Public Utilities Commission. The most significant share in the Group's regulated services is the distribution service. When evaluating the fulfilment of the ROE target, the Group's return indicator will be assessed, excluding the regulated return on the distribution service – ROE excluding distribution.

More information on the 2023 targets and the new strategy can be found in the Sustainability Report 2023.

Financial Risk Management

The activities of Latvenergo Group and Latvenergo AS are exposed to a variety of financial risks: market risks, credit risk, and liquidity and cash flow risk. Latvenergo Group's Financial Risk Management Policy focuses on eliminating the potential adverse effects from such risks on financial performance. In the framework of financial risk management, Latvenergo Group and Latvenergo AS use various financial risk controls and hedging to reduce certain risk exposures.

a) Market risks

I) Price risk

Price risk might negatively affect the financial results of Latvenergo Group and Latvenergo AS due to falling revenue from generation and a mismatch between short run electricity production costs or electricity and natural gas purchase costs at floating market prices and retail sales at fixed prices.

The main sources of Latvenergo Group's and Latvenergo AS exposure to price risk are the floating market prices of electricity on the Nord Pool power exchange in Baltic bidding areas and fluctuations in natural gas price procured for CHPPs' fuel and retail purposes. The financial results of the Group and the Parent Company may be negatively affected by the volatility of the electricity market price, which depends on the weather conditions in the Nordic countries, global prices of resources, and the influence of local factors (water availability and ambient air temperature) on electricity generation opportunities. Movement in natural gas price due to changing demand–supply factors and seasonal fluctuations may have a negative effect on the difference between fixed retail electricity prices in contracts with customers and variable generation costs at CHPPs.

The Latvenergo Group and Latvenergo AS enter into long–term fixed price customer contracts for hedging price risk of electricity generation. In order to hedge the price risk caused by mismatch between retail sales at fixed prices and floating market prices, the Latvenergo Group and Latvenergo AS use electricity and natural gas financial derivatives, and enter into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – price has been fixed for 60-65% of projected electricity output prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs. The price fixing level reached 71% of the annual production volume by the end of December.

II) Interest rate risk

Latvenergo Group's and Latvenergo AS interest rate risk mainly arises from non–current borrowings at variable interest rates. They expose the Group and the Parent Company to the risk that finance costs might increase significantly when the reference rate surges. The borrowings from financial institutions have a variable interest rate, comprising 6–month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining more than 35% of its borrowings as fixed interest rate borrowings (considering the effect of interest rate swaps and issued bonds) with a duration of 1–4 years. Considering the effect of interest rate swaps and bonds with a fixed interest rate, 46% of the Group's and 47% of the Parent Company's non–current borrowings had a fixed interest rate with an average duration of 2.1 years for the Group and 2.1 years for the parent Company as of 31 December 2023.

III) Currency risk

Foreign currency exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency other than the functional currency, which is the EUR.

To manage the foreign currency exchange risk for liabilities arising from natural gas purchases, the Financial Risk Management Policy envisages use of foreign exchange forward contracts. During 2023, five EUR/USD forward foreign currencies exchange contracts in the amount of USD 153.5 thousand with an execution date of 22 February and 26 April 2023 were fulfilled, concluded in 2022 in order to limit the currency risk of the payments in US dollars planned in the natural gas purchase agreement concluded in 2022. As of 31 December 2023 there were no outstanding foreign exchange forward contracts.

As of 31 December 2023, all borrowings of Latvenergo Group and Latvenergo AS are denominated in euros, and during the reporting year, there was no substantial exposure to foreign currency risk as regards the Group's and the Parent Company's investments in non–current or current assets.

b) Credit risk

Credit risk is managed at the Latvenergo Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, and receivables. Credit risk exposure of receivables is limited due to the large number of Group customers as there is no significant concentration of credit risk with any single counterparty or group of counterparties with similar characteristics.

Credit risk related to cash and deposits with banks is managed by balancing the placement of financial assets in order to simultaneously choose the best offers and reduce the probability of incurrence of loss. No credit limits were exceeded during the reporting year, and the management does not expect any losses due to the occurrence of credit risk.

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short–term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 31 December 2023, Latvenergo Group's liquid assets (cash and cash equivalents – short–term deposits up to 3 months) reached EUR 118.5 million (31 December 2022: EUR 112.8 million), while the Latvenergo AS liquid assets reached EUR 107.2 million (31/12/2022: EUR 100.3 million).

The Group and the Parent Company continuously monitor cash flow and liquidity forecasts, which comprise the undrawn borrowing facilities and cash and cash equivalents.

Latvenergo

Events after the reporting year

The Ministry of Economics and Latvenergo AS were ordered to draw up an assessment on the most optimal solution for the structure of Latvenergo AS Group, considering the possibility of merging the existing and planned renewable energy projects of Latvenergo AS Group into one subsidiary.

Latvijas valsts meži AS was permitted to terminate its participation in Latvijas vēja parki SIA, the joint venture of Latvijas valsts meži AS and Latvenergo AS, by alienating all shares (20%) of Latvijas vēja parki SIA owned by Latvijas valsts meži AS for the benefit of Latvenergo AS.

In order to implement the installation of the total new RES (RES - renewable energy sources) capacity of 2,300 MW provided for by the strategy of Latvenergo Group, the Ministry of Economics was instructed to draw up a draft order on the authorisation for determining a different amount of dividends to be paid by Latvenergo AS to the State budget as of 2027 in the medium-term Latvenergo AS Strategy for 2026–2030, bringing the amount of dividends to be paid by Latvenergo AS to the State budget in line with the average dividend payout ratio of European energy sector market participants and to submit the aforementioned draft order to the Cabinet of Ministers for consideration.

All other significant events that would materially affect the financial position, financial performance or cash flows of the Latvenergo Group and Latvenergo AS after the reporting year are disclosed in Note 31 of the Group's and the Parent Company's Financial Statements.

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS, the Group consolidated financial statements and the Company financial statements for the year ended 31 December 2023 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and in all material aspects present a true and fair view of the financial position, profit and loss and cash flows of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

Profit distribution

According to the Law "On state budget for 2024 and budgetary framework for 2024, 2025 and 2026" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2024 (for the reporting year 2023) is 64% of the profit for the reporting year, but not less than EUR 199.3 million, corporate income tax calculated and paid in accordance with the laws and regulations. The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

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Mārtiņš Čakste
Chairman of the Management Board of Latvenergo AS

Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Revenue	6	2,034,425	1,841,801	1,397,179	1,231,015
Other income	7	31,896	31,174	28,343	28,690
Raw materials and consumables	8	(1,248,320)	(1,333,708)	(846,986)	(891,138)
Personnel expenses	9	(141,882)	(116,993)	(63,366)	(52,812)
Other operating expenses	10	(74,350)	(62,065)	(41,875)	(35,430)
EBITDA*		**601,769**	**360,209**	**473,295**	**280,325**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a,14 a, 15	(197,173)	(166,248)	(111,028)	(81,513)
Operating profit		**404,596**	**193,961**	**362,267**	**198,812**
Finance income	11	9,226	1,414	24,747	10,767
Finance costs	11	(25,293)	(10,830)	(25,278)	(10,802)
Dividends from subsidiaries	16	–	–	924	10,585
Profit before tax		**388,529**	**184,545**	**362,660**	**209,362**
Income tax	12	(37,612)	(671)	(31,099)	–
Profit for the year		**350,917**	**183,874**	**331,561**	**209,362**
Profit attributable to:					
- Equity holder of the Parent Company	21 c	349,749	183,443	331,561	209,362
- Non–controlling interests		1,168	431	–	–
Basic earnings per share (in euros)	21 c	0.443	0.232	0.420	0.265
Diluted earnings per share (in euros)	21 c	0.443	0.232	0.420	0.265

* See Alternative Performance Measures in Note 2 for the definition of this Alternative Performance Measure

The notes on pages 16 to 61 are an integral part of these Financial Statements

Statement of Comprehensive Income

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Profit for the year		**350,917**	**183,874**	**331,561**	**209,362**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods, net of tax:					
- gains / (losses) from change in hedge reserve	21 a, 24	99,380	(109,483)	99,380	(109,483)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		**99,380**	**(109,483)**	**99,380**	**(109,483)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax:					
- gains on revaluation of non–current assets	14 a, 21 a	312,061	227,695	312,061	227,695
- (losses) / gains on remeasurement on defined benefit plan	21 a, 27	(2,709)	645	(1,144)	210
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**309,352**	**228,340**	**310,917**	**227,905**
Other comprehensive income for the year		**408,732**	**118,857**	**410,297**	**118,422**
TOTAL comprehensive income for the year		**759,649**	**302,731**	**741,858**	**327,784**
Attributable to:					
- Equity holder of the Parent Company		758,481	302,300	741,858	327,784
- Non–controlling interests		1,168	431	–	–

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Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Liāna Ķeldere
Accounting director of Latvenergo AS

Statement of Financial Position

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
ASSETS					
Non-current assets					
Intangible assets	13 a	57,326	51,789	21,647	18,397
Property, plant and equipment	14 a	3,301,051	3,005,370	1,505,411	1,242,660
Right–of–use assets	15	11,219	10,526	4,710	5,066
Investment property	14 b	2,309	2,297	2,261	2,222
Non-current financial investments	16	42	40	671,720	647,320
Non–current loans to related parties	29 e	863	–	463,030	510,468
Other non-current receivables	18 c	447	482	447	482
Deferred income tax assets	12	800	–	–	–
Derivative financial instruments	24	3,210	8,131	3,210	8,131
Total non-current assets		**3,377,267**	**3,078,635**	**2,672,436**	**2,434,746**
Current assets					
Inventories	17	183,798	295,638	146,045	261,586
Current intangible assets	13 b	23,051	31,664	23,051	31,664
Receivables from contracts with customers	18 a	224,922	314,109	161,674	233,192
Other current receivables	18 b, c	50,081	17,521	52,280	36,451
Deferred expenses		2,388	2,408	2,156	2,191
Current loans to related parties	29 e	–	–	161,268	202,840
Derivative financial instruments	24	7,959	2,598	7,959	2,598
Other current financial investments	19	140,000	–	140,000	–
Cash and cash equivalents	19	118,456	112,757	107,163	100,268
Total current assets		**750,655**	**776,695**	**801,596**	**870,790**
TOTAL ASSETS		**4,127,922**	**3,855,330**	**3,474,032**	**3,305,536**

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
EQUITY AND LIABILITIES					
EQUITY					
Share capital	20	790,368	790,368	790,368	790,368
Reserves	21 a	1,681,852	1,282,683	1,320,419	910,683
Retained earnings		483,016	276,242	497,227	317,643
Equity attributable to equity holder of the Parent Company		**2,955,236**	**2,349,293**	**2,608,014**	**2,018,694**
Non-controlling interests		7,844	7,126	–	–
Total equity		**2,963,080**	**2,356,419**	**2,608,014**	**2,018,694**
LIABILITIES					
Non-current liabilities					
Borrowings	23	536,316	574,754	527,082	561,551
Lease liabilities	15	9,015	8,648	3,607	4,206
Deferred income tax liabilities	12	5,475	667	–	–
Provisions	27	18,240	15,566	8,565	7,552
Deferred income from contracts with customers	28 I) a	138,506	133,116	668	735
Other deferred income	28 I) b, c	112,509	121,180	94,263	115,798
Other non-current liabilities		–	265	–	–
Total non-current liabilities		**820,061**	**854,196**	**634,185**	**689,842**
Current liabilities					
Borrowings	23	93,380	301,164	91,097	302,387
Lease liabilities	15	2,391	2,027	1,217	960
Trade and other payables	26	202,733	165,274	115,300	133,768
Deferred income from contracts with customers	28 II) a	21,304	29,330	67	13,714
Other deferred income	28 II) b, c	24,973	24,901	24,152	24,152
Derivative financial instruments	24	–	122,019	–	122,019
Total current liabilities		**344,781**	**644,715**	**231,833**	**597,000**
Total liabilities		**1,164,842**	**1,498,911**	**866,018**	**1,286,842**
TOTAL EQUITY AND LIABILITIES		**4,127,922**	**3,855,330**	**3,474,032**	**3,305,536**

The notes on pages 16 to 61 are an integral part of these Financial Statements

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Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Liāna Ķeldere
Accounting director of Latvenergo AS

Statement of Changes in Equity

EUR'000

		Group						Parent Company			
		Attributable to equity holder of the Parent Company						Attributable to equity holder of the Parent Company			
	Notes	**Share capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**TOTAL**	**Share capital**	**Reserves**	**Retained earnings**	**TOTAL**
As of 31 December 2021		**790,368**	**1,175,355**	**151,430**	**2,117,153**	**6,295**	**2,123,448**	**790,368**	**795,731**	**174,971**	**1,761,070**
Non-controlling interests' contributions to share capital		–	–	–	**–**	400	**400**	–	–	–	**–**
Dividends for 2021	21 b	–	–	(70,160)	**(70,160)**	–	**(70,160)**	–	–	(70,160)	**(70,160)**
Disposal of non-current assets revaluation reserve	21 a	–	(11,529)	11,529	**–**	–	**–**	–	(3,470)	3,470	**–**
Total transactions with owners and other changes in equity		**–**	**(11,529)**	**(58,631)**	**(70,160)**	**400**	**(69,760)**	**–**	**(3,470)**	**(66,690)**	**(70,160)**
Profit for the year		–	–	183,443	**183,443**	431	**183,874**	–	–	209,362	**209,362**
Other comprehensive income for the year	21 a	–	118,857	–	**118,857**	–	**118,857**	–	118,422	–	**118,422**
Total comprehensive income for the year		**–**	**118,857**	**183,443**	**302,300**	**431**	**302,731**	**–**	**118,422**	**209,362**	**327,784**
As of 31 December 2022		**790,368**	**1,282,683**	**276,242**	**2,349,293**	**7,126**	**2,356,419**	**790,368**	**910,683**	**317,643**	**2,018,694**
Dividends for 2022	21 b	–	–	(152,538)	**(152,538)**	(450)	**(152,988)**	–	–	(152,538)	**(152,538)**
Formed other reserves	21 a	–	50	(50)	**–**	–	**–**	–	–	–	**–**
Disposal of non-current assets revaluation reserve	21 a	–	(9,613)	9,613	**–**	–	**–**	–	(561)	561	**–**
Total transactions with owners and other changes in equity		**–**	**(9,563)**	**(142,975)**	**(152,538)**	**(450)**	**(152,988)**	**–**	**(561)**	**(151,977)**	**(152,538)**
Profit for the year		–	–	349,749	**349,749**	1,168	**350,917**	–	–	331,561	**331,561**
Other comprehensive income for the year	21 a	–	408,732	–	**408,732**	–	**408,732**	–	410,297	–	**410,297**
Total comprehensive income for the year		**–**	**408,732**	**349,749**	**758,481**	**1,168**	**759,649**	**–**	**410,297**	**331,561**	**741,858**
As of 31 December 2023		**790,368**	**1,681,852**	**483,016**	**2,955,236**	**7,844**	**2,963,080**	**790,368**	**1,320,419**	**497,227**	**2,608,014**

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Liāna Ķeldere
Accounting director of Latvenergo AS

Statement of Cash Flows

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Cash flows from operating activities					
Profit before tax		**388,529**	**184,545**	**362,660**	**209,362**
Adjustments:					
- Depreciation, amortisation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a, 14 a, 15	197,173	166,248	111,028	81,513
- Loss / (income) from disposal of non-current assets	2	6,629	3,984	(373)	(2,485)
- Interest expense	11	24,961	10,493	24,981	10,508
- Interest income	11	(6,149)	(27)	(21,670)	(9,380)
- Fair value (gain) / loss on derivative financial instruments	8	(23,079)	9,022	(23,079)	8,753
- Dividends from subsidiaries	16	–	–	(924)	(10,585)
- (Decrease) / increase in provisions	27	(35)	480	(130)	222
- Unrealised loss on currency translation differences	11	4	29	–	5
Interest paid		(23,638)	(9,098)	(23,402)	(8,909)
Interest paid on leases	15	(114)	(88)	(37)	(26)
Interest received		5,506	27	5,270	27
Paid corporate income tax		(32,119)	(2,648)	(31,099)	–
Funds from operations (FFO)*		**537,668**	**362,967**	**403,225**	**279,005**
Decrease / (increase) in inventories and current intangible assets	2	120,445	(110,925)	124,155	(97,717)
Decrease / (increase) in receivables from contracts with customers and other receivables		57,353	(89,847)	76,230	(95,101)
Increase in other current financial investments	19	(140,000)	–	(140,000)	–
Increase / (decrease) in trade and other liabilities		216	(35,696)	(57,714)	(49,662)
Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net	29 e	–	–	17,348	221,894
Net cash flows generated from operating activities		**575,682**	**126,499**	**423,244**	**258,419**

* See Alternative Performance Measures in Note 2 for the definition of this Alternative Performance Measure

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Cash flows from investing activities					
Loans issued to related parties	29 e	(863)	–	–	(225,482)
Repayment of loans to related parties	29 e	–	–	68,272	–
Purchase of intangible assets and PPE	2	(181,515)	(118,210)	(61,263)	(28,570)
Dividends received from subsidiaries	16	–	–	924	156
Investments in subsidiaries	16	–	–	(28,399)	(2,102)
Net cash flows used in investing activities		**(182,378)**	**(118,210)**	**(20,466)**	**(255,998)**
Cash flows from financing activities					
Repayment of issued debt securities (bonds)	23	–	(100,000)	–	(100,000)
Proceeds on issued debt securities (bonds)	23	50,000	100,000	50,000	100,000
Proceeds on borrowings from financial institutions	23	2,000	207,846	–	200,013
Repayment of borrowings from financial institutions	23	(301,090)	(129,118)	(295,276)	(123,801)
Received financing from European Union		16,245	4	2,625	–
Lease payments	15	(1,772)	(1,583)	(694)	(623)
Proceeds from non-controlling interests' contributions to share capital		–	400	–	–
Dividends paid to non-controlling interests	21 b	(450)	–	–	–
Dividends paid to equity holder of the Parent Company	21 b	(152,538)	(70,160)	(152,538)	(70,160)
Net cash flows (used in) / generated from financing activities		**(387,605)**	**7,389**	**(395,883)**	**5,429**
Net increase in cash and cash equivalents		**5,699**	**15,678**	**6,895**	**7,850**
Cash and cash equivalents at the beginning of the year	19	112,757	97,079	100,268	92,418
Cash and cash equivalents at the end of the year	**19**	**118,456**	**112,757**	**107,163**	**100,268**

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Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Liāna Ķeldere
Accounting director of Latvenergo AS

Notes to the Financial Statements

1. Corporate information

All shares of public limited company Latvenergo, parent company of Latvenergo Group (hereinafter – Latvenergo AS or the Parent Company) are owned by the Republic of Latvia and are held by the Ministry of Economics of the Republic of Latvia. The registered address of the Parent Company is 12 Pulkveža Brieža Street, Riga, Latvia, LV–1230. According to the Energy Law of the Republic of Latvia, Latvenergo AS is designated as a national economy object of State importance and, therefore, is not subject to privatisation.

Latvenergo AS is power supply utility engaged in electricity and thermal energy generation, as well as sales of electricity and natural gas. Latvenergo AS is one of the largest corporate entities in the Baltics.

Subsidiaries included in Latvenergo Group (hereinafter – the Group), participating interest in subsidiaries, associated companies and other non–current financial investments are disclosed in Note 16.

Latvenergo AS and its subsidiaries Sadales tīkls AS and Enerģijas publiskais tirgotājs SIA are also shareholders with 48.15% interest held in company Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS holds 46.30% of interest) that manages a defined–contribution corporate pension plan in Latvia.

The Management Board of Latvenergo AS:

Since 26 January 2024 the Management Board of Latvenergo AS was comprised of the following members: Mārtiņš Čakste (Chairman of the Board), Dmitrijs Juskovecs, Guntars Baļčūns, Harijs Teteris and Ilvija Boreiko.

Since 3 January 2022 till 26 January 2024 the Management Board of Latvenergo AS was comprised of the following members: Mārtiņš Čakste (Chairman of the Board), Dmitrijs Juskovecs, Guntars Baļčūns, Harijs Teteris and Kaspars Cikmačs until 24 September 2023.

The Supervisory Board of Latvenergo AS:

Since 1 March 2024 the Supervisory Board of Latvenergo AS was comprised of the following members: Aigars Laizāns (Chairman since 8 March 2024), Kaspars Rokens (Deputy Chairman), Toms Siliņš and Gundars Ruža.

Since 11 June 2020 till 1 March 2024 the Supervisory Board of Latvenergo AS was comprised of the following members: Ivars Golsts (Chairman), Kaspars Rokens (Deputy Chairman), Aigars Laizāns, Toms Siliņš and Gundars Ruža.

The Supervisory body – Audit Committee:

Since 3 February 2021 and re-elected for a term of three years from 3 February 2024, Audit Committee was comprised of the following members: Svens Dinsdorfs, Torbens Pedersens (Torben Pedersen), Ilvija Grūba, Toms Siliņš and Gundars Ruža.

The Latvenergo Group's and Latvenergo AS auditor is the certified audit company Ernst & Young Baltic SIA (40003593454) (licence No. 17) and certified auditor in charge is Diāna Krišjāne, certificate No. 124.

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2023 on 23 April 2024. The Financial Statements are subject to Shareholder's approval in the Shareholder's Meeting.

2. Summary of material accounting policies

The principal accounting policies applied in the preparation of these Financial Statements as a whole are set out below, while remaining accounting policies are described in the notes to which they relate. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Financial Statements of the Latvenergo Group and Latvenergo AS are prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union (IFRS). Due to the European Union's endorsement procedure, the standards and interpretations not approved for use in the European Union are also presented in this note as they may have impact on the Financial Statements in the following periods if endorsed.

The Financial Statements are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments and non-current financial investments) measured at fair value and certain property, plant and equipment carried at revalued amounts as disclosed in the accounting policies presented below.

The Financial Statements for 2023 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ended 31 December 2023 and comparative information for 2022. Where it has been necessary, comparatives for 2022 are reclassified using the same principles applied for preparation of the Financial Statements for 2023.

The Group and the Parent Company has reclassified individual positions in the statement of cash flows for the year 2022 for CO_2 emission rights, presenting changes in current intangible assets in net cash flows from operating activities.

Reclassification of individual positions in the Statement of Cash Flows for the year ended 31 December 2022:

EUR'000

	Group			Parent Company		
	2022 before reclassification	Reclassification	2022 after reclassification	2022 before reclassification	Reclassification	2022 after reclassification
Cash flows from operating activities						
- Loss from disposal of non-current assets	43,229	(39,245)	3,984	36,760	(39,245)	(2,485)
Funds from operations (FFO)	**402,212**	**(39,245)**	**362,967**	**318,250**	**(39,245)**	**279,005**
Decrease / (increase) in inventories and current intangible assets	(103,526)	(7,399)	(110,925)	(90,318)	(7,399)	(97,717)
Net cash flows from operating activities	**173,143**	**(46,644)**	**126,499**	**305,063**	**(46,644)**	**258,419**
Cash flows from investing activities						
Purchase of intangible assets and PPE	(164,854)	46,644	(118,210)	(75,214)	46,644	(28,570)
Net cash flows used in investing activities	**(164,854)**	**46,644**	**(118,210)**	**(302,642)**	**46,644**	**(255,998)**

The Latvenergo Group's and Latvenergo AS Financial Statements have been prepared in euros (EUR) currency and all amounts shown in these Financial Statements except non-monetary items are presented in thousands of EUR (EUR'000).

All figures, unless stated otherwise are rounded to the nearest thousand. Certain monetary amounts, percentages and other figures included in this report are subject to rounding adjustments. On occasion, therefore, amounts shown in tables may not be the arithmetic accumulation of the figures that precede them, and figures expressed as percentages in the text and in tables may not total 100 percent.

The preparation of the Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

Alternative Performance Measures

In order to ensure a fair presentation of the Group's and the Parent Company's operations, the Group and the Parent Company uses Alternative Performance Measures that are not defined in IFRS or in the Accounting Law of the Republic of Latvia. The Alternative Performance Measures are described below, including their definitions and how they are calculated.

The Group and the Parent Company believes that these measures provide valuable supplementary information for stakeholders and the management. These financial measures should not be seen as a substitute for measures that are defined according to IFRS and these are not comparable with measures used by other companies.

EBITDA – operating profit before depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets (Earnings Before Interest, Tax, Depreciation and Amortisation)

Funds from operations (FFO) = Net cash flows from operating activities – changes in inventories and current intangible assets – changes in receivables from contracts with customers and other receivables – changes in other current financial investments – changes in trade and other liabilities – Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net.

Capital expenditure – additions of property, plant and equipment, intangible assets and investment properties, including assets from the acquisition of subsidiaries.

European Single Electronic Format (ESEF) reporting

The Group and the Parent Company are required to file annual report in the European Single Electronic Format (ESEF) using the XHTML format and to tag the consolidated financial statements including notes using Inline eXtensible Business Reporting Language (iXBRL). The prepared financial statements comply with 2023 taxonomy. Where a financial statement line item or text block is not defined in the ESEF taxonomy, an extension to the taxonomy has been created.

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

a) Standards issued and that are effective, approved by the European Union, and are relevant for the Group's and the Parent Company's operations

The adopted policies correspond to the accounting policies of the previous financial year, except for the following IFRS amendments, which The Group and the Parent Company has adopted starting from 1 January 2023:

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

The amendments are effective for annual periods beginning on or after 1 January 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. The Group's and the Parent Company's management reviewed its accounting policies disclosure and made updates to the information disclosed in Notes of the financial statements.

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

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Group's and the Parent Company's management assessed that these amendments didn't have an impact on the accounting policies and the disclosure of accounting estimates in the financial statements.

- **IAS 12 'Income Taxes' and its amendments related to International Tax Reform - Pillar Two Model Rules (Amendments)**

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

Article 50 of global minimum tax Directive (EU) 2022/2523 of 14 December 2022 allows member states that have 12 (twelve) or fewer ultimate parent entities (UPEs) of in-scope multinational enterprises (MNEs) groups to hold off on applying the Income Inclusion Rule (IIR) and Undertaxed Profit Rule (UTPR) for 6 (six) consecutive fiscal years starting on December 31. The Ministry of Finance of Republic of Latvia postponed the implementation of the Pillar Two rules by 6 (six) years starting from 31 December 2023 as allowed by exception. Considering the status of endorsement, the Group and the Parent Company has not identified material impact on its' financial statements.

b) Standards and its amendments issued and approved by the European Union, but not yet effective and are not applicable before the date of entry into force, but are relevant for the Group's and the Parent Company's operations

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

The amendments become effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted, and amendments must be applied prospectively in accordance with IAS 8. The purpose of the amendments is to clarify IAS 1 principles for classifying liabilities as current or non-current. The Group and the Parent Company will assess the impact of these amendments on the classification of their liabilities and financial statements and does not expect that they may have a material effect on the Group's and the Parent Company's financial position.

c) Standards and its amendments which have not yet issued, not yet approved by the European Union and not relevant for the Group's and the Parent Company's operations

- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)
- IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

d) Standards issued and which became effective, approved by the European Union, and which are not relevant for the Company's operations

- IFRS 17 Insurance Contracts
- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)
- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)

Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries' financial reports are consolidated from the date on which control is transferred to the Parent Company and are no longer consolidated from the date when control ceases. General information about entities included in consolidation and its primary business activities are disclosed in Note 16.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed to the Statement of Profit or Loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Intercompany transactions, balances, and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Transactions with non–controlling interests and owners

The Group treats transactions with non–controlling interests as transactions with equity owners of the economic entity. Changes in a Parent's ownership interest in a subsidiary that do not result in the Parent losing control over the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners).

Foreign currency translation

a) Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Group's entity operates ("the functional currency"). The Financial Statements have been prepared in euros (EUR), which is the Parent Company's functional currency, and presented in thousands of EUR. All figures, unless stated otherwise are rounded to the nearest thousand.

b) Transactions and balances

All transactions denominated in foreign currencies are translated into functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rate at the last day of the reporting year. The resulting gain or loss is charged to the Statement of Profit or Loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Financial assets and liabilities

Financial Assets

The Group and the Parent Company classify its financial assets under IFRS 9 in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.

The Group and the Parent Company reclassify debt investments only when their business model for managing these assets changes.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Parent Company's business model for managing the asset and the cash flow characteristics of the asset. The Group and the Parent Company classify all of their debt instruments:

- at *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are subsequently measured at amortised cost using the effective interest (EIR) method and are subject to impairment. Any gain or loss arising on de-recognition is recognised directly in profit or loss. Impairment losses are presented as separate item 'Expected credit losses (including reversals) on financial instruments' in the statement of profit or loss position 'Other operating expenses' (Note 10).

Equity instruments

The Group and the Parent Company subsequently measure all equity investments at fair value. Dividends from such investments continue to be recognised in profit or loss when the Group's and the Parent Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income (FVOCI) or financial instruments at fair value through profit or loss (FVPL) are not reported separately from other changes in fair value.

Financial Liabilities

Financial liabilities are classified as measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains or losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

Impairment

The Group and the Parent Company assess on a forward-looking basis the expected credit loss associated with their debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Rules for estimating and recognising impairment losses are described in Note 4 b.

The Group and the Parent Company have applied two expected credit loss models: counterparty model and portfolio model.

Counterparty model is used on individual contract basis for deposits, investments in State Treasury bonds, loans to subsidiaries and cash and cash equivalents. The expected credit losses according to this model for those are based on assessment of the individual counterparty's risk of default based on Moody's 12 months corporate default and recovery rates if no significant increase in credit risk is identified. The circumstances indicating a significant increase in credit risk is significant increase in Moody's default and recovery rates (by 1 percentage point) and counterpart's inability to meet payment terms (overdue 30 days or more, insolvency or bankruptcy, or initiated similar legal proceedings and other indications on inability to pay). If significant increase in credit risk is identified, calculated lifetime expected credit loss is recognised.

For estimation of expected credit loss for unsettled revenue on mandatory procurement public service obligation (PSO) fee, individually significant other receivables and other receivables of energy industry companies and related parties the Group and the Parent Company apply the simplified approach and record lifetime expected losses based on corporate default and recovery rates.

Portfolio model is used for trade receivables by grouping together receivables with similar risk characteristics and the days past due and defined for basic business activities. For trade receivables grouped by portfolio model the Group and the Parent Company apply the simplified approach and record lifetime expected losses on receivables based on historically observed default rates, adjusted for forward-looking estimates, if any significant exists.

Derivative financial instruments

Derivative financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The Group and the Parent Company have decided to continue to apply hedge accounting requirements of IAS 39. Accounting principles for derivative financial instruments are disclosed in Note 24.

3. Financial risk management

3.1. Financial risk factors

The Group's and the Parent Company's activities expose them to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's and the Parent Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's and the Parent Company's financial performance. The Group and the Parent Company use derivative financial instruments to hedge certain risk exposures.

Risk management (except for price risk) is carried out by the Parent Company's Treasury department (the Group Treasury) according to the Financial Risk Management Policy approved by the Parent Company's Management Board. The Group Treasury identifies, evaluates and hedges financial risks in close co–operation with the Group's operating units / subsidiaries. The Parent Company's Management Board by approving the Financial Risk Management Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, foreign exchange risk, liquidity risk, and credit risk, use of financial instruments and investment of excess liquidity. Price risk management is carried out by the Parent Company's Electricity Trading department according to Electricity Wholesale Regulation approved by the Parent Company's Management Board.

Financial assets that are exposed to financial risks disclosed in the table below by measurement categories:

EUR'000

		Group			Parent Company		
	Notes	Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss
Financial assets as of 31 December 2023							
Receivables from contracts with customers	18 a	224,922	–	–	161,674	–	–
Other current financial receivables	18 b	47,972	–	–	51,225	–	–
Loans to related parties	29 e	863	–	–	624,298	–	–
Derivative financial instruments	24 I	–	5,297	5,872	–	5,297	5,872
Cash and cash equivalents	19	118,456	–	–	107,163	–	–
		392,213	**5,297**	**5,872**	**944,360**	**5,297**	**5,872**
Financial assets as of 31 December 2022							
Receivables from contracts with customers	18 a	314,109	–	–	233,192	–	–
Other current financial receivables	18 b	17,089	–	–	36,253	–	–
Loans to related parties	29 e	–	–	–	713,308	–	–
Derivative financial instruments	24 I	–	450	10,279	–	450	10,279
Cash and cash equivalents	19	112,757	–	–	100,268	–	–
		443,955	**450**	**10,279**	**1,083,021**	**450**	**10,279**

Financial liabilities that are exposed to financial risks disclosed in the table below by measurement categories:

EUR'000

		Group			Parent Company		
	Notes	Financial liabilities at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss
Financial liabilities as of 31 December 2023							
Borrowings	23	629,696	–	–	618,179	–	–
Lease liabilities	15	11,406	–	–	4,824	–	–
Trade and other financial current payables	26	136,014	–	–	87,078	–	–
		777,116	**–**	**–**	**710,081**	**–**	**–**
Financial liabilities as of 31 December 2022							
Borrowings	23	875,918	–	–	863,938	–	–
Derivative financial instruments	24 I	–	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**

Latvenergo

a) Market risk

I) Foreign currencies exchange risk

As of 31 December 2023 and 31 December 2022 the Group and the Parent Company had borrowings denominated only in euros (Note 23). Their revenues and most of the financial assets and liabilities were denominated in euros. Accordingly, neither the Group nor the Parent Company were subject to a significant foreign currencies exchange risk.

Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the Group's and the Parent Company's functional currency.

The Group's Treasury Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk.

During 2023, five EUR/USD forward foreign currencies exchange contracts in the amount of USD 153,5 thousand with an execution date of 22 February and 26 April 2023 were fulfilled, concluded in 2022 in order to limit the currency risk of the payments in USD planned in the natural gas purchase agreement concluded in 2022. As of 31 December 2023 there were no outstanding foreign exchange forward contracts.

II) Interest rate risk

As the Group and the Parent Company have significant floating interest–bearing assets and liabilities exposed to interest rate risk, the Group's, and the Parent Company's financial income and operating cash flows are substantially dependent on changes in market interest rates.

During 2023 if euro interest rates had been 50 basis points higher with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been EUR 737 thousand higher (2022: EUR 687 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 715 thousand higher (2022: EUR 678 thousand).

The Group's and the Parent Company's cash flow interest rate risk mainly arises from long–term borrowings at variable rates. They expose the Group and the Parent Company to a risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain more than 35% of its borrowings as fixed interest rates borrowings (considering the effect of interest rate swaps and issued bonds) with duration between 1–4 years.

The Group and the Parent Company analyse their interest rate risk exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group and the Parent Company calculate the impact on profit and loss as well as on cash flows of a defined interest rate shift.

Generally, the Group and the Parent Company raise long–term borrowings from financial institutions at floating rates and based on the various scenarios, the Group and the Parent Company manage their cash flow interest rate risk by using floating–to–fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Thereby fixed rates are obtained that are lower than those available if the Group and the Parent Company borrowed at fixed rates directly. Under the interest rate swaps, the Group and the Parent Company agree with other parties to exchange, at specified intervals (primarily semi–annually), the difference between fixed contract rates and floating–rate interest amounts calculated by reference to the agreed notional amounts.

To hedge cash flow interest rate risk, the Group and the Parent Company have entered into interest rate swap agreements with total notional amount of EUR 118 million (2022: EUR 133 million) (Note 24 II). 46 % of the Group's and 47 % the Parent Company's long-term borrowings as of 31 December 2023 (31/12/2022: 36 % and 36 % respectively) had fixed interest rate (considering the effect of the interest rate swaps) and average fixed rate duration was 2.1 years for the Group and 2.1 years for the Parent Company (2022: 1.8 years for the Group and 1.9 years the Parent Company).

If interest rates on euro denominated long-term borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher with all other variables held constant over the period until the next annual report, the Group's profit for the year and equity would have been EUR 1,914 thousand lower (over the next 12 months period after 31/12/2022: EUR 2,536 thousand), the Parent Company's profit for the year and equity would have been EUR 1,857 thousand lower (over the next 12 months period after 31/12/2022: EUR 2,474 thousand).

As of 31 December 2023, if short–term and long–term euro interest rates had been 50 basis points higher with all other variables held constant fair value of interest rate swaps would have been EUR 1,213 thousand higher (31/12/2022: EUR 1,623 thousand higher), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item. However, if short–term and long–term euro interest rates had been 50 basis points lower with all other variables held constant fair value of interest rate swaps would have been EUR 1,246 thousand lower (31/12/2022: EUR 1,671 thousand lower), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item and an ineffective portion recognised in the Statement of Profit or Loss.

III) Price risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The purchase and sale of goods produced, and the services provided by the Group and the Parent Company under the free market conditions, as well as the purchases of resources used in production is impacted by the price risk.

The most significant price risk is related to purchase of electricity and natural gas and usage of natural gas inventories. To hedge the risk related to changes in the price of electricity and natural gas the Parent Company during 2023 and 2022 has purchased electricity forward and natural gas forward contracts (Note 24 III, IV).

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments at fair value through profit or loss (FVPL), other financial assets carried at amortised cost, including outstanding receivables. Credit risk concentration in connection with receivables is limited due to broad range of the Group's and the Parent Company's customers. The Group and the Parent Company have no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics, except receivables from state for unsettled revenue on mandatory procurement PSO fee, loans to and receivables from subsidiaries and receivables from transmission system operator (Augstsprieguma tīkls AS). When assessing the credit risk for the loans to subsidiaries the Parent Company considers that Latvenergo AS has granted loans to subsidiaries in which it holds all the shares, and accordingly monitors the operations and financial situation of the subsidiaries (borrowers). Impairment loss has been deducted from gross amounts in the statement of financial position.

The maximum credit risk exposure related to financial assets (see table below) comprises of carrying amounts of cash and cash equivalents (Note 19), receivables from contracts with customers and other receivables (Note 18), derivative financial instruments (Note 24) and loans to related parties (Note 29 e).

Assessment of maximum possible exposure to credit risk

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Receivables from contracts with customers	18 a	224,922	314,109	161,674	233,192
Other current financial receivables	18 b	47,972	17,089	51,225	36,253
Loans to related parties	29 e	863	–	624,298	713,308
Cash and cash equivalents	19	118,456	112,757	107,163	100,268
Derivative financial instruments	24	11,169	10,729	11,169	10,729
		403,382	**454,684**	**955,529**	**1,093,750**

Under IFRS 9 the Group and the Parent Company measure the probability of default upon initial recognition of a receivable, except receivables from contracts with customers, and at each balance sheet date consider whether there has been a significant increase of credit risk since the initial recognition (see Notes 2 and 18 b).

For banks and financial institutions, independently rated parties with own or parent bank's minimum rating of investment grade are accepted. Otherwise, if there is no independent rating, management performs risk control to assess the credit quality of the financial counterparty, considering its financial position, past co–operation experience and other factors. After performed assessment individual credit limits are set based on internal ratings in accordance with principles set by the Financial Risk Management Policy. Depending on set credit limits, the cash held in one bank or financial institution cannot exceed fifty percent of total balance of cash. The basis for estimating the credit quality of individually significant financial assets not past due is credit ratings assigned by the rating agencies or, in their absence, the earlier credit behaviour of clients and other parties to the contract.

Credit risk related to cash and short–term deposits with banks is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses. Credit risk assessment related to receivables from contracts with customers and other financial receivables is described in Notes 4 b and 18.

The table below shows the balance of cash and cash equivalents by financial counterparties at the end of the reporting period:

EUR'000

	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Investment level credit rating*	118,456	112,757	107,163	100,268
	118,456	**112,757**	**107,163**	**100,268**

* Investment level credit rating assigned to the parent companies of banks.

The table represents exposure to banks and financial counterparties broken down per rating class according to Moody's rating scale. The expected credit losses are not significant (below 1%) as the majority of cash and cash equivalents are held at banks and financial institutions belonging to financial groups with investment level credit rating and financial assets are considered to have good credit worthiness.

EUR'000

	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Aa3	79,177	66,596	79,602	55,722
Baa1	17,344	43,644	16,461	43,154
Baa2	21,110	1,363	11,100	1,362
Baa3	825	1,154	–	30
	118,456	**112,757**	**107,163**	**100,268**

Set limits of credit exposure to the financial counterparties were not exceeded during the reporting period, and the Group's and the Parent Company's management do not expect any losses arising from a potential default of financial counterparty, as assessed that financial counterparties' credit risk are in Stage 1.

The Group and the Parent Company invest only in listed debt instruments with very low probability of default (State Treasury bonds).

c) Liquidity risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain sufficient amount of cash and cash equivalents (Note 19) and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks.

The table below analyses the Group's and the Parent Company's financial liabilities into relevant maturity groupings based on the settlement terms. The amounts disclosed in the table are the contractual undiscounted cash flows. Contractual undiscounted cash flows originated by the borrowings are calculated considering the actual interest rates at the end of the reporting period.

Liquidity analysis (contractual undiscounted gross cash flows)

EUR'000

	Notes	Group					Parent Company				
		Less than 1 year	**From 1 to 2 years**	**From 3 to 5 years**	**Over 5 years**	**TOTAL**	**Less than 1 year**	**From 1 to 2 years**	**From 3 to 5 years**	**Over 5 years**	**TOTAL**
As of 31 December 2023											
Borrowings from financial institutions		105,333	119,825	158,276	99,286	**482,720**	102,632	117,339	152,874	96,710	**469,555**
Issued debt securities (bonds)		5,146	5,153	162,925	52,483	**225,707**	5,146	5,153	162,925	52,483	**225,707**
Lease liabilities*		2,455	2,336	3,539	4,337	**12,667**	1,284	1,281	1,461	1,193	**5,219**
Trade and other current financial payables	26	136,014	–	–	–	**136,014**	87,078	–	–	–	**87,078**
		248,948	**127,314**	**324,740**	**156,106**	**857,108**	**196,140**	**123,773**	**317,260**	**150,386**	**787,559**
As of 31 December 2022											
Borrowings from financial institutions		195,441	105,399	239,038	135,056	**674,934**	193,094	99,201	234,010	131,758	**658,063**
Issued debt securities (bonds)		2,670	2,670	108,010	50,137	**163,487**	2,670	2,670	108,010	50,137	**163,487**
Overdraft from financial institutions		119,478	–	–	–	**119,478**	119,478	–	–	–	**119,478**
Current borrowings from related parties		–	–	–	–	**–**	3,317	–	–	–	**3,317**
Derivative financial instruments		1,499	–	–	–	**1,499**	1,499	–	–	–	**1,499**
Lease liabilities*		2,023	1,798	2,939	4,581	**11,341**	876	866	1,847	1,554	**5,143**
Trade and other current financial payables	26	107,811	–	–	–	**107,811**	99,902	–	–	–	**99,902**
		428,922	**109,867**	**349,987**	**189,774**	**1,078,550**	**420,836**	**102,737**	**343,867**	**183,449**	**1,050,889**

* The carrying amount of the lease (discounted) for the Group is EUR 11,406 thousand and for the Parent Company EUR 4,824 thousand (31 December 2022: Group – EUR 10,675 thousand, Parent Company – EUR 5,166 thousand) (Note 15)

3.2. Capital management

The Group's and the Parent Company's objectives when managing capital are to safeguard the Group's and the Parent Company's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants (no breaches in 2023 nor 2022), which are linked to capital structure and are stipulated in the majority of loan agreements.

In order to maintain or adjust the capital structure, the Group and the Parent Company may evaluate the amount and timing of raising new debt due to investment programs or initiate new investments in the share capital by shareholder. To comply with loan covenants, the Group and the Parent Company monitor capital on the basis of the capital ratio.

This ratio is calculated by dividing the equity by the sum of total assets. According to the Group's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30% level.

The capital ratio figures were as follows:

EUR'000

	Group		Parent Company	
	31/12/2023	**31/12/2022**	**31/12/2023**	**31/12/2022**
Total equity	2,963,080	2,356,419	2,608,014	2,018,694
Total assets	4,127,922	3,855,330	3,474,032	3,305,536
Capital Ratio	**72%**	**61%**	**75%**	**61%**

4. Critical accounting estimates and judgements

Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group and the Parent Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The Group and the Parent Company considers climate-related matters in estimates and assumptions, where appropriate. Latvenergo Group is making targeted investments to develop a portfolio of zero-emission and low-emission plants and to contribute to climate change mitigation. The Group implements technologies and measures that reduce, prevent or adapt to climate change. For more information please see Latvenergo Group Sustainability report, section Environmental Topics. Even though climate-related risks might not currently have a significant impact on measurement, useful lives of property, plant and equipment or impairment of non-financial assets, the Group is closely monitoring relevant changes and developments, such as new climate-related legislation.

The Management of the Group and the Parent Company has assessed the situation at the end of the reporting period and has determined that the events related to Russian military action in Ukraine and related sanctions against Russia and Belarus, have not created a significant negative impact on the Group's and the Parent Company's financial results, considering the nature and continuity of services provided by the Group and the Parent Company. The Management of the Group and the Parent

Company continuously takes the necessary actions to ensure both the continuation of the operations of the electricity distribution system operator and the availability of the services provided to customers, and the Management does not foresee significant operational disruptions in the future that could affect the continuation of the Group's and the Parent Company's operations and the valuation of assets and liabilities. The assumptions of the Group's and the Parent Company's Management are based on the information available at the date of approval of the financial statements. The impact of future events on the Group's and the Parent Company's future operations may differ from the current assessment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

The Group and the Parent Company make estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice. For the assets that are planned to be reconstructed, the remaining useful life is determined to be till the date of reconstruction. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. Values of fully depreciated property, plant and equipment are disclosed in Note 14 a. Quantifying an impact of potential changes in the useful lives is deemed impracticable, therefore sensitivity analysis is not disclosed.

II) Recoverable amount of property, plant and equipment

The Group and the Parent Company perform impairment tests for items of property, plant and equipment when the events and circumstances indicate a potential impairment. For the items of PPE are defined separate cash–generating units. According to these tests' assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance and repairs of the assets, as well as in respect of the inflation and discount rates. The estimates are based on the forecasts of the general economic environment, consumption and the estimated sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. Such factors as high maintenance and reconstruction costs, significant changes in expected discount rates, low load of several auxiliaries, comparatively substantial maintenance expense, limited facilities to sell property, plant and equipment in the market and other essential factors have an impact of decreasing of the recoverable amounts. Impairment charges recognised during the current reporting year are disclosed in Note 14 c.

III) Revaluation

Revaluation for part of the Group's and the Parent Company's property, plant and equipment are performed by independent, external and certified valuation experts by applying the depreciated replacement cost model or income method. Valuation has been performed according to international standards on property valuation, based on current use of property, plant and equipment that is estimated as the most effective and best use of these assets, also by determining the most appropriate valuation method for each group of revaluated property, plant and equipment. As a result of valuation, revaluated value is determined for hydropower plants and distribution system asset groups.

Using depreciated replacement cost model, depreciated replacement cost is the difference between the cost of replacement or renewal of similar asset at the time of revaluation and the accumulated loss of an asset's value that encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. Physical depreciation is determined proportionally to the age of the property, plant and equipment item. In assessment of property, plant and equipment items for which a reconstruction is planned in the near future additional functional depreciation is determined. Remaining useful lives of property, plant and equipment items after revaluation are revised according to estimated total depreciation.

Income method is based on the identification and analysis of generation capacity, forecasting of electricity trade prices, analysis of historical generation and operating expenses and forecast of future costs, capital expenditure, net cash flows, as well calculation of discount and capitalisation rates, based on market data.

PPE are revalued regularly but not less frequently than every five years. Revaluation may be performed more frequently if there are significant and sustained changes in the civil engineering construction costs, significant changes in expected discount rates or electricity prices. The revaluation process is initiated if the changes in the civil engineering construction costs exceeds 10% for two consecutive quarters since the previous revaluation, according to data of the Central Statistical Bureau, and are expected long lasting changes in the costs or due to significant and sustained changes (at least in year period) in discount rates and energy prices.

For detailed most recent revaluation results see Note 14 c.

b) Impairment of financial assets

The Group and the Parent Company have the following types of financial assets that are subject to the expected credit loss model:

- non–current and current loans to related parties
- other non–current receivables
- other financial investments (debt instruments)
- receivables from contracts with customers
- other current receivables
- cash and cash equivalents.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group and the Parent Company use judgement in making these assumptions and selecting the inputs to the calculation of expected credit losses, based on the Group's and the Parent Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The Group and the Parent Company apply two expected credit loss models: portfolio model and counterparty model (Note 2 and 18).

Using the portfolio model the Group and the Parent Company apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables of basic business activities (electricity, natural gas and heat and supporting services sales, IT and telecommunication services sales). To measure expected credit losses these receivables have been grouped based on shared credit risk characteristics and the days past due. The Group and the Parent Company therefore have concluded that the expected loss rates for these receivables are a reasonable approximation of the credit risk exposure. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced. When calculating the expected credit losses, the current and forward-looking information on macroeconomic factors that affect the ability of customers to cover receivables has been taken into account, the Group and the Parent Company have assessed that the influence of these factors is not significant.

Counterparty model is used on individual contract basis for non–current and current loans to related parties, other financial investments and cash and cash equivalents. If no significant increase in credit risk is identified, the expected credit losses according to this model are based on assessment of the individual counterparty's or counterparty's industry risk of default and recovery rate assigned by Moody's credit rating agency for 12 months expected losses rates. The circumstances indicating a significant increase in credit risk is significant increase in Moody's default and recovery rates (by 1 percentage point) and counterparty's inability to meet payment terms (overdue 30 days or more). If significant increase in credit risk is identified, lifetime expected credit loss is calculated. The Group and the Parent Company considers a financial asset in default and lifetime expected credit losses are recognised when contractual payments are overdue 90 days or more, exists counterparty's insolvency or bankruptcy, initiated similar legal proceedings and other internal or external indications on inability to pay outstanding contractual amounts.

Counterparty model is also used for other non–current and current financial receivables, individually significant receivables, receivables of energy industry companies and related parties by calculating lifetime expected losses based on corporate default and recovery rates.

None of the Group's and the Parent Company's other financial investments measured at amortised cost (investments in State Treasury bonds) have significant increase in credit risk and therefore are considered to have low credit risk (Moody's credit rating – A3) and are in Stage 1, the loss allowance therefore was immaterial and wasn't recognised.

While cash and cash equivalents are also subject to the expected credit loss requirements of IFRS 9, the identified expected credit loss was immaterial, also considering fact that almost all of cash and cash equivalents are held in financial institutions with the credit rating grade of the institution or its parent bank at investment grade credit rating (mostly 'A level' credit rating) (Stage 1).

c) Estimates concerning revenue recognition from contracts with customers

I) Recognition of mandatory procurement PSO fees

The Group and the Parent Company have applied significant judgement for use of agent principle for recognition of mandatory procurement PSO fee (see also Note 6).

Management has considered the following indicators that the Group and the Parent Company are acting as agents because they:

- do not have control over the mandatory procurement PSO fee before transferring to the customer,
- have duty for including the mandatory procurement PSO fee in invoices issued to the end customers but are not entitled for revenues from mandatory procurement PSO fee. These fees are determined by state support mechanism and are covered by all electricity end-users in proportion to their electricity consumption,
- have no discretion in establishing mandatory procurement PSO fees price, either directly or indirectly.

II) Recognition of distribution system services and transmission system services (Parent Company)

Management has evaluated that it does not have influence and control over distribution system services and transmission system services, therefore the Parent Company acts as an agent. In particular, Management has considered the following indicators that the Parent Company is acting as an agent because it:

- does not control provision of distribution system and transmission system services,
- includes the distribution system and transmission system services in invoices issued to the customers on behalf of distribution system operator or transmission system operator and receives payment, but is not entitled to the respective revenues,
- has no discretion in distribution system or transmission system services price, either directly or indirectly (see also Note 6).

III) Recognition of connection service fees to distribution system (Group)

Connection fees to distribution system are not considered as separate (distinct) performance obligations, as are not distinct individually or within the context of the contract. Sales of distribution services are provided after customers have paid for the network connection; therefore network connection fees and sales of distribution services are highly interdependent and interrelated.

Income from connection and other income for reconstruction of distribution system assets on demand of clients are deferred as an ongoing service is identified as part of agreement to provide distribution system services to customers and accounted as deferred income (contract liabilities) from contracts with customers under IFRS 15 (see Note 6 and 28). Connection fees are recognised as income over the estimated customer relationship period. Based on Management estimate, 20 years is the estimated customer relationship period, which is estimated as period after which requested power output for connection object could significantly change due to technological reasons.

Thus period over which revenue is recognised is based on Management estimate, as it is reasonably certain that assets, whose costs are partly reimbursed by connection service fees, will be used to provide distribution system services for a longer period than the term stated in agreement with the customer (Note 6).

IV) State support for trade of energy, sales of distribution services and heat for end-users

In accordance with state support regulations in Latvia, Lithuania, and Estonia for reducing energy prices, are granted support for end-users for trade of energy, sales of distribution services and heat. These regulations do not change agreements on the scope of provided services and do not change the approved distribution system tariffs and energy prices, and respectively do not change the Group's and the Company's revenue recognition principles, but the process of receiving the transaction fees and the payer for the services, therefore not classified as government grant to the Group and the Parent Company (Note 6).

d) Recognition and reassessment of provisions

As of 31 December 2023, the Group had set up provisions for post–employment benefits and termination benefits totalling EUR 18.2 million (31/12/2022: EUR 15.6 million) and the Parent Company in amount of EUR 8.6 million (31/12/2022: EUR 7.6 million) (Note 27). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post–employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors were determined on the basis of previous experience.

e) Evaluation of effectiveness of hedging instruments

The Group and the Parent Company have concluded significant number of forward and future contracts and swap agreements to hedge the risk of the changes in prices of electricity and natural gas as well as interest rate fluctuations to which cash flow risk hedge accounting is applied and the gains and losses from changes in the fair value of the effective hedging instruments and items secured against risk are included in respective equity reserve. The evaluation of the effectiveness of the hedging is based on Management's estimates with regard to future purchase transactions of electricity and natural gas and signed variable interest loan agreements. When hedging instruments turn out to be ineffective, gains/losses from the changes in the fair value are recognised in the Statement of Profit or Loss (Note 25).

f) Recognition of one-off compensation in relation to cogeneration power plants

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP–1 and CHPP–2. The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. Conditional grant part recognised as deferred income in the Group's and the Parent Company's statement of financial position (Note 28) and to be allocated to income on a straight–line basis until fulfilling obligation till the end of the support period – 23 September 2028 (Note 7).

g) Deferred tax recognition

The untaxed profits of the subsidiaries are subject to deferred tax charge in the Consolidated Financial Statements to the extent that the Parent Company as a shareholder will decide in a foreseeable future on distribution of this profit through dividends which will be taxed on distribution with tax rate 20/80 of net expense (Note 12). Management of the Parent Company has made judgement on the expected timing and extent of the distribution profits of subsidiaries and recognised in the Group's Consolidated Financial Statements deferred tax liability related to profit of its subsidiaries to be distributed.

h) Recognition of financial security for participating in commodities exchange

The management of the Parent Company estimates that the Parent Company has no intention to discontinue trade operations in Nasdaq Commodities exchange, considering that electricity and natural gas financial transactions are part of the Parent Company's activities, and therefore financial collateral for securing the operations in Nasdaq Commodities exchange should not be estimated as liquid asset and should be recognised as non–current or current financial receivables (Note 18).

i) Fair values

The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values are estimated based on market prices and discounted cash flow models as appropriate. The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market prices used for financial assets held by the Group and the Parent Company are the actual closing prices. The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. The Group and the Parent Company use a variety of methods and make assumptions that are based on market conditions existing at end of reporting period. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

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

- Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair value of assets is based on other observable market data, directly or indirectly
- Level 3: fair value of assets is based on non–observable market data.

The following methods and assumptions were used to estimate the fair values:

a) the fair values of revalued property, plant and equipment are equal to revalued amounts, that are based on periodic valuations by external independent valuers or by the Group's or the Parent Company's management, less subsequent accumulated depreciation, and subsequent accumulated impairment losses (Level 3),

b) The management of the Group and the Parent Company assessed that the fair values of cash and short–term deposits, receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short–term maturities of these instruments (Level 3),

c) Non-current financial investments in Pirmais Slēgtais Pensiju Fonds AS are valued at acquisition cost not at fair value because the Group and the Parent Company are only a nominal shareholder in the Pension Fund that is a non–profit company, and all risks and benefits arising from Pension Fund activities and investments in the pension plan are taken and accrued by the members of the Pension Fund pension plan (Level 3),

d) The fair values of borrowings with floating interest rates approximate their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group and the Parent Company, i.e., the floating part of the interest rate corresponds to the money market price while the added part of the interest rate corresponds to the risk premium the lenders in financial and capital markets require from companies of similar credit rating level (Level 2),

e) The fair value of loans to subsidiaries with fixed rates calculations are based on discounted cash flows using discount factor of respective maturity EUR swap rates increased by average market margin of short–term financing (Level 2),

f) The Group and the Parent Company enter into derivative financial instruments with various counterparties, financial institutions, and energy utility company, with investment grade credit ratings. The fair value of derivative financial instruments is determined by using various valuation methods and models with market observable inputs. The models incorporate the credit quality of counterparties, foreign exchange spot and forward rates. The fair values of interest rate swaps are obtained from corresponding bank's revaluation reports and fair values of financial instruments as specified by banks are recognised in financial statements. To make sure the fair values of interest rate swaps are accurate in any material aspect, the Group and the Parent Company makes its own interest rate swaps fair value calculations by discounting financial instruments future contractual cash flows using 6 months Euribor swap rate curve. The fair value of electricity forward and future contracts and natural gas swap contracts is calculated as discounted difference between actual market and settlement prices for the volume set in the agreements. If counterparty is a bank, calculated fair values of financial instruments are compared to bank's revaluation reports and the bank's calculated fair values of the financial instruments are used in the financial reports; In case of electricity forward and future contracts and natural gas swap contracts are concluded with counterparties, fair values as calculated by the Group and the Parent Company are recognised in Financial Statements (Level 2),

g) The fair value of the bonds issued are calculated by discounting their future cash flows using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor (Level 2),

h) The fair value of investment properties is determined using the income method, by discounting expected future cash flows. In 2023, the nominal pre–tax discount rate used to determine the fair value of investments is 7.24% (2022: 5.92%) as included in the electricity distribution and transmission system service tariff calculation methodology (Level 3).

5. Operating segment information

For segment reporting purposes, the division into operating segments is based on internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the operating segment decision maker – management of the Group's company operating in each of segments. The Management Board of the Parent Company reviews financial results of operating segments.

The profit measure monitored by the chief operating decision maker primarily is EBITDA, but it also monitors operating profit. In separate financial statements operating profit excludes the dividend income and interest income from subsidiaries. The subsidiaries operate independently from the Parent Company under the requirements of EU and Latvian legislation and their businesses are different from that of the Parent Company. Therefore, the Parent Company's chief operating decision maker monitors the performance of the Parent Company and makes decisions regarding allocation of resources based on the operating results of the Parent Company.

The Group divides its operations into two main operating segments – generation and trade, and distribution. The Parent Company divides its operations into one main operating segment – generation and trade.

In addition, corporate functions, that cover administration and other support services, are presented in the Group and the Parent Company as separate segment.

Corporate functions provide management services to subsidiaries as well as provides IT and telecommunication, rental services to external customers.

Generation and trade comprises the Group's electricity and thermal energy generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity and natural gas trade (including electricity and natural gas wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ (including its subsidiaries – Energiaturu Võrguehitus OÜ, HN põld ja mets 1 OÜ) and Elektrum Lietuva, UAB (including its subsidiary – Klaipėda unlimited sun, UAB), development of wind farms provided by Latvijas vēja parki SIA, as well as administration of the mandatory procurement process provided by Enerģijas publiskais tirgotājs SIA.

The operations of the distribution operating segment relate to the provision of electricity distribution services in Latvia and is managed by the subsidiary Sadales tīkls AS (the largest distribution system operator in Latvia).

The following table presents revenue, financial results and profit information and segment assets and liabilities of the Group's and the Parent Company's operating segments. Inter–segment revenue is eliminated on consolidation and reflected in the 'adjustments and eliminations' column. All transactions between segments are made based on the regulated tariffs, where applicable, or on an arm's length principle.

EUR'000

	Group						Parent Company				
	Generation and trade	Distribution	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
2023											
Revenue											
External customers	1,683,894	342,460	8,071	**2,034,425**	–	**2,034,425**	1,362,802	34,377	**1,397,179**	–	**1,397,179**
Inter-segment	40,806	869	55,437	**97,112**	(97,112)	**–**	4,648	31,931	**36,579**	(36,579)	**–**
TOTAL revenue	**1,724,700**	**343,329**	**63,508**	**2,131,537**	**(97,112)**	**2,034,425**	**1,367,450**	**66,308**	**1,433,758**	**(36,579)**	**1,397,179**
Results											
EBITDA	**480,181**	**111,853**	**9,735**	**601,769**	**–**	**601,769**	**459,763**	**13,532**	**473,295**	**–**	**473,295**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(102,660)	(82,233)	(12,280)	**(197,173)**	–	**(197,173)**	(98,586)	(12,442)	**(111,028)**	–	**(111,028)**
Segment profit before tax	**377,521**	**29,620**	**(2,545)**	**404,596**	**(16,067)**	**388,529**	**361,177**	**1,090**	**362,267**	**393**	**362,660**
Segment assets at the end of the year	**1,940,641**	**1,800,405**	**127,578**	**3,868,624**	**259,298**	**4,127,922**	**1,775,511**	**155,340**	**1,930,851**	**1,543,181**	**3,474,032**
Segment liabilities at the end of the year	**221,067**	**221,656**	**16,570**	**459,923**	**705,549**	**1,164,842**	**192,896**	**18,266**	**211,162**	**654,856**	**866,018**
Other disclosures											
Capital expenditure	76,848	99,608	18,254	**194,710**	(1,361)	**193,349**	46,198	18,254	**64,452**	–	**64,452**
2022											
Revenue											
External customers	1,533,150	300,610	8,041	**1,841,801**	–	**1,841,801**	1,199,418	31,597	**1,231,015**	–	**1,231,015**
Inter-segment	26,421	578	50,823	**77,822**	(77,822)	**–**	2,175	29,192	**31,367**	(31,367)	**–**
TOTAL revenue	**1,559,571**	**301,188**	**58,864**	**1,919,623**	**(77,822)**	**1,841,801**	**1,201,593**	**60,789**	**1,262,382**	**(31,367)**	**1,231,015**
Results											
EBITDA	**275,216**	**71,268**	**13,725**	**360,209**	**–**	**360,209**	**266,131**	**14,194**	**280,325**	**–**	**280,325**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(73,208)	(81,087)	(11,953)	**(166,248)**	–	**(166,248)**	(69,418)	(12,095)	**(81,513)**	–	**(81,513)**
Segment profit before tax	**202,008**	**(9,819)**	**1,772**	**193,961**	**(9,416)**	**184,545**	**196,713**	**2,099**	**198,812**	**10,550**	**209,362**
Segment assets at the end of the year	**1,833,099**	**1,791,684**	**117,750**	**3,742,533**	**112,797**	**3,855,330**	**1,700,079**	**144,561**	**1,844,640**	**1,460,896**	**3,305,536**
Segment liabilities at the end of the year	**359,253**	**181,201**	**12,804**	**553,258**	**945,653**	**1,498,911**	**366,212**	**14,078**	**380,290**	**906,552**	**1,286,842**
Other disclosures											
Capital expenditure	20,659	84,633	16,374	**121,666**	–	**121,666**	13,666	16,374	**30,040**	–	**30,040**

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The Group's and the Parent Company's revenue from external customers (Note 6)

EUR'000

	Group					Parent Company			
	Generation and trade	Distribution	Corporate functions	TOTAL segments	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	TOTAL Parent Company
2023									
Revenue from contracts with customers recognised over time:									
Trade of energy and related supply services	1,432,815	3,395	–	**1,436,210**	**1,436,210**	1,157,028	–	**1,157,028**	**1,157,028**
Distribution system services	–	319,643	–	**319,643**	**319,643**	–	–	**–**	**–**
Heat sales	213,540	136	–	**213,676**	**213,676**	193,224	–	**193,224**	**193,224**
Sales of goods and energy related solutions	31,652	–	–	**31,652**	**31,652**	10,842	–	**10,842**	**10,842**
Other revenue	5,887	19,209	6,670	**31,766**	**31,766**	1,708	31,307	**33,015**	**33,015**
Total revenue from contracts with customers	**1,683,894**	**342,383**	**6,670**	**2,032,947**	**2,032,947**	**1,362,802**	**31,307**	**1,394,109**	**1,394,109**
Other revenue:									
Lease of other assets	–	77	1,401	**1,478**	**1,478**	–	3,070	**3,070**	**3,070**
Total other revenue	**–**	**77**	**1,401**	**1,478**	**1,478**	**–**	**3,070**	**3,070**	**3,070**
TOTAL revenue, including	**1,683,894**	**342,460**	**8,071**	**2,034,425**	**2,034,425**	**1,362,802**	**34,377**	**1,397,179**	**1,397,179**
Latvia	948,591	342,447	7,844	**1,298,882**	**1,298,882**	969,462	30,531	**999,993**	**999,993**
Outside Latvia	735,303	13	227	**735,543**	**735,543**	393,340	3,846	**397,186**	**397,186**
2022									
Revenue from contracts with customers recognised over time:									
Trade of energy and related supply services	1,352,745	3,349	–	**1,356,094**	**1,356,094**	1,052,486	–	**1,052,486**	**1,052,486**
Distribution system services	–	278,169	–	**278,169**	**278,169**	–	–	**–**	**–**
Heat sales	150,548	146	–	**150,694**	**150,694**	133,634	–	**133,634**	**133,634**
Sales of goods and energy related solutions	25,252	–	–	**25,252**	**25,252**	12,247	–	**12,247**	**12,247**
Other revenue	4,600	18,874	6,141	**29,615**	**29,615**	1,051	28,240	**29,291**	**29,291**
Total revenue from contracts with customers	**1,533,145**	**300,538**	**6,141**	**1,839,824**	**1,839,824**	**1,199,418**	**28,240**	**1,227,658**	**1,227,658**
Other revenue:									
Lease of other assets	5	72	1,900	**1,977**	**1,977**	–	3,357	**3,357**	**3,357**
Total other revenue	**5**	**72**	**1,900**	**1,977**	**1,977**	**–**	**3,357**	**3,357**	**3,357**
TOTAL revenue, including	**1,533,150**	**300,610**	**8,041**	**1,841,801**	**1,841,801**	**1,199,418**	**31,597**	**1,231,015**	**1,231,015**
Latvia	884,723	300,610	7,726	**1,193,059**	**1,193,059**	890,216	29,470	**919,686**	**919,686**
Outside Latvia	648,427	–	315	**648,742**	**648,742**	309,202	2,127	**311,329**	**311,329**

Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets, interest rate swaps (derivative financial instruments) and deferred taxes are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities, including loans and borrowings are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of profit before tax

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
EBITDA		**601,769**	**360,209**	**473,295**	**280,325**
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets		(197,173)	(166,248)	(111,028)	(81,513)
Segment profit before tax		**404,596**	**193,961**	**362,267**	**198,812**
Finance income	11	9,226	1,414	24,747	10,767
Finance costs	11	(25,293)	(10,830)	(25,278)	(10,802)
Dividends received from subsidiaries	16	–	–	924	10,585
Profit before tax		**388,529**	**184,545**	**362,660**	**209,362**

Reconciliation of assets

EUR'000

	Notes	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
Segment operating assets		**3,868,624**	**3,742,533**	**1,930,851**	**1,844,640**
Non–current financial investments and joint ventures	16	42	40	671,720	647,320
Loans to related parties	29 e	–	–	624,298	713,308
Other current financial investments		140,000	–	140,000	–
Prepayment for income and other taxes		800	–	–	–
Cash and cash equivalents	19	118,456	112,757	107,163	100,268
Total assets		**4,127,922**	**3,855,330**	**3,474,032**	**3,305,536**

Reconciliation of liabilities

EUR'000

	Notes	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
Segment operating liabilities		**459,293**	**553,258**	**211,162**	**380,290**
Deferred income tax liabilities		5,475	667	–	–
Borrowings	23	629,696	875,918	618,179	863,938
Provisions and other payables		70,378	69,068	36,677	42,614
Total liabilities		**1,164,842**	**1,498,911**	**866,018**	**1,286,842**

Non–current assets that consist of intangible assets, property, plant and equipment and investment properties are located in the Group's country of domicile – Latvia.

Revenue from major customer in 2023 for the Group amounted to EUR 188,630 thousand and for the Parent Company EUR 188,918 thousand (2022: EUR 171,919 thousand and EUR 171,912 thousand) arising from sales by the generation and trade segment.

6. Revenue

Accounting policy

Revenue from contracts with customers (IFRS 15)

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the entity's ordinary activities.

In evaluating whether collectability of an amount of consideration is probable, the Group and the Parent Company use portfolio approach practical expedient for all energy and related supply services, distribution system services and heat sales customers. Group and the Parent Company reasonably expect that the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. Collectability is assessed individually for other customers.

The Group and the Parent Company consider only the customer's ability and intention to pay that amount of consideration when it is due.

Major distinct performance obligations identified in the contracts with customers by the Group and the Parent Company include sale of energy and related supply services, provision of distribution system services and sale of heat. The Group has assessed that connecting a customer to the distribution network as a separate performance obligation is not distinct within the context of the contract due to being highly interrelated to sales of distribution services (Note 4 c III).

Where contracts with customers include variable consideration, the Group and the Parent Company estimate at contract inception the variable consideration expected over the life of the respective contracts and update that estimate each reporting period. A constrained variable consideration is identified in relation to sales of distribution system services.

The Group and the Parent Company recognise revenue when (or as) it satisfies a performance obligation to transfer a promised good or service to a customer. Revenue is recognised when customer obtains control of the respective good or service.

The Group and the Parent Company use output method to measure progress towards complete satisfaction of a performance obligations. Revenue from sale of energy and related supply services, provision of distribution system services and sale of heat are recognised over time as a continuous delivery of these goods and services is made over the term of the respective contracts.

Payment terms for goods or services transferred to customers according to contract terms are within 20 to 45 days from the provision of services or sale of goods. Invoices are mostly issued monthly.

State support for trade of energy, sales of distribution services and heat

In accordance with state support regulations in Latvia, Lithuania, and Estonia for reducing energy prices are granted support for end-users for trade of energy, sales of distribution services and heat. These regulations do not change agreements on the scope of provided services and do not change the approved distribution system tariffs and energy prices, and respectively do not change the Group's and the Company's revenue recognition principles, but the process of receiving the transaction fees and the payer for the services. The Group and the Company has the right to receive the full fee for the provided services: from customer at a reduced price within the specified period of time and the payment for the reduction in price receive from the state.

Trade of energy and related supply services

Revenue from electricity and natural gas sales are recognised on the basis of meter readings. Revenue from other energy and related supply services are recognised on the basis of goods delivered or provided services and prices included in contracts with customers. Revenues from trade of electricity in Nord Pool power exchange are based on the calculated market prices in accordance with contract terms, therefore 'right to invoice' practical expedient is used to recognise revenue from such contracts as the amount corresponds directly with the value of the performance completed to date. NACE code – 35.11, 35.14 (Parent Company).

Sales of distribution system services (the Group)

Revenues from electricity distribution services are based on regulated tariffs that are subject to approval by the Public Utilities Commission and regulations by Cabinet of Ministers of the Republic of Latvia 'Regulations on electricity trade and usage'. The Group recognises revenue from sales of distribution system services at the end of each month based on the automatically made meter readings or customers' reported meter readings, on the period in which the services are rendered. Revenue is recognised in the amount for which the Group has right to invoice.

Heat sales

Revenue from sales of thermal energy is recognised at the end of each month based on the meter readings and corresponds to the invoiced amount. NACE code – 32.99 (Parent Company).

Sales of goods and energy related solutions

Revenue from sales of goods and completed customers' orders is recognised at the moment when the asset and property rights are transferred to the customer (e.g. sales and installation of solar panels and heat pumps). NACE code – 47.91 (Parent Company).

Sales of IT & telecommunication services

Revenues derived from information technology services (internet connection services, data communication services), open electronic communication network and telecommunication services to customers. Revenues are recognised upon usage of services listed in telecommunications billing system. Revenue is recognised in the amount for which the Group and the Parent Company have right to invoice. NACE code – 62.03 (Parent Company).

EUR'000

	IFRS applied	Group		Parent Company	
		2023	2022	2023	2022
Revenue from contracts with customers:					
Trade of energy and related supply services	IFRS 15	1,436,210	1,356,094	1,157,028	1,052,486
Distribution system services	IFRS 15	319,646	278,169	–	–
Heat sales	IFRS 15	213,676	150,694	193,224	133,634
Sales of goods and energy related solutions	IFRS 15	31,652	25,252	10,842	12,247
Other revenue	IFRS 15	31,763	29,615	33,015	29,291
TOTAL revenue from contracts with customers		**2,032,947**	**1,839,824**	**1,394,109**	**1,227,658**
Other revenue:					
Lease of other assets	IFRS 16	1,478	1,977	3,070	3,357
TOTAL other revenue		**1,478**	**1,977**	**3,070**	**3,357**
TOTAL revenue		**2,034,425**	**1,841,801**	**1,397,179**	**1,231,015**

In Latvia, Lithuania, and Estonia, according to the state support mechanism for reducing the prices of energy, end-users have been granted state support. This state support was provided for electricity, distribution system services, consumed natural gas and for heat. The support did not change tariffs and energy prices (and thus gross revenue is recognised for the Group and the Company) rather the process of receiving the transaction fees, part from the end-users and part from the state budget. Allocated state support for the end-users in 2023 is EUR 124,376 thousand for the Group (2022: EUR 179,707 thousand).

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

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Goods and services transferred over time	1,906,710	1,760,646	1,191,969	1,159,820
Goods and services transferred at a point in time	126,237	79,178	202,140	67,838
TOTAL revenue from contracts with customers	**2,032,947**	**1,839,824**	**1,394,109**	**1,227,658**

The Group and the Parent Company derive revenue from contracts with customers from Latvia and outside Latvia – Estonia, Lithuania, Nordic countries.

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Latvia	1,297,409	1,191,082	997,107	916,437
Outside Latvia	735,538	648,742	397,002	311,221
TOTAL revenue from contracts with customers	**2,032,947**	**1,839,824**	**1,394,109**	**1,227,658**

Accounting policy

The Group and the Parent Company have assessed that in providing Mandatory procurement PSO fees it is acting as an agent due to lack of control over PSO fee (Note 4 c I). The Parent Company has also concluded that it is acting as an agent in the provision of distribution system services and transmission system services because the Parent Company has no control over these services (Note 4 c II).

Mandatory procurement PSO fees

Revenue from mandatory procurement PSO fees in the Group is recognised on net (agent) basis. PSO fee is managed within the context of mandatory procurement process by subsidiary Enerģijas publiskais tirgotājs SIA (hereinafter – EPT) and is the difference (residual) between the revenue from the sale of electricity in Nord Pool power exchange by market price, received mandatory procurement PSO fee, received government grant for compensating the increase of mandatory procurement costs and the related costs – costs of purchased electricity under the mandatory procurement from electricity producers, as well as guaranteed fees for installed electrical capacity in cogeneration plants. EPT is acting as an agent in administration of the mandatory procurement process and receives revenue from mandatory procurement administration services (agent fee), which is recognised over time in the Group's Statement of Profit or Loss as other revenue from contracts with customers.

PSO fees are included in invoices issued by trader (Parent Company – Latvenergo AS) and by distribution system operator (Sadales tīkls AS) and are paid by customers together with unite invoice for electricity and distribution or transmission system services. System operators have the obligation to collect revenues of PSO fees from customers or traders and further to transfer these revenues to EPT. PSO fees are based on regulated tariffs that are subject to approval by the Public Utilities Commission. Due to lack of influence and control over PSO fees, the Group and the Parent Company consider themselves an agent in these transactions. Therefore, PSO fees received

Annual Report

– Key Figures
– Management Report
– Financial Statements
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Financial Position
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements
– Independent Auditors' Report

from electricity end-users and transferred to EPT are recognised in the Statement of Profit or Loss in net amount by applying the agent accounting principles.

Distribution system and transmission system services (Parent Company)

The Parent Company on behalf of distribution system operator (DSO) and transmission system operator (TSO) issues unite invoice including the fees for the distribution system or transmission system services and transfers these fees to DSO or TSO accordingly.

Distribution system services and transmission system services are based on regulated tariffs that are subject to approval by the Public Utilities Commission. The Parent Company considers itself an agent in these transactions, therefore, the fees for distribution system and transmission system services received from customers and transferred to DSO and TSO are recognised in the Statement of Profit or Loss in net amount by applying the agent accounting principles.

Gross amounts invoiced to customers by applying agent accounting principle, recognised on net basis under trade of energy and related supply services

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Mandatory procurement PSO fees*	(152)	7,931	(4)	8,767
Distribution system services	46,049	30,780	154,873	90,892
Transmission system services	1,601	706	1,616	720
Insurance intermediation	1,775	1,468	1,674	1,440
TOTAL revenue recognised applying agent accounting principle	**49,273**	**40,885**	**158,159**	**101,819**

* Starting from 1 May 2023 the mandatory procurement PSO fees payment for electricity end–users has been cancelled. In 2022, in accordance with state support mechanism for reducing the prices of energy, the government granted support to all end–users for mandatory procurement PSO fees by 100% of the fee. In 2023, from distribution system operator received updated information regarding customers consumption in 2022, accordingly made recalculations of previous period.

Net effect in revenue from applying agent accounting principle is 0.

Accounting policy

Revenue from contracts with customers

Connection fees to distribution system (the Group)

Connection fees to distribution system are non-refundable upfront fees paid by customers to secure connection to the distribution network, such fees are not distinct performance obligations as are highly interrelated with distribution system services. Connection fees partly reimburse for the cost of infrastructure to be built needed to connect the respective customer to the network. Connection fees to distribution system fee is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology.

Revenue from connection fees to distribution system are initially recognised as deferred income (contract liabilities) and recognised over the estimated customer relationship period of 20 years (Note 4 c III).

Deferred income from contracts with customers

EUR'000

		Group		Parent Company	
	Notes	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Non–current deferred income from connection fees	28 I, a	137,838	132,381	–	–
Current deferred income from connection fees	28 II, a	16,510	15,386	–	–
Non-current other deferred income	28 I, a	668	735	668	735
Current other deferred income	28 II, a	4,794	13,944	67	13,714
TOTAL liabilities		**159,810**	**162,446**	**735**	**14,449**

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

EUR'000

		Group		Parent Company	
	Notes	2023	2022	2023	2022
At the beginning of the year		**162,446**	**152,050**	**14,449**	**869**
Received connection fees for connection to distribution system	28	23,015	11,840	–	–
Recognised deferred income	28	4,357	13,647	–	13,647
Credited to the Statement of Profit or Loss		(30,008)	(15,091)	(13,714)	(67)
At the end of the year		**159,810**	**162,446**	**735**	**14,449**

7. Other income

EUR'000

		Group		Parent Company	
	Notes	2023	2022	2023	2022
Compensation from the state on state support for the installed capacity of CHPPs	4 f	23,990	23,990	23,990	23,990
Fines and penalties		2,994	2,457	1,702	1,539
Net gain on sale of assets held for sale and property, plant and equipment		1,458	2,955	560	2,702
Compensations and insurance claims		2,463	816	1,898	294
Other operating income		991	956	193	165
TOTAL other income		**31,896**	**31,174**	**28,343**	**28,690**

8. Raw materials and consumables

EUR'000

		Group		Parent Company	
	Notes	2023	2022	2023	2022
Energy costs:					
Electricity and costs of related supply services		378,502	708,114	89,028	374,581
Electricity transmission services costs	29 a	82,376	72,583	2,834	2,999
Natural gas and other energy resources costs		774,012	517,052	761,061	492,537
(Gains) / losses on fair value changes on energy futures, forwards, and swaps	24 l	(23,198)	10,096	(23,198)	9,827
		1,211,692	**1,307,845**	**829,725**	**879,944**
Raw materials, spare parts and maintenance costs		36,628	25,863	17,261	11,194
TOTAL raw materials and consumables used		**1,248,320**	**1,333,708**	**846,986**	**891,138**

The decrease in electricity costs was significantly caused by lower Nord Pool spot prices (-58% in the LV price zone), while the increase in natural gas costs was influenced by the volume of delivered and used natural gas, which was more than a third higher than in 2022.

9. Personnel expenses

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Wages and salaries	111,418	89,184	48,413	39,838
State social insurance contributions	23,927	19,800	11,276	9,242
Expenditure of employment termination	1,435	3,044	710	846
Pension costs – defined contribution plan	4,647	4,892	2,233	2,219
Benefits defined in the Collective Agreement and other benefits system costs	2,916	1,572	1,158	667
Capitalised personnel expenses	(2,461)	(1,499)	(424)	–
TOTAL personnel expenses, including remuneration to the management	**141,882**	**116,993**	**63,366**	**52,812**
Remuneration to the management:				
Wages and salaries	2,925	2,694	1,158	1,047
State social insurance contributions	623	593	267	246
Expenditure of employment termination	14	–	–	–
Pension costs – defined contribution plan	21	18	10	6
Benefits defined in the Collective Agreement and other benefits system costs	21	22	–	–
TOTAL remuneration to the management*	**3,604**	**3,327**	**1,435**	**1,299**

* Remuneration to the Group's management includes remuneration to the members of the Management Boards of the Group entities, the Supervisory Board, and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board, and the Supervisory body (Audit Committee).

The Group and the Parent Company make monthly contributions to a closed defined contribution pension plan on behalf of their employees. The plan is managed by the non–profit public limited company Pirmais Slēgtais Pensiju Fonds, with the participation of the Group companies amounting for 48.15% (Parent Company – 46.30%) of its share capital. A defined contribution plan is a pension plan under which the Group and the Parent Company pay contributions into the plan. The Group and the Parent Company have no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5% of each pension plan member's salary. The Group and the Parent Company recognise the contributions to the defined contribution plan as an expense when an employee has rendered services in exchange for those contributions.

Number of employees

	Group		Parent Company	
	2023	2022	2023	2022
Number of employees at the end of the year	3,497	3,316	1,414	1,329
Average number of employees during the year	3,456	3,214	1,388	1,289

10. Other operating expenses

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Selling expenses and customer services	10,370	10,178	4,196	3,775
Information technology maintenance	6,838	5,726	6,343	5,371
Transportation expenses	6,845	6,483	1,884	1,823
Environment protection and work safety	11,121	8,893	10,112	7,771
Real estate maintenance and utilities expenses	5,461	5,740	4,275	3,775
Lease of real estate and property, plant and equipment	182	90	39	48
Telecommunications services	2,802	2,565	2,287	2,148
Real estate tax	928	941	619	651
Public utilities regulation fee	1,763	1,513	1,093	699
Audit fee	127	103	55	46
Expected credit losses (including reversals) on financial instruments	6,944	2,879	2,868	2,351
Net losses from disposal of PPE	6,855	5,379	147	41
Other expenses	14,114	11,575	7,957	6,931
TOTAL other operating expenses	**74,350**	**62,065**	**41,875**	**35,430**

In addition to audit services, in 2023 and 2022 auditors did not provide any other services.

11. Finance income and costs

a) Finance income

EUR'000

		Group		Parent Company	
	Notes	2023	2022	2023	2022
Interest income		6,146	27	5,913	27
Interest income on loans to related parties		3	–	15,757	9,353
Interest income on interest rate swaps		3,068	279	3,068	279
Gains on fair value changes on interest rate swaps	24	9	1,074	9	1,074
Net gain on issued debt securities (bonds)		–	34	–	34
TOTAL finance income		**9,226**	**1,414**	**24,747**	**10,767**

b) Finance costs

EUR'000

		Group		Parent Company	
	Notes	2023	2022	2023	2022
Interest expense on borrowings from financial institutions		21,340	7,989	21,439	8,066
Interest expense on issued debt securities (bonds)		4,786	2,679	4,786	2,679
Interest expense on assets lease		162	136	83	80
Losses on fair value changes on interest rate swaps		128	–	128	–
Capitalised borrowing costs	14 a	(1,328)	(310)	(1,328)	(310)
Net losses on redemption of other financial investments		21	–	21	–
Net losses on currency exchange rate fluctuations		4	29	–	5
Other finance costs		180	307	149	282
TOTAL finance costs		**25,293**	**10,830**	**25,278**	**10,802**

12. Income tax

Accounting policy

Corporate income tax

Latvia

Corporate income tax is paid on distributed profits. Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognised in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while as regards other deemed profit distribution items, at the time when expense is incurred in the reporting year.

Lithuania

Current corporate income tax is applied at the rate of 15% on taxable income generated by a company during the taxation period. Income tax expense for the period comprises current income tax and deferred income tax. Current income tax charges are calculated on current profit before tax using the tax rate 15% in accordance with applicable tax regulations as adjusted for certain non–deductible expenses/non–taxable income and are based on the taxable income reported for the taxation period.

Estonia

In accordance with the effective Estonian Income Tax Act, dividends are taxed at the rate of 20/80 of the amount distributed as the net dividend. From 2019, a lower tax rate on dividends of 14/86 were entered into force in Estonia for regular dividend payments – the more favourable tax rate can be applied to a dividend distribution that amounts to up to three preceding years' average dividend distribution that has been taxed. This means that a resident company will be able to both apply a lower tax rate of 14/86 and a standard tax rate of 20/80.

The income tax calculated on dividends is recognised as the income tax expense of the period in which the dividends are declared irrespective of the period for which the dividends are declared or the period in which the dividends are ultimately distributed.

Deferred income tax

Latvia and Estonia

Deferred tax liabilities are recognised in the consolidated financial statements on undistributed profits of the subsidiaries, which will be subject to taxation upon distribution in foreseeable future. No other deferred tax assets and liabilities are recognised.

Lithuania

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit of the respective Group entity will be available against which the temporary differences can be utilised.

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Current income tax	33,604	2,880	31,099	–
Deferred income tax	4,008	(2,209)	–	–
TOTAL income tax	**37,612**	**671**	**31,099**	**–**

EUR'000

	Group			
	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Deferred income tax at the beginning of the year	**–**	**667**	**79**	**2,955**
Deferred income tax on foreseeable profit distributions of subsidiaries	–	4,808	–	(2,288)
Deferred income tax relating to temporary differences	800	–	(79)	–
Deferred income tax at the end of the year	**800**	**5,475**	**–**	**667**

13. Intangible assets

a) Intangible assets

Accounting policy

Intangible assets are measured on initial recognition at historical cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Assets under development are recognised in Statement of Financial Position within intangible assets and measured at cost until the intangible assets are completed and received.

Usage rights, licenses and software are shown at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight–line method to allocate the cost of usage rights, licenses, and software over their estimated useful lives. Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of use defined in agreement or five years.

Connection usage rights are the payments for the rights to use the transmission or distribution system's power grid. Connection usage rights are measured at cost net of amortisation and accumulated impairment that is calculated on straight–line basis to allocate the cost of connection usage rights to the residual value over the estimated period of relationship with a supplier (connection installer).

Goodwill is initially measured at cost. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group and the Parent Company re–assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's and the Company's cash–generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

EUR'000

	Group					Parent Company			
	Goodwill	Usage rights and licences	Software	Assets under development	TOTAL	Usage rights and licences	Software	Assets under development	TOTAL
As of 31 December 2021									
Cost	2,546	60,617	56,449	683	**120,295**	10,817	53,370	500	**64,687**
Accumulated amortisation	–	(23,983)	(42,755)	–	**(66,738)**	(6,393)	(40,888)	–	**(47,281)**
Net book amount	**2,546**	**36,634**	**13,694**	**683**	**53,557**	**4,424**	**12,482**	**500**	**17,406**
Year ended 31 December 2022									
Additions	–	–	–	4,559	**4,559**	–	–	4,387	**4,387**
Transfers	–	253	3,998	(4,251)	**–**	48	3,960	(4,008)	**–**
Amortisation charge	–	(3,152)	(3,175)	–	**(6,327)**	(461)	(2,935)	–	**(3,396)**
Closing net book amount as of 31 December 2022	**2,546**	**33,735**	**14,517**	**991**	**51,789**	**4,011**	**13,507**	**879**	**18,397**
As of 31 December 2022									
Cost	2,546	60,871	59,252	991	**123,660**	10,865	56,135	879	**67,879**
Accumulated amortisation	–	(27,136)	(44,735)	–	**(71,871)**	(6,854)	(42,628)	–	**(49,482)**
Net book amount	**2,546**	**33,735**	**14,517**	**991**	**51,789**	**4,011**	**13,507**	**879**	**18,397**
Year ended 31 December 2023									
Additions	–	–	–	11,983	**11,983**	–	–	6,717	**6,717**
Transfers	–	10	5,406	(5,416)	**–**	10	5,065	(5,075)	**–**
Amortisation charge	–	(3,157)	(3,289)	–	**(6,446)**	(463)	(3,004)		**(3,467)**
Closing net book amount as of 31 December 2023	**2,546**	**30,588**	**16,634**	**7,558**	**57,326**	**3,558**	**15,568**	**2,521**	**21,647**
As of 31 December 2023									
Cost	2,546	60,878	63,729	7,558	**134,711**	10,875	60,270	2,521	**73,666**
Accumulated amortisation	–	(30,290)	(47,095)	–	**(77,385)**	(7,317)	(44,702)	–	**(52,019)**
Net book amount	**2,546**	**30,588**	**16,634**	**7,558**	**57,326**	**3,558**	**15,568**	**2,521**	**21,647**

As of 31 December 2023, cost of fully depreciated Intangible assets which are still in use for the Group amounted to EUR 21,721 thousand (31/12/2022: EUR 21,280 thousand) and for the Parent Company amounted to EUR 21,268 thousand (31/12/2022: EUR 21,025 thousand).

b) Current intangible assets (Greenhouse gas emission allowances)

Accounting policy

Emission rights for greenhouse gases (or allowances) are recognised at purchase cost when the Group or the Parent Company is able to exercise the control. Subsequently carried at cost less any impairment losses. Allowances received from the Government free of charge are recognised at zero cost. In those cases, when the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, the Group and the Parent Company purchase additional allowances.

The Group and the Parent Company has presented the assets related to purchased emission allowances net of the provisions for CO_2 emissions, given that historically the Group and the Parent Company has determined the CO_2 emissions precisely.

On 26 March 2024, the State Environmental Service of the Republic of Latvia made a decision, verifying the emissions for the prior year and the Group and the Parent Company surrendered the quantity of the emission allowances equivalent to their CO_2 emissions in 2023.

	Group		Parent Company	
	2023	2022	2023	2022
	Number of allowances	Number of allowances	Number of allowances	Number of allowances
At the beginning of the year	**1,116,363**	**1,248,869**	**1,099,264**	**1,231,852**
Allowances allocated free of charge*	79,673	145,019	70,737	137,074
Purchased allowances	479,000	632,966	479,000	632,966
Written off verified allowances	(654,694)	(906,491)	(653,604)	(902,628)
Sold allowances	–	(4,000)	–	–
At the end of the year	**1,020,342**	**1,116,363**	**995,397**	**1,099,264**
including estimated allowances used during the reporting year (unverified)	(699,297)	(653,800)	(699,297)	(653,800)
Allowances available at the end of the year	**321,045**	**462,563**	**296,100**	**445,464**

* The number of allowances received by the Group and the Parent Company from the Government free of charge, in accordance with the law "On Pollution" and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia. Therefore, their carrying amount as of 31 December 2023 was nil (31/12/2022: nil).

Current intangible assets

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Net book amount at the beginning of the year	**31,664**	**24,266**	**31,664**	**24,266**
Additions	37,624	46,643	37,624	46,643
Disposals	(46,237)	(39,245)	(46,237)	(39,245)
Closing net book amount at the end of the year	**23,051**	**31,664**	**23,051**	**31,664**

14. Property, plant and equipment

a) Property, plant and equipment

Accounting policy

Property, plant and equipment (PPE) are measured on initial recognition at cost. Following initial recognition PPE are stated at historical cost or revalued amount less accumulated depreciation and accumulated impairment loss, if any.

If an item of PPE consists of components with different useful lives and acquisition costs of such components are significant concerning the PPE value, these components are accounted as separate items.

Land is not depreciated. Depreciation on the other assets is calculated using the straight–line method to allocate their cost over their estimated useful lives, as follows:

Type of property, plant and equipment (PPE)	Estimated useful life, years
Buildings and facilities	15 – 100
Assets of Hydropower plants:	
- hydropower plants' buildings and facilities,	25 – 100
- hydropower plants' technology equipment and machinery	10 – 40
Distribution system electricity lines and electrical equipment:	
- electricity lines	30 – 50
- electrical equipment of transformer substations	30 – 35
Technology equipment and machinery	3 – 40
Other property, plant and equipment	2 – 25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. Those are included in the Statement of Profit or Loss. If revalued property, plant and equipment have been sold, appropriate amounts are reclassified from revaluation reserve to retained earnings.

All PPE under construction are stated at historical cost and comprise of costs of construction of assets. The initial cost includes construction and installation costs and other direct costs related to construction of PPE. General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are added to the cost of those assets, until such time as the assets is substantially ready for their intended use. Borrowing costs consist of interest and other costs that the Group or the Parent Company incur in connection with the borrowing of funds. Borrowing costs are capitalised to PPE proportionally to the part of the cost of PPE under construction over the period of construction. Assets under construction are not depreciated until the relevant assets are completed and ready for intended use, impairment test is performed when there is indication for impairment, either individually or at the cash-generating unit level. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the recoverable amount that is higher of the asset's the fair value less costs to sell and value in use.

The Group and the Parent Company classifies non–current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and sale is considered highly probable. Non–current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Transfers are made from (or to) property, plant and equipment to (or from) investment property only when there is a change in use and it does not change the carrying amount of the property transferred and do not change the cost measurement method of that property.

Impairment charge or reversed charge is included in the Statement of Profit or Loss under "Depreciation, amortisation and impairment of intangible assets, PPE and right–of–use assets".

Net book amounts and movements of property, plant and equipment by groups, including groups of revalued categories are as follows:

EUR'000

	Group							Parent Company					
	Land, buildings and facilities	**Assets of Hydro Power Plant**	**Distribution system electricity lines and electrical equipment**	**Technology equipment and machinery**	**Other PPE**	**Assets under construction**	**Property, plant and equipment TOTAL**	**Land, buildings and facilities**	**Assets of Hydro Power Plant**	**Technology equipment and machinery**	**Other PPE**	**Assets under construction**	**Property, plant and equipment TOTAL**
As of 31 December 2021													
Cost or revalued amount	427,180	2,044,719	3,031,424	661,828	168,431	63,334	**6,396,916**	346,175	2,044,719	630,116	101,775	48,075	**3,170,860**
Accumulated depreciation and impairment	(232,797)	(1,268,369)	(1,400,001)	(556,946)	(111,865)	(284)	**(3,570,262)**	(211,059)	(1,268,369)	(540,775)	(83,684)	–	**(2,103,887)**
Net book amount	**194,383**	**776,350**	**1,631,423**	**104,882**	**56,566**	**63,050**	**2,826,654**	**135,116**	**776,350**	**89,341**	**18,091**	**48,075**	**1,066,973**
Year ended 31 December 2022													
Additions	–	–	–	–	–	117,108	**117,108**	–	–	–	–	25,653	**25,653**
Transfers	7,343	23,237	68,872	1,366	14,037	(114,855)	**–**	2,225	23,237	1,021	8,563	(35,046)	**–**
Reclassified to investment property, net	(823)	–	–	–	–	–	**(823)**	(315)	–	–	–	–	**(315)**
Reclassified to non–current assets for sale	–	–	–	–	(8)	–	**(8)**	–	–	–	(8)	–	**(8)**
Disposals	(321)	(47)	(6,751)	(110)	(114)	(52)	**(7,395)**	(266)	(47)	(36)	(46)	(15)	**(410)**
Increase of assets as a result of revaluation	–	227,695	–	–	–	–	**227,695**	–	227,695	–	–	–	**227,695**
Reversed impairment charge as a result of revaluation	–	417	–	–	–	–	**417**	–	417	–	–	–	**417**
(Impairment)/reversed impairment charge (Note14 c I)	(2,567)	–	–	8,613	–	(8,459)	**(2,413)**	(2,567)	–	8,613	–	(8,410)	**(2,364)**
Depreciation	(13,395)	(29,562)	(68,887)	(30,915)	(13,106)	–	**(155,865)**	(9,648)	(29,562)	(29,688)	(6,083)	–	**(74,981)**
Closing net book amount as of 31 December 2022	**184,620**	**998,090**	**1,624,657**	**83,836**	**57,375**	**56,792**	**3,005,370**	**124,545**	**998,090**	**69,251**	**20,517**	**30,257**	**1,242,660**
As of 31 December 2022													
Cost or revalued amount	430,936	2,522,235	3,049,406	661,918	174,442	65,536	**6,904,473**	345,690	2,522,235	630,073	102,954	38,667	**3,639,619**
Accumulated depreciation and impairment	(246,316)	(1,524,145)	(1,424,749)	(578,082)	(117,067)	(8,744)	**(3,899,103)**	(221,145)	(1,524,145)	(560,822)	(82,437)	(8,410)	**(2,396,959)**
Net book amount	**184,620**	**998,090**	**1,624,657**	**83,836**	**57,375**	**56,792**	**3,005,370**	**124,545**	**998,090**	**69,251**	**20,517**	**30,257**	**1,242,660**
Year ended 31 December 2023													
Additions	–	–	–	–	–	181,108	**181,108**	–	–	–	–	57,735	**57,735**
Acquisition of a subsidiary	183	–	–	71	–	3	**257**	–	–	–	–	–	**–**
Transfers	6,611	6,889	84,967	6,937	16,697	(122,101)	**–**	1,653	6,889	1,975	10,559	(21,076)	**–**
Reclassified to investment property, net	(612)	–	–	–	–	–	**(612)**	(58)	–	–	–	–	**(58)**
Reclassified to non–current assets for sale	–	–	–	–	(39)	–	**(39)**	–	–	–	(18)	–	**(18)**
Disposals	(281)	(4)	(7,971)	(135)	(137)	(87)	**(8,615)**	(456)	(3)	(117)	(8)	(73)	**(657)**
Increase of assets as a result of revaluation	–	312,061	–	–	–	–	**312,061**	–	312,061	–	–	–	**312,061**
Reversed impairment charge as a result of revaluation	–	1,108	–	–	–	–	**1,108**	–	1,108	–	–	–	**1,108**
Impairment charge (Note14 c I)	(3,142)	–	–	(19,167)	–	(123)	**(22,432)**	(3,142)	–	(19,167)	–	(14)	**(22,323)**
Depreciation	(13,305)	(40,544)	(69,946)	(30,091)	(13,269)	–	**(167,155)**	(9,552)	(40,545)	(28,652)	(6,348)	–	**(85,097)**
Closing net book amount as of 31 December 2023	**174,074**	**1,277,600**	**1,631,707**	**41,451**	**60,627**	**115,592**	**3,301,051**	**112,990**	**1,277,600**	**23,290**	**24,702**	**66,829**	**1,505,411**
As of 31 December 2023													
Cost or revalued amount	436,256	2,842,752	3,080,841	668,461	182,656	124,459	**7,335,425**	346,561	2,842,752	631,707	105,830	75,254	**4,002,104**
Accumulated depreciation and impairment	(262,182)	(1,565,152)	(1,449,134)	(627,010)	(122,029)	(8,867)	**(4,034,374)**	(233,571)	(1,565,152)	(608,417)	(81,128)	(8,425)	**(2,496,693)**
Net book amount	**174,074**	**1,277,600**	**1,631,707**	**41,451**	**60,627**	**115,592**	**3,301,051**	**112,990**	**1,277,600**	**23,290**	**24,702**	**66,829**	**1,505,411**

The Group and the Parent Company have recognised impairment on capital expenditure projects for which operations have not taken place in the last 12 months and it is not known whether they will be completed within next 2 years, and a decision has not been taken on termination of the project.

As of 31 December 2023, cost of fully depreciated PPE which are still in use for the Group amounted to EUR 347,207 thousand (31/12/2022: EUR 231,622 thousand) and for the Parent Company amounted to EUR 307,910 thousand (31/12/2022: EUR 188,460 thousand).

Annual Report

– Key Figures
– Management Report
– Financial Statements
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Financial Position
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements
– Independent Auditors' Report

In 2023 the Group and the Parent Company have capitalised borrowing costs in the amount of EUR 1,328 thousand (2022: EUR 310 thousand) (see Note 11). Rate of capitalised borrowing costs was of 2.23% (2022: 1.43%).

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

b) Property, plant and equipment revaluation

Accounting policy

Revaluations have been made with sufficient regularity to ensure that the carrying amount of property, plant and equipment items subject to valuation does not differ materially from that which would be determined using fair value at the end of reporting period.

The following hydropower plants and distribution system assets (property, plant and equipment) are revalued regularly but not less frequently than every five years:
a) Assets of Hydropower plants:
- hydropower plants' buildings and facilities,
- hydropower plants' technology equipment and machinery;

b) Distribution system electricity lines and electrical equipment:
- electricity lines,
- electrical equipment of transformer substations.

Increase in the carrying amount arising on revaluation is recognised in the Statement of Comprehensive income as "Non–current assets revaluation reserve" in shareholders' equity. Decrease in the carrying amount arising on revaluation primarily offset previous increases recognised in 'Comprehensive income' and if decrease exceeds revaluation reserve, it is recognised in the Statement of Profit or Loss.

At the date of revaluation, initial carrying amounts and accumulated depreciation are increased or decreased proportionately with the change in the carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount.

Non–current assets revaluation reserve is decreased and transferred to retained earnings at the moment, when revalued asset has been written off or disposed.

Revaluation reserve cannot be distributed in dividends, invested in share capital, used for indemnity, reinvested in other reserves, or used for other purposes.

Carrying amounts of revalued categories of property, plant and equipment groups at revalued amounts and their cost basis are as follows:

EUR'000

	Group		
	Revalued property, plant and equipment groups		
	Assets of Hydropower plants (the Parent Company)	Distribution system electricity lines and electrical equipment	TOTAL revalued PPE
At revalued amounts			
As of 31 December 2023			
Revalued	2,842,752	3,080,841	5,923,593
Accumulated depreciation	(1,565,152)	(1,449,134)	(3,014,286)
Revalued net book amount	**1,277,600**	**1,631,707**	**2,909,307**
As of 31 December 2022			
Revalued	2,522,235	3,049,406	5,571,641
Accumulated depreciation	(1,524,145)	(1,424,749)	(2,948,894)
Revalued net book amount	**998,090**	**1,624,657**	**2,622,747**
At amounts stated on historical cost basis			
As of 31 December 2023			
Cost	479,618	1,628,116	2,107,734
Accumulated depreciation	(209,160)	(569,891)	(779,051)
Net book amount	**270,458**	**1,058,225**	**1,328,683**
As of 31 December 2022			
Cost	474,331	1,575,174	2,049,505
Accumulated depreciation	(199,859)	(524,748)	(724,607)
Net book amount	**274,472**	**1,050,426**	**1,324,898**

Assets of Hydropower plants

Assets of Hydropower plants were revalued in 2023. The revaluation was performed by an independent, external and certified valuation expert by applying the income method or the replacement cost model. Income method is based on average perennial water inflow in each HPP, power exchange forecasts of electricity prices, analysis of historical generation and operating expenses, forecast of expenses based on publicly available state statistics, forecast of capital expenditure, forecast of net cash flows, as well as discount and capitalisation rate calculation based on market data.

Considering that the estimated replacement cost of the assets exceeded the value determined by using income method, the value of each of the hydropower plant assets item's estimated depreciated replacement cost was reduced to recognise the economic depreciation. The replacement cost was determined according to technical characteristics of property, plant and equipment, current technical requirements, and the cost of replacement of functional analogue less physical, functional, and economic depreciation.

As a result of revaluation in 2023 the carrying amounts of property, plant and equipment of hydropower plants increased by EUR 313,169 thousand. Increase of property, plant and equipment in the amount of EUR 312,062 thousand is included in the equity as non-current assets revaluation reserve (see Note 21 a), while reversal of previously recognised impairment in the amount of EUR 1,108 thousand was recognised in the Statement of Profit or Loss.

The nominal pre–tax discount rate used in valuation was 8.88% (2022: 10.25%). If the pre-tax rate would have been increased by 1% then the value of the revalued assets of hydropower plants would have been decreased by EUR 174,063 thousand (2022: by EUR 119,182 thousand). If the pre–tax rate would have been decreased by 1%, the value of the revalued assets of hydropower plants would have been increased by EUR 228,159 thousand (2022: by EUR 146,219 thousand). If electricity price would have been increased by 5%, the value of assets would have been increased by EUR 127,937 thousand (2022: by EUR 114,722 thousand), if the prices would have been by 5% less, the value of assets would have been decrease by EUR 127,937 thousand (2022: by EUR 114,722 thousand).

Distribution system assets

Distribution system electrical equipment was revalued as of 1 April 2020 and distribution system electricity lines were revalued as of 1 January 2021.

External valuation expert used cost approach and assessed how components of the replacement or renewal costs of the same property, plant and equipment items have changed since the previous revaluation. The same approach was used in valuation of electricity lines, by assessing the control estimate values of cost items of the electricity lines construction used for the construction of Sadales tīkls AS electricity network. The control estimate is an estimate of the median object for the construction or reconstruction of electricity lines, which corresponds to the median value of the price for each group of electricity lines (property, plant and equipment), not considering the extreme costs of construction. In the calculation of replacement costs, cost items of construction control estimates are priced according to market prices as of 1 January 2021.

As of 31 December 2023, the management of Sadales tīkls AS has assessed internal and external indicators to assess whether revaluation would be needed. In this assessment, the increase in the price levels of general construction costs and electrical equipment costs accompanied with the increase of inflation and discount rates, which are exceeding criteria determined in the Group accounting policies, are indicators that revaluation of assets should be performed. After examining the recoverable value of the assets, the management of Sadales tīkls AS concluded that the fair value of the assets does not significantly differ from the assets book value on 31 December 2023. Such conclusion was mainly driven by the "Methodology of capital costs accounting and calculation" approved by the decision of the Public Utilities Commission as of 29 August 2022, which stipulates that the value of assets used in calculations of regulatory asset base are included without the effect of asset revaluations after 31 December 2021. Considering the above, revaluation of assets as of 31 December 2023 does not need to be carried out.

c) Impairment

Accounting policy

Assets that are subject to depreciation or amortisation, land and investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects the current market expectations regarding the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash–generating unit to which the asset belongs. Impairment losses are recognised in Other comprehensive income and reversed to the asset revaluation surplus in equity for the assets accounted at revalued amount and in the Statement of Profit or Loss within 'amortisation, depreciation and impairment charge expenses' for the assets that are accounted at cost, less depreciation and impairment, or for the assets accounted at revalued amount in case if impairment charge exceeds revaluation surplus previously recognised on individual asset.

The key assumptions used in determining recoverable amount of the asset are based on the Group entities' or the Parent Company's management best estimation of the range of economic conditions that will exist over the remaining useful life of the asset, on the basis of the most recent financial budgets and forecasts approved by the management for a maximum period of 10 years. Assets are reviewed for possible reversal of the impairment whenever events or changes in circumstances indicate that impairment must be reviewed. The reversal of impairment for the assets that are accounted at cost, less depreciation and impairment, is recognised in the Statement of Profit or Loss. Reversal of impairment loss for revalued assets is recognised in the Statement of Profit or Loss to the extent that an impairment loss on the same revalued asset was previously recognised in the Statement of Profit or Loss; the remaining reversals of impairment losses of revalued assets are recognised in Other comprehensive Income.

I) Latvenergo AS combined heat and power plants (Latvenergo AS CHPPs)

Impairment review performed for Latvenergo AS CHPPs is based on value in use calculations. The cash–generating unit is defined as the assets of Latvenergo AS CHPPs.

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP–1 and CHPP–2 (Note 4 f). The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one–off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants. Conditional grant part recognised as deferred income in the Group's and the Parent Company's statement of financial position (Note 28) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028. EUR 23,990 thousand were recognised as 'Other income' in the Group's and Parent Company's statement of profit or loss in 2023 (2022: EUR 23,990 thousand) (Note 7). Consequently, EUR 113,460 thousand remained recognised as deferred income as of 31 December 2023 (31/12/2022: EUR 137,450 thousand) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

As of 31 December 2023, the future discounted cash flows generated by the operation of Latvenergo AS CHPPs are evaluated in the amount of EUR 34,351 thousand (31/12/2022: EUR 28,607 thousand). More detailed information is given below. Consequently, the value of Latvenergo CHPPs assets is estimated equal to the sum of deferred income and future discounted cash flows as of 31 December 2023 – EUR 147,811 thousand (31/12/2022: EUR 166,057 thousand). The book value of Latvenergo AS CHPPs assets as on December 31, 2023 – EUR 170,120 thousand (31/12/2022: EUR 159,827 thousand).

EUR'000

	31/12/2023	31/12/2022
Deferred income	113,460	137,450
Future discounted cash flow value	34,351	28,607
True value of assets	**147,811**	**166,057**
Book value	170,120	159,827
Impairment	**(22,309)**	**6,230**

As a result of the above transactions, in 2023 additional impairment was recorded in the amount of EUR 22,309 thousand for Latvenergo AS CHPPs (2022: reversal of impairment EUR 6,230 thousand) and included within class of assets: 'Land, buildings and facilities' and 'Technology equipment and machinery'. The recognised impairment is included in the Statement of Profit or Loss position "Depreciation, amortisation and impairment of intangible assets, PPE and right–of–use assets". The accumulated impairment as of 31 December 2023 amounted to EUR 221,491 thousand (31/12/2022: EUR 199,181 thousand).

To ensure the carrying value is in line with recognised impairment, the future cash flows expected to be derived from the operation of Latvenergo AS CHPPs were evaluated. Forecasted period is 2024-2028 and the terminal value appraisal as of end of 2028, evaluated as a sum of backup fuel reserves of diesel, and the future value of heat water boilers, is included. Revenue stream forecast includes the income from electricity and heat generation, as well as the remaining intensity of electrical capacity payments and the support period for CHPP-2 till September 23, 2028, as it is set out in regulations by Cabinet of Ministers of the Republic of Latvia No. 561, dated 2 September 2020. The market prices of electricity, natural gas and emission allowances were forecasted by relying on the most recent third-party expert's estimates. The forecast of expenses is based on historical data, the budget approved by the management for 2024, the service maintenance agreements and assumed long-term inflation forecasted at 2%. Nominal pre–tax discount rate used to determine value in use of cash–generating unit by discounting cash flows is 8.875% (2022: 10.25%). The discount rate estimation has been impacted mainly by lower appraised value of risk-free rate, market risk premium, as well as EUROSWAP rate. As a result of calculation at the reporting year, the future discounted cash flows generated by Latvenergo AS CHPPs are evaluated as EUR 34,351 thousand (2022: EUR 28,607 thousand). The operation of Latvenergo AS CHPPs plants can be flexibly adjusted to the electricity market conditions and guarantees a significant baseload electricity capacity for Latvia. CHPPs can cover Latvian electricity consumption almost completely in circumstances where, due to certain factors, electricity imports from foreign countries are limited.

As of 31 December 2023, the Group and the Parent Company has performed a sensitivity analysis of the fair value test of Latvenergo AS CHPPs to changes in inputs:

EUR'000

	Discount rate		Electricity price*		Natural gas price*	
	1 pp increase	1 pp decrease	10% increase	10% decrease	10% increase	10% decrease
Possible changes of CHPPs assets value	(1,431)	1,497	34,187	(36,955)	(20,193)	19,465

*Natural gas and electricity commodity costs are historically closely correlated

II) Sadales tīkls AS distribution system assets

Impairment review performed for electricity distribution system assets in accordance with IAS 36 and based on value in use calculations. Distribution system assets defined as the cash–generating unit. The nominal after-tax discount market rate is used to determine the value in use of the cash flow generating unit by discounting the cash flow.

Key assumptions used in asset valuation	2023	2022
Discount rate	7.24%	5.92%
Long-term growth rate	2.29%	2.0%

In the reporting year, still tense geopolitical situation maintained high inflation rates, material price increases and interest rate hikes. The impairment assessment also considers price forecasts for the main revenue and cost streams as well as assumptions related to capital investment plans (also approved by the Regulator). With consideration of previously mentioned factors, the Company's management did not identify an impairment loss of the distribution power grid assets in 2023 (2022: no impairment loss identified). The assumptions of the Company's management are based on the information available at the time of approval of the financial statements. The impact of future events on Sadales tīkls AS future performance may differ from the current assessment.

As of 31 December 2023, the Group has performed a sensitivity analysis of the fair value test of Sadales tīkls AS distribution system assets to changes in inputs:

EUR'000

	Discount rate 1 pp increase
Possible changes of distribution system assets value	no impairment

The Management of Sadales tīkls AS has assessed that other indicators are not sensitive as according to regulatory framework are completely recoverable either through new tariff project or through regulatory account during current regulatory period.

d) Investment property

Accounting policy

Investment properties are land, or a building or part of a building held by the Group or the Parent Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business. Investment property generates cash flows independently of the other assets held. The Group and the Parent Company apply the cost model in measurement of investment properties and subsequently measure at acquisition cost net of accumulated depreciation and impairment losses.

The applied depreciation rates are based on estimated useful life set for respective fixed asset categories – from 15 to 80 years.

EUR'000

	Group						Parent Company					
	Investment properties for lease*		Investment property held for capital appreciation		TOTAL Investment property		Investment properties for lease*		Investment property held for capital appreciation		TOTAL Investment property	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Cost at the beginning of the year	1,784	1,784	758	2,023	2,542	3,807	2,700	2,700	214	1,861	2,914	4,561
Accumulated depreciation and impairment at the beginning of the year	(211)	(199)	(34)	(292)	(245)	(491)	(691)	(674)	(1)	(285)	(692)	(959)
Net book amount at the beginning of the year	**1,573**	**1,585**	**724**	**1,731**	**2,297**	**3,316**	**2,009**	**2,026**	**213**	**1,576**	**2,222**	**3,602**
Reclassified from property, plant and equipment	–	–	612	823	612	823	–	–	58	315	58	315
Disposal	–	–	(7)	(31)	(7)	(31)	–	–	(1)	(1,678)	(1)	(1,678)
Sold	–	–	(581)	(1,799)	(581)	(1,799)	–	–	–	–	–	–
Depreciation	(12)	(12)	–	–	(12)	(12)	(18)	(17)	–	–	(18)	(17)
Net book amount at the end of the year	**1,561**	**1,573**	**748**	**724**	**2,309**	**2,297**	**1,991**	**2,009**	**270**	**213**	**2,261**	**2,222**
Cost at the end of the year	1,784	1,784	829	758	2,613	2,542	2,700	2,700	287	214	2,987	2,914
Accumulated depreciation and impairment at the end of the year	(223)	(211)	(81)	(34)	(304)	(245)	(709)	(691)	(17)	(1)	(726)	(692)
Net book amount at the end of the year	**1,561**	**1,573**	**748**	**724**	**2,309**	**2,297**	**1,991**	**2,009**	**270**	**213**	**2,261**	**2,222**

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

15. Leases

a) Right-of-use assets and lease liabilities

Accounting policy

At the time of conclusion of the contract, the Group and the Parent Company assess whether the contract is a lease or contains a lease. A contract is a lease, or contains a lease, when the contract gives the right to control the use of an identified asset throughout the period of time in exchange for consideration.

Leases and right–of–use assets are recognised for all long–term leases that meet the criteria of IFRS 16 (the remaining lease term exceeds 12–months at the date of implementation of the standard).

Low value leases are not accounted fully, applying the additional exemptions for leases of land under transformer substations and electric transport charging stations, which are considered immaterial according to IFRS 16 criteria, as well as the value of assets is immaterial.

Leases are recognised as right–of–use assets and the corresponding lease liabilities at the date when leased assets are available for use of the Group and the Parent Company. The cost of the right–of–use an asset consists of:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs.

The right–of–use the asset is recognised as a separate item in the composition of non–current assets and is classified according to groups of property, plant and equipment.

The Group and the Parent Company account for the right–of–use assets of land, buildings, and facilities.

The right–of–use asset is amortised on a straight–line basis from the commencement date to the end of the useful life of the underlying asset. Depreciation is calculated on a straight–line basis from the commencement date of the lease to the end of the lease term unless an asset is scheduled to be redeemed. The right–of–use asset is periodically reduced for impairment losses, if any, and adjusted for any remeasurement of the lease liabilities.

Assets and lease liabilities arising from leases at commencement date are measured at the amount equal to the present value of the remaining lease payments, discounted by the interest rate implicit in the lease.

Lease liabilities are subsequently measured when there is a change in future lease payments due to changes of an index or a rate used to determine these payments, when the Group's and the Parent Company's estimate of expected payments changes, or when the Group and the Parent Company change their estimates of the purchase option, lease term modification due to extension or termination. When a lease liability is subsequently remeasured, the corresponding adjustment is made to the carrying amount of the right–of–use asset or recognised in the statement of profit or loss if the carrying amount of the right–of–use asset decreases to zero.

Each lease payment is divided between the lease liability and the interest expense on the lease. Interest expense on lease is recognised in the statement of profit or loss over the lease term to form a constant periodic interest rate for the remaining lease liability for each period.

Lease payments related to short–term leases are recognised as an expense in the statement of profit or loss on a straight–line basis. Short–term leases are leases with a lease term of 12 months or less at the commencement date.

The Group and the Parent Company have recognised the right-of-use assets for land, buildings and facilities, and on a lease of the fiber of the combined optical cable (OPGW - optical ground wire with dual function).

Right–of–use assets

EUR'000

	Group	Parent Company
	Land, buildings and facilities	Land, buildings and facilities
As of 31 December 2021		
Cost	12,871	7,342
Accumulated depreciation	(4,559)	(2,199)
Net book amount	**8,312**	**5,143**
Year ended 31 December 2022		
Recognised changes in lease agreements	4,261	1,094
Depreciation	(2,047)	(1,171)
Closing net book amount as of 31 December 2022	**10,526**	**5,066**
As of 31 December 2022		
Cost	16,784	8,436
Accumulated depreciation	(6,258)	(3,370)
Net book amount	**10,526**	**5,066**
Year ended 31 December 2023		
Recognised changes in lease agreements	2,928	875
Depreciation	(2,235)	(1,231)
Closing net book amount as of 31 December 2023	**11,219**	**4,710**
As of 31 December 2023		
Cost	17,994	9,311
Accumulated depreciation	(6,775)	(4,601)
Net book amount	**11,219**	**4,710**

Lease liabilities

EUR'000

	Group	Parent Company
As of 31 December 2021	**8,428**	**5,226**
Of which are:		
- Non–current	6,540	4,085
- Current	1,888	1,141
Year ended 31 December 2022		
Recognised changes in lease agreements	4,261	1,094
Payments for lease liabilities	(2,150)	(1,234)
Recognised interest liabilities	136	80
As of 31 December 2022	**10,675**	**5,166**
Of which are:		
- Non–current	8,648	4,206
- Current	2,027	960
Year ended 31 December 2023		
Recognised changes in lease agreements	2,933	875
Payments for lease liabilities	(2,364)	(1,300)
Recognised interest liabilities	162	83
As of 31 December 2023	**11,406**	**4,824**
Of which are:		
- Non–current	9,015	3,607
- Current	2,391	1,217

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

b) Expenses from leases (IFRS 16)

The following amounts are recognised in profit or loss:

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Depreciation for the right-of-use assets (land buildings and facilities)	2,235	2,047	1,231	1,171
Interest expense on lease liabilities (included in finance costs)	162	136	83	80
Short–term and low value lease expenses	151	90	48	48
Variable lease payments not included in the lease liabilities	112	31	82	31
TOTAL expenses from leases	**2,660**	**2,304**	**1,444**	**1,330**

In the Statement of Cash Flows for the year ended 31 December 2023, lease payments of the Group in amount of EUR 370 thousand and the Parent Company in amount of EUR 534 thousand have been made by non–cash offsetting and included in cash flows from operating activities in working capital adjustments (2022: the Group in amount of EUR 372 thousand and the Parent Company in amount of EUR 505 thousand). Other lease payments of the Group in amount of EUR 1,886 thousand and the Parent Company in amount of EUR 731 thousand are included in the cash flows from financing activities (payments of principal on leases) and in cash flows from operating activities (payments of interest on leases) (2022: the Group EUR 1,671 thousand and the Parent Company EUR 649 thousand).

c) Income from leases

EUR'000

	Notes	Group		Parent Company	
		2023	2022	2023	2022
Income from leases (the Group and the Parent Company is the lessor)	6	1,478	1,977	3,070	3,357

Future minimum lease payments receivable under operating lease contracts by due dates (the Group and the Parent Company are the lessor)

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
< 1 year	1,489	1,969	3,070	3,357
1–5 years	2,219	2,198	8,520	7,794
> 5 years	1,486	1,486	1,486	1,486
TOTAL rental income	**5,194**	**5,653**	**13,076**	**12,637**

Latvenergo

Annual Report

– Key Figures
– Management Report
– Financial Statements
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Financial Position
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements
– Independent Auditors' Report

16. Non–current financial investments

The Parent Company's participating interest in subsidiaries (%) and other non–current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2023		31/12/2022	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Investments in subsidiaries:						
Sadales tīkls AS (18/09/2006)	Latvia	Electricity distribution	100%	641,450	100%	641,450
Enerģijas publiskais tirgotājs SIA (25/04/2014)	Latvia	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti OÜ (27/06/2007)	Estonia	Electricity and natural gas trade	100%	35	100%	35
Elektrum Lietuva, UAB (07/01/2008)	Lithuania	Electricity and natural gas trade	100%	25,000	100%	600
Latvijas vēja parki SIA (22/07/2022)	Latvia	Development of wind parks and generation of electricity	80%	1,600	80%	1,600
Liepājas enerģija SIA (06/07/2005)	Latvia	Thermal energy generation and trade, electricity generation	51%	3,556	51%	3,556
TOTAL				**671,681**		**647,281**
Other non–current financial investments:						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30%	36	46.30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				**39**		**39**
TOTAL non-current financial investments of the Parent Company				**671,720**		**647,320**

Subsidiaries' participating interest held (%)

Name of the company	Country of incorporation	Business activity held	31/12/2023 Interest held, %	31/12/2022 Interest held, %
Subsidiaries of Elektrum Eesti OÜ:				
Elektrum Latvija, SIA (18/09/2012)	Latvia	Electricity trade	100%	100%
Energiaturu Võrguehitus OÜ (26/08/2021)	Estonia	Electricity microgrid services	100%	100%
HN põld ja mets 1 OÜ (31/05/2023)	Estonia	Development of renewable energy generation	100%	–
Subsidiaries of Elektrum Lietuva, UAB				
Klaipėda unlimited sun, UAB (27/01/2023)	Lithuania	Development of renewable energy generation	100%	–

The Group holds an 50% interest in a joint ventures, companies engaged in development of renewable energy generation in Lithuania, in total amount of EUR 2 thousand.

The Group's non–current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2023		31/12/2022	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Other non–current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15%	37	48.15%	37
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				**40**		**40**

The Group owns 48.15% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS – 46.30%). However, the Group and the Parent Company are only a nominal shareholder as the Pension Fund is a non-profit company, and all risks and benefits arising from company's activities and investments in the pension plan are taken and accrued by the members of the Pension Fund pension plan. For this reason, the investment in Pirmais Slēgtais Pensiju Fonds AS is valued at acquisition cost.

As of 31 December 2023 Enerģijas publiskais tirgotājs SIA and Sadales tīkls AS jointly own one share of Pirmais Slēgtais Pensiju Fonds AS with nominal value in the amount of EUR 1,422 (1.85% interest held in share capital) and consequently, each entity owns 1/2 of the notional shares in the amount of EUR 711 per share.

Accounting policy on investments in subsidiaries and non-current investments disclosed in Note 2.

Movement in non-current investments

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
At the beginning of the year	**40**	**40**	**647,320**	**645,218**
Invested in share capital	–	–	24,400	2,102
At the end of the year	**40**	**40**	**671,720**	**647,320**

Summarised financial information for subsidiaries

EUR'000

Subsidiaries	Equity 31/12/2023	Equity 31/12/2022	Net profit / (loss) for the year 2023	Net profit / (loss) for the year 2022	Dividends from subsidiaries* 2023	Dividends from subsidiaries* 2022	Carrying amount of interest from investment 31/12/2023	Carrying amount of interest from investment 31/12/2022
Subsidiaries of the Parent Company:								
Sadales tīkls AS	985,972	970,630	16,906	(20,415)	–	10,429	641,450	641,450
Enerģijas publiskais tirgotājs SIA	40	40	–	–	–	–	40	40
Elektrum Eesti OÜ	1,031	1,127	359	455	455	156	35	35
Elektrum Lietuva, UAB	29,425	956	4,069	656	–	–	25,000	600
Latvijas vēja parki SIA	1,134	1,809	(675)	(191)	–	–	1,600	1,600
Liepājas enerģija SIA	16,793	14,469	3,243	1,276	469	–	3,556	3,556
Total Subsidiaries of the Parent Company	**1,034,395**	**989,031**	**23,902**	**(18,219)**	**924**	**10,585**	**671,681**	**647,281**
Subsidiaries of Elektrum Eesti OÜ:								
Total Elektrum Eesti OÜ interests	**3,593**	**2,936**	**657**	**541**	**–**	**–**	**6,204**	**4,754**
Subsidiaries of Elektrum Lietuva, UAB:								
Total Elektrum Lietuva, UAB interests	**3**	**–**	**–**	**–**	**–**	**–**	**3,932**	**–**

* in 2023 dividends from subsidiaries received in cash in the amount of EUR 924 thousand (2022: EUR 156 thousand received in cash and with non–cash offset in the amount of EUR 10,429 thousand)

Summarised financial information for non-controlling interests

EUR'000

Non-controlling interest of subsidiaries	Non-current assets 31/12/2023	Non-current assets 31/12/2022	Current assets 31/12/2023	Current assets 31/12/2022	Non-current liabilities 31/12/2023	Non-current liabilities 31/12/2022	Current liabilities 31/12/2023	Current liabilities 31/12/2022
Latvijas vēja parki SIA (20%)	754	28	297	347	–	–	824	14
Liepājas enerģija SIA (49%)	14,632	14,232	3,815	5,651	14,815	9,223	2,959	3,571

Business combinations and acquisition of ownership interests

During 2022, Latvijas vēja parki SIA, a joint venture of Latvenergo AS and Latvijas valsts meži AS for the development of wind parks of strategic importance, was registered. Share capital of Latvijas vēja parki SIA is EUR 2,000 thousand, with the 80% of ownership interest held in joint venture by Latvenergo AS and 20% of ownership interest held by Latvijas valsts meži AS. In 2023, the shareholders' meeting of Latvijas vēja parki SIA decided that the company's share capital will be increased by EUR 5,000 thousand, and in 2023 the Parent Company made payment to the company for the unregistered shares in company's share capital in amount of EUR 4,000 thousand.

17. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using the weighted average method, except of natural gas inventory held per Inčukalns underground gas storage where cost is determined using FIFO method. Goods for sale are determined using FIFO or weighted average cost method, or specific identification method.

Purchase cost of inventories consists of the purchase price, import charges and other fees and charges, freight–in and related costs as well as other costs directly incurred in bringing the materials and goods to their present location and condition. The value of inventories is assigned by charging trade discounts, reductions, and similar allowances. Existence of inventories as of the end of reporting period is verified during stock–taking.

At the end of each reporting year the inventories are reviewed for any indications of obsolescence. When obsolete or damaged inventories are identified, allowances are recognised to their recoverable amount. Additionally, during the reporting year at least each month inspection of idle inventories is performed with the purpose to identify obsolete and damaged inventories. Allowances for an impairment loss are recognised for those inventories.

The following basic principles are used in determining impairment losses for idle inventories:

a) Maintenance inventories for machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 12 months are impaired in amount of 90%, while inventories haven't turned over during last 6 months are impaired in amount of 45%

b) Inventories that haven't turned over during last 12 months are fully impaired, while inventories that haven't turned over during last 6 months are impaired in amount of 50%,

c) Allowances are not calculated for the fuel necessary to ensure uninterrupted operations of hydropower and combined heat and power plants, for natural gas and scraps.

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Natural gas (at lower of cost and net realisable value)	119,250	241,588	119,250	241,588
Raw materials and materials (at cost)	23,377	18,888	1,205	1,084
Goods for sale (at lower of cost and net realisable value)	13,809	12,802	3,916	3,259
Other inventories (at cost)	19,359	16,585	18,900	16,055
Unfinished products and orders (at cost)	6,490	5,128	88	–
Prepayments for natural gas and other inventories	4,603	2,027	4,026	469
Allowances for impaired inventories	(3,090)	(1,380)	(1,340)	(869)
TOTAL inventories	**183,798**	**295,638**	**146,045**	**261,586**

Changes in the allowance for raw materials and materials at warehouses in amount of EUR 1,710 thousand (2022: EUR 270 thousand) for the Group and in amount of EUR 471 thousand (2022: EUR 134 thousand) for the Parent Company are included in the Statement of Profit or Loss position 'Raw materials and consumables used'.

18. Receivables from contracts with customers and other receivables

Accounting policy

Receivables from contracts with customers and other receivables are classified in groups:

a) Energy (electricity and natural gas) and related services sales, including distribution system services,

b) Heating sales,

c) Other sales (IT & telecommunication services, connection service fees and other services),

d) Receivables from subsidiaries,

e) Other financial receivables.

Receivables from contracts with customers are recognised initially when they originated. Receivables without a significant financing component are initially measured at the transaction price and subsequently are measured at amortised cost.

The Group and the Parent Company consider the evidence of impairment for the receivables from contracts with customers and other receivables at both an individual and a collective level. All individually significant receivables and receivables of energy industry companies and related parties are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Receivables that are not individually significant are collectively assessed for impairment using the portfolio model. Collective assessment is carried out by grouping together receivables with similar risk characteristics and the days past due. The Group and the Parent Company have applied two expected credit loss models: portfolio model and counterparty model.

The expected loss rates used for portfolio model are based on the payment profiles of sales over a period of 3 years and the corresponding historical credit losses experienced within this period and are adjusted to reflect current and forward-looking information. The Group and the Parent Company apply the IFRS 9 simplified approach to measuring expected credit losses of the collectively assessed receivables (portfolio model) using lifetime expected loss allowance.

For individually significant other receivables and other receivables of energy industry companies and related parties' receivables the Group and the Parent Company apply the IFRS 9 general approach to measuring expected credit losses (counterparty model) using expected credit loss allowance on assessment of significant increase of credit risk. The expected credit losses according to this model are based on assessment of the individual counterparty's risk of default based on Moody's corporate default and recovery rates for the Latvenergo group's and the relevant industry's entities (Note 4 b).

a) Receivables from contracts with customers, net

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

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Individually assessed receivables with lifetime ECL assessment (counterparty model)	28,381	59,630	30,943	46,609
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	196,541	254,479	130,731	186,583
TOTAL receivables from contracts with customers	**224,922**	**314,109**	**161,674**	**233,192**

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Receivables from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	194,928	214,542	128,213	152,285
- Electricity and related services customers (counterparty model)	8,273	36,133	–	14,953
- Heating customers (portfolio model)	23,907	54,228	20,289	49,237
- Other receivables from contracts with customers (portfolio model)	4,418	5,622	1,279	1,444
- Other receivables from contracts with customers (counterparty model)	20,165	23,541	19,936	18,181
- Subsidiaries (counterparty model)	–	–	11,057	13,503
	251,691	**334,066**	**180,774**	**249,603**
Allowances for expected credit loss from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	(24,752)	(17,642)	(18,682)	(15,938)
- Electricity and related services customers (counterparty model)	(17)	(18)	–	–
- Heating customers (portfolio model)	(360)	(448)	(348)	(422)
- Other receivables from contracts with customers (portfolio model)	(1,600)	(1,823)	(20)	(23)
- Other receivables from contracts with customers (counterparty model)	(40)	(26)	(40)	(20)
- Subsidiaries (counterparty model)	–	–	(10)	(8)
	(26,769)	**(19,957)**	**(19,100)**	**(16,411)**
Receivables from contracts with customers, net:				
- Electricity, natural gas trade and related services customers (portfolio model)	170,176	196,900	109,531	136,347
- Electricity and related services customers (counterparty model)	8,256	36,115	–	14,953
- Heating customers (portfolio model)	23,547	53,780	19,941	48,815
- Other receivables from contracts with customers (portfolio model)	2,818	3,799	1,259	1,421
- Other receivables from contracts with customers (counterparty model)	20,125	23,515	19,896	18,161
- Subsidiaries (counterparty model)	–	–	11,047	13,495
	224,922	**314,109**	**161,674**	**233,192**

Annual Report

– Key Figures
– Management Report
– Financial Statements
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Financial Position
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements
– Independent Auditors' Report

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

Late payment delay in days	ECL rate	Group 31/12/2023 Receivables	Group 31/12/2023 Allowances for ECL	Group 31/12/2023 Net	Group 31/12/2022 Receivables	Group 31/12/2022 Allowances for ECL	Group 31/12/2022 Net	Parent Company 31/12/2023 Receivables	Parent Company 31/12/2023 Allowances for ECL	Parent Company 31/12/2023 Net	Parent Company 31/12/2022 Receivables	Parent Company 31/12/2022 Allowances for ECL	Parent Company 31/12/2022 Net
On time	0.20%	186,282	(389)	**185,893**	248,926	(543)	**248,383**	123,163	(267)	**122,896**	183,322	(418)	**182,904**
Less than 30 days	3%	6,693	(201)	**6,492**	3,601	(108)	**3,493**	5,136	(154)	**4,982**	1,843	(55)	**1,788**
Past due 30 - 59 days	20%	1,154	(231)	**923**	1,930	(386)	**1,544**	795	(159)	**636**	1,493	(299)	**1,194**
Past due 60 - 89 days	50%	3,337	(1,668)	**1,669**	722	(361)	**361**	2,809	(1,405)	**1,404**	462	(231)	**231**
Past due 90 - 179 days	60%	1,806	(1,084)	**722**	1,079	(648)	**431**	426	(255)	**171**	713	(428)	**285**
Past due 180 - 359 days	75%	1,668	(1,251)	**417**	994	(745)	**249**	900	(675)	**225**	652	(489)	**163**
Past due more than 360 days	100%	10,049	(10,049)	**–**	10,179	(10,179)	**–**	7,366	(7,366)	**–**	7,929	(7,929)	**–**
Individually assessed	90%	10,763	(10,338)	**425**	5,691	(5,673)	**18**	7,776	(7,359)	**417**	5,691	(5,673)	**18**
Insolvent debtors*	100%	1,501	(1,501)	**–**	1,270	(1,270)	**–**	1,410	(1,410)	**–**	861	(861)	**–**
TOTAL		**223,253**	**(26,712)**	**196,541**	**274,392**	**(19,913)**	**254,479**	**149,781**	**(19,050)**	**130,731**	**202,966**	**(16,383)**	**186,583**

* receivables under insolvency process and with an established payment schedule

The expected loss rates used for portfolio model are based on the payment profiles of sales over a period of 3 years and the corresponding historical credit losses experienced within this period. Adjusting by forward–looking information is disclosed in Note 4 b.

Receivables from contracts with customers with lifetime expected credit losses (ECL) assessed on the counterparty model basis

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Receivables of electricity and related services customers		8,273	36,133	–	14,953
Allowances for expected credit loss on receivables of electricity and related services customers		(17)	(18)	–	–
Other receivables from contracts with customers		20,165	23,541	19,936	18,181
Allowances for expected credit loss on other receivables from contracts with customers		(40)	(26)	(40)	(20)
Receivables from subsidiaries	29 b	–	–	10,779	11,070
Accrued income from subsidiaries	29 c	–	–	278	2,433
Allowances for expected credit loss on subsidiaries receivables	29 b	–	–	(10)	(8)
TOTAL		**28,381**	**59,630**	**30,943**	**46,609**

Allowances for impairment loss are calculated based on Moody's credit rating agency corporate default and debt recovery rate assigned for credit rating level - Baa2 (stable) (for receivables from related parties) and corporate default and debt recovery rate assigned for energy utilities industry.

There is no significant concentration of credit risk with respect to receivables from contracts with customers as the Group and the Parent Company have large number of customers except major heating customer the net debt of which as of 31 December 2023 amounted to EUR 25,757 thousand (31/12/2022: EUR 48,768 thousand).

The Management assumptions and methodology for estimation of impairment for receivables from contracts with customers and evaluation of impairment risk are described in Note 4.

Movements in loss allowances for impaired receivables from contracts with customers

EUR'000

	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
At the beginning of the year	**19,957**	**17,028**	**16,411**	**14,009**
Receivables written off during the year as uncollectible	(2,048)	(2,372)	(1,789)	(2,284)
Allowances for expected credit losses	8,860	5,301	4,478	4,686
At the end of the year	**26,769**	**19,957**	**19,100**	**16,411**

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

EUR'000

	Level of SICR	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Current financial receivables:					
Uncovered costs of mandatory procurement and guaranteed fee for the installed electrical capacity of cogeneration power plants recognised as assets*	Stage 1	32,286	108	–	–
Receivables for lease	Stage 1	15	34	9	31
	Stage 3	3	1	2	1
Other current financial receivables	Stage 1	12,289	16,084	2,589	9,347
	Stage 3	4,429	2,098	3,854	4,606
Other accrued income	Stage 1	586	280	586	280
Allowances for expected credit loss	Stage 1	(102)	(73)	(50)	(66)
	Stage 3	(1,534)	(1,443)	(1,237)	(1,132)
Receivables for lease from subsidiaries (Note 29 b)	Stage 1	–	–	26	13
Other financial receivables from subsidiaries (Note 29 b)	Stage 1	–	–	30,837	21,037
Other accrued income from subsidiaries (Note 29 c)	Stage 1	–	–	14,630	2,150
Allowances for expected credit loss on subsidiaries receivables (Note 29 b)	Stage 1	–	–	(21)	(14)
TOTAL other financial receivables		**47,972**	**17,089**	**51,225**	**36,253**

* by applying agent principle, uncovered costs of mandatory procurement and guaranteed fee for the installed electrical capacity of cogeneration power plants are recognised as assets in net amount, as difference between revenue and costs recognised under the mandatory procurement

Latvenergo

As of 31 December 2023 the Group and the Parent Company have no significant concentration of credit risk with respect to other financial receivables except the Group's receivable from State for uncovered costs of mandatory procurement and guaranteed fee for the installed electrical capacity of cogeneration power plants recognised as assets – EUR 32,286 thousand (31/12/2022: EUR 108 thousand) and as of 31 December 2022 the commodities exchange – Nasdaq Commodities – the net debt of which to the Group as of 31 December 2022 amounted to EUR 9,178 thousand. Loss allowance for other financial receivables assessed individually and based on counterparty's model (Note 4).

c) Other non-financial receivables

EUR'000

	Group		Parent Company	
	31/12/2023	**31/12/2022**	**31/12/2023**	**31/12/2022**
Non–current non–financial receivables	447	482	447	482
Current non–financial receivables	2,109	432	1,055	198
TOTAL non–financial receivables	**2,556**	**914**	**1,502**	**680**

None of the receivables are secured with pledges or otherwise. The carrying amounts of other receivables are assumed to approximate their fair values.

19. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash balances on bank accounts, demand deposits at bank and other short–term deposits with original maturities of three months or less.

EUR'000

	Group		Parent Company	
	31/12/2023	**31/12/2022**	**31/12/2023**	**31/12/2022**
Cash at bank	78,373	112,673	67,080	100,184
Short–term bank deposits	40,000	–	40,000	–
Other cash equivalents	83	84	83	84
TOTAL cash and cash equivalents	**118,456**	**112,757**	**107,163**	**100,268**

Cash at bank balances earns daily interest for the Group mostly based on floating interbank deposit rates. Short–term deposits are placed by the Group for different periods between three and six months depending on the immediate cash needs of the Group and cash flow forecasts. During 2023 the average annual effective interest rate earned on short–term cash deposits was 3.60 % (in 2022: 0%).

As of 31 December 2023, the Group and the Parent Company had deposits at banks in amount of EUR 140,000 thousand with maturity date longer than 3 months that does not comply with the principles of recognition as cash equivalents (31/12/2022: EUR 0 thousand). These deposits are disclosed as 'Other current financial investments' in the Statement of Financial Position.

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

20. Share capital

As of 31 December 2023, the registered share capital of the Latvenergo AS is EUR 790,368 thousand (31/12/2022: EUR 790,368 thousand) and consists of 790,368 thousand ordinary shares (31/12/2022: 790,368 thousand) with the nominal value of EUR 1 per share (31/12/2022: EUR 1 per share). All shares have been fully paid.

21. Reserves, dividends and earnings per share

a) Reserves

EUR'000

	Notes	Group: Non–current assets revaluation reserve	Group: Hedge reserve	Group: Defined benefit plan revaluation reserve	Group: Other reserves	Group: TOTAL	Parent Company: Non–current assets revaluation reserve	Parent Company: Hedge reserve	Parent Company: Defined benefit plan revaluation reserve	Parent Company: TOTAL
As of 31 December 2021		**1,157,825**	**19,218**	**(1,798)**	**110**	**1,175,355**	**778,049**	**19,218**	**(1,536)**	**795,731**
Increase of non–current assets revaluation reserve as a result of revaluation	14 a	227,695	–	–	–	**227,695**	227,695	–	–	**227,695**
Disposal of revaluation reserve	14 a	(11,529)	–	–	–	**(11,529)**	(3,470)	–	–	**(3,470)**
Gains on re–measurement of defined benefit plan	27 a	–	–	645	–	**645**	–	–	210	**210**
Losses from fair value changes of derivative financial instruments	24 l	–	(109,483)	–	–	**(109,483)**	–	(109,483)	–	**(109,483)**
As of 31 December 2022		**1,373,991**	**(90,265)**	**(1,153)**	**110**	**1,282,683**	**1,002,274**	**(90,265)**	**(1,326)**	**910,683**
Increase of non–current assets revaluation reserve as a result of revaluation	14 a	312,061	–	–	–	**312,061**	312,061	–	–	**312,061**
Disposal of revaluation reserve	14 a	(9,613)	–	–	–	**(9,613)**	(561)	–	–	**(561)**
Losses on re–measurement of defined benefit plan	27 a	–	–	(2,709)	–	**(2,709)**	–	–	(1,144)	**(1,144)**
Gains from fair value changes of derivative financial instruments	24 l	–	99,380	–	–	**99,380**	–	99,380	–	**99,380**
Formed statutory reserves		–	–	–	50	**50**	–	–	–	**–**
As of 31 December 2023		**1,676,439**	**9,115**	**(3,862)**	**160**	**1,681,852**	**1,313,774**	**9,115**	**(2,470)**	**1,320,419**

Non–current assets revaluation reserve, post–employment benefit plan revaluation and hedge reserves cannot be distributed as dividends. Other reserves are maintained with the aim to maintain stability in the operations of the Group entities.

b) Dividends

Accounting policy

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Parent Company's shareholders.

In May 2023, Latvenergo AS paid dividends to the State in amount of EUR 133,991 thousand for reporting year 2022 profit. On 18 October 2023, Extraordinary Shareholder Meeting of Latvenergo AS took decision to pay additional dividends to the State in the amount of EUR 18,547 thousand from the undistributed profit of the reporting year 2022.

The total amount of dividends paid for year 2022 was EUR 152,539 thousand or EUR 0.232 per share (in 2022 for 2021: EUR 70,160 thousand or EUR 0.089 per share).

According to the Law "On state budget for 2024 and budgetary framework for 2024, 2025 and 2026" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2024 (for the reporting year 2023) is 64% of the profit for the reporting year, but not less than EUR 199.3 million, corporate income tax calculated and paid in accordance with the laws and regulations. The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

c) Earnings per share

Accounting policy

The Group's share capital consists of the Parent Company's ordinary shares. All shares have been fully paid.

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding (Note 20). As there are no potential ordinary shares, diluted earnings per share are equal to basic earnings per share in all comparable periods.

	Group		Parent Company	
	2023	**2022**	**2023**	**2022**
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	349,749	183,443	331,561	209,362
Weighted average number of shares (thousand)	790,368	790,368	790,368	790,368
Basic earnings per share (in euros)	0.443	0.232	0.420	0.265
Diluted earnings per share (in euros)	0.443	0.232	0.420	0.265

Annual Report

– Key Figures
– Management Report
– Financial Statements
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Financial Position
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements
– Independent Auditors' Report

22. Changes in liabilities arising from financing activities

The changes in lease liabilities (Note 15):

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Net book amount at the beginning of the year	**10,675**	**8,428**	**5,166**	**5,226**
Recognised changes in lease agreements	2,928	4,261	875	1,094
Paid lease payments in cash	(1,886)	(1,671)	(731)	(649)
Paid lease payments by non-cash offset	(370)	(372)	(534)	(505)
Change in accrued liabilities	(108)	(107)	(35)	(80)
Recognised interest liabilities	162	136	83	80
Closing net book amount at the end of the year	**11,401**	**10,675**	**4,824**	**5,166**

In 2023, the movement for borrowings (Note 23) relates to cash flows, except the effect of accrued but not yet paid interest – for the Group increase in the amount of EUR 2,868 thousand and for the Parent company increase in the amount of EUR 2,834 thousand (2022: the Group – increase of EUR 2,161 thousand, the Parent Company – increase of EUR 2,087 thousand).

In 2023, deferred income on financing from European Union funds (Note 28) consists of movement in cash, except the credited amount to Statement of Profit or Loss – for the Group in the amount of EUR 909 thousand and for the Parent company in the amount of EUR 142 thousand (2022: the Group – EUR 896 thousand, the Parent Company – EUR 144 thousand).

23. Borrowings

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Non-current portion of non-current borrowings from financial institutions	336,408	424,867	327,174	411,664
Non-current portion of issued debt securities (bonds)	199,908	149,887	199,908	149,887
Total non-current borrowings from financial institutions	**536,316**	**574,754**	**527,082**	**561,551**
Current portion of non-current borrowings from financial institutions	86,625	177,778	84,491	175,798
Overdraft from financial institutions	–	119,478	–	119,478
Accrued interest on non-current borrowings from financial institutions	2,891	2,161	2,742	2,047
Accrued coupon interest on issued debt securities (bonds)	3,864	1,747	3,864	1,747
Total current borrowings from financial institutions	**93,380**	**301,164**	**91,097**	**299,070**
TOTAL borrowings from financial institutions	**629,696**	**875,918**	**618,179**	**860,621**
Current borrowings from related parties*	–	–	–	3,317
Total current borrowings	**93,380**	**301,164**	**91,097**	**302,387**
TOTAL borrowings	**629,696**	**875,918**	**618,179**	**863,938**

Movement in borrowings

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
At the beginning of the year	**875,918**	**795,029**	**863,938**	**782,322**
Received borrowings from financial institutions	2,000	207,846	–	200,013
Repaid borrowings from financial institutions	(301,090)	(129,118)	(295,276)	(123,801)
Proceeds from issued debt securities (bonds)	50,000	100,000	50,000	100,000
Borrowings received from related parties*	–	–	(3,317)	3,317
Repayment of issued debt securities (bonds)	–	(100,000)	–	(100,000)
Change in accrued interest on borrowings from financial institutions	2,847	2,195	2,813	2,121
Changes in outstanding value of issued debt securities (bonds)	21	(34)	21	(34)
At the end of the year	**629,696**	**875,918**	**618,179**	**863,938**

Borrowings by categories of lenders

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
International Financial Institutions	224,186	273,306	224,186	273,306
Commercial banks	201,738	450,978	190,221	435,681
Issued debt securities (bonds)	203,772	151,634	203,772	151,634
Total borrowings from financial institutions	**629,696**	**875,918**	**618,179**	**860,621**
Related parties*	–	–	–	3,317
TOTAL borrowings	**629,696**	**875,918**	**618,179**	**863,938**

* Within the framework of the Agreement ´On Provision of Mutual Financial Resources´, as of 31 December 2023, Parent Company didn't have current borrowing from Enerģijas publiskais tirgotājs SIA (31/12/2022: in the amount of EUR 3,317 thousand), (the information is disclosed in the Note 29. II).

Borrowings from financial institutions by contractual maturity, excluding the impact of derivative instruments to the interest rate

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Fixed rate non–current and current borrowings:				
- < 1 year (current portion of non–current borrowings)	3,864	1,747	3,864	1,747
- 1–5 years	149,908	100,000	149,908	100,000
- > 5 years	50,000	49,887	50,000	49,887
Total fixed rate borrowings	**203,772**	**151,634**	**203,772**	**151,634**
Floating rate non–current and current borrowings:				
- < 1 year (current borrowings)	–	119,692	–	119,692
- < 1 year (current portion of non–current borrowings)	89,495	179,704	87,212	177,610
- 1–5 years	246,228	303,329	239,433	293,199
- > 5 years	90,201	121,559	87,762	118,486
Total floating rate borrowings	**425,924**	**724,284**	**414,407**	**708,987**
TOTAL borrowings	**629,696**	**875,918**	**618,179**	**860,621**

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

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
- < 1 year	344,074	606,983	332,557	591,686
- 1–5 years	235,622	219,048	235,622	219,048
- > 5 years	50,000	49,887	50,000	49,887
TOTAL borrowings	**629,696**	**875,918**	**618,179**	**860,621**

As of 31 December 2023, and as of 31 December 2022 all of the Group's and the Parent Company's borrowings were denominated in euros.

The fair value of current and non–current borrowings with floating interest rates approximate their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group and the Parent Company, i.e., the floating part of the interest rate corresponds to the money market price while the added part of the interest rate corresponds to the risk premium the lenders in financial and capital markets require from companies of similar credit rating level; therefore, the effect of fair value revaluation is not significant.

Lease liabilities of the Group and the Parent Company are disclosed in Note 15.

I) Pledges

As of 31 December 2023, the Group's and the Parent Company's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Enerģija SIA of maximum secured claims in the amount of EUR 19 million (31/12/2022: EUR 28 million) to secure its current and non–current borrowings. As of the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 15 million and the claims on the receivable's accounts in the amount of EUR 4 million (31/12/2022: EUR 21 million and EUR 7 million, respectively).

II) Un–drawn borrowing facilities

As of 31 December 2023, the un–drawn committed non–current credit facilities amount to EUR 200 million (31/12/2022: EUR 200 million).

As of 31 December 2023, the Group had entered into six overdraft agreements with total notional amount of EUR 236 million (31/12/2022: seven overdraft agreements of EUR 296 million) of which four overdraft agreements were entered by the Parent Company with total notional amount of EUR 230 million (31/12/2022: five overdraft agreements of EUR 290 million). In respect of all the overdraft agreements all conditions precedent have been met.

At the end of the reporting year of total credit lines limits were used EUR 16.1 million in a form as bank issued bank guarantee by the Group and by the Parent Company (31/12/2022: used EUR 123.3 million, of which EUR 119.5 million EUR used by the Parent Company).

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate of the Group (including interest rate swaps) on non–current borrowings was 3.2% (2022: 1.2%), weighted average effective interest rate for current borrowings from financial institutions was 0.48% (2022: 0.48%). As of 31 December 2023, interest rates for non–current borrowings in euros were 6 months EURIBOR + 0.87% (31/12/2022: + 0.69%) for the Group and 6 months EURIBOR+ 0.86% (31/12/2022: + 0.68%) for Latvenergo AS. As of 31 December 2023, the total notional amount of interest rate swap agreements concluded by the Group amounted to EUR 105 million (31/12/2022: EUR 133 million) and the interest rate was fixed for the initial periods from 7 to 10 years.

IV) Issued and outstanding debt securities (bonds)

In 2015 and in 2016 the Parent Company (Latvenergo AS) issued green bonds in the total amount of EUR 100 million with the maturity date 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. In 2021 Latvenergo AS issued green bonds in the total amount of EUR 50 million with the maturity date 17 May 2028 (ISIN code – LV0000802460) with the annual coupon rate of 0.5% under the third bond programme in the total amount of EUR 200 million. Continuing bond issuance within the framework of the third bond programme, on May 5, 2022, Latvenergo AS issued five-year green bonds with a total nominal value of EUR 100 million, a maturity date of 5 May 2027, a fixed annual interest rate (coupon) and a yield of 2.42% (ISIN code – LV0000870129). On February 22, 2023, Latvenergo AS concluded the bond program by issuing six-year green bonds with a total nominal value of EUR 50 million with a maturity date of February 22, 2029, and a fixed interest rate (coupon) and yield of 4.952% per year (ISIN code – LV0000802684). The total nominal amount of outstanding bonds as of 31 December 2023 was EUR 200 million (31/12/2022: EUR 150 million). All issued bonds are quoted in NASDAQ Baltic Stock Exchange. The issued debt securities (bonds) are measured at amortised cost at the end of reporting year.

As of 31 December 2023, the carrying amount of issued debt securities (bonds) exceeds their fair value by EUR 15.1 million (31/12/2022: by EUR 22.7 million). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor (Level 2).

24. Derivative financial instruments

Accounting policy

The Group and the Parent Company use derivatives such as interest rate swaps, electricity forwards and futures, natural gas forwards and currency exchange forwards to hedge risks associated with the interest rate and purchase price fluctuations, respectively. The Group and the Parent Company have decided to continue to apply hedge accounting requirements of IAS 39 for derivatives.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re–measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature / content of the item being hedged. Other derivatives are accounted for at fair value through profit or loss.

The Group and the Parent Company designate certain derivatives as hedges of a particular risk associated with highly probable forecasted transactions or variable rate borrowings. The Group and the Parent Company document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group and the Parent Company also document their assessment, both at hedge inception and on an on–going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of the derivative instruments is presented as current or non–current based on settlement date. Derivative instruments that have maturity of more than twelve months and have been expected to be hold for more than twelve months after the end of the reporting year are classified as non–current assets or liabilities, by separating current part of the derivative instrument. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity within 'Hedging reserve'. The gain or loss relating to the ineffective portion, if such arise, is recognised immediately in the Statement of Profit or Loss.

Amounts accumulated in equity are recognised in the Statement of Profit or Loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Profit or Loss.

I) Outstanding fair values of derivatives and their classification

EUR'000

		Group				Parent Company			
		31/12/2023		31/12/2022		31/12/2023		31/12/2022	
	Notes	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	24 II	5,872	–	10,279	–	5,872	–	10,279	–
Energy forwards, futures, and swaps	24 III	5,297	–	450	(120,520)	5,297	–	450	(120,520)
Currency exchange forwards	24 IV	–	–	–	(1,499)	–	–	–	(1,499)
Total outstanding fair values of derivatives		**11,169**	**–**	**10,729**	**(122,019)**	**11,169**	**–**	**10,729**	**(122,019)**

EUR'000

	Group				Parent Company			
	31/12/2023		31/12/2022		31/12/2023		31/12/2022	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non–current	3,210	–	8,131	–	3,210	–	8,131	–
Current	7,959	–	2,598	(122,019)	7,959	–	2,598	(122,019)
TOTAL fair values of derivative financial instruments	**11,169**	**–**	**10,729**	**(122,019)**	**11,169**	**–**	**10,729**	**(122,019)**

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

EUR'000

		Group		Parent Company	
	Notes	2023	2022	2023	2022
Included in the Statement of Profit or Loss	**8**				
Interest rate swaps	11 a	(119)	1,074	(119)	1,074
Energy forwards, futures, and swaps	8	23,198	(10,096)	23,198	(9,827)
		23,079	**(9,022)**	**23,079**	**(8,753)**
Included in the other comprehensive income	**21 a**				
Interest rate swaps	24 II	(4,288)	13,517	(4,288)	13,517
Energy forwards, futures, and swaps	24 III	102,169	(121,501)	102,169	(121,501)
Currency exchange forwards	24 IV	1,499	(1,499)	1,499	(1,499)
		99,380	**(109,483)**	**99,380**	**(109,483)**
Total loss on fair value changes		**122,459**	**(118,505)**	**122,459**	**(118,236)**

II) Interest rate swaps

As of 31 December 2023, the Group and the Parent Company had interest rate swap agreements with total notional amount of EUR 105 million (31/12/2022: EUR 133 million). Interest rate swaps are concluded with 7–to–10–year initial maturities and hedged floating rates are 6 months EURIBOR. As of 31 December 2023, fixed interest rates vary from 0.087% to 0.809% (31/12/2022 from 0.087% to 1.979%).

As at the end of the year all the outstanding interest rate swap agreements with total notional amount of EUR 105 million were eligible for hedge accounting and were assessed prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2022: 100% with notional amount of EUR 133 million). All contracts are designed as cash flow hedges. During the prospective and retrospective testing, in 2023 an ineffective portion in the amount of EUR 0.12 million (2022: EUR 1.1 million) has been identified and recognised in the Statement of Profit or Loss.

Fair value changes of interest rate swaps

EUR'000

	Group				Parent Company			
	2023		2022		2023		2022	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**10,279**	**–**	**–**	**(4,312)**	**10,279**	**–**	**–**	**(4,312)**
Included in Statement of Profit or Loss	(128)	9	–	1,074	(128)	9	–	1,074
Included in other comprehensive Income	(4,279)	(9)	10,279	3,238	(4,279)	(9)	10,279	3,238
Outstanding fair value at the end of the year	**5,872**	**–**	**10,279**	**–**	**5,872**	**–**	**10,279**	**–**

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 1 to 4 years and fixed rate portion at more than 35% of borrowings. As of 31 December 2023, 46 % (31/12/2022: 36%) of the Group's and 47 % (31/12/2022: 36%) of the Parent Company's borrowings had fixed interest rates (considering the effect from the interest rate swaps), and average remaining time to interest re–pricing was 2.1 years for the Group and 2.1 years for the Parent Company (2022: 1.8 years for the Group and 1.9 years for the Parent Company).

III) Energy forwards, futures, and swaps

As of 31 December 2023, the Group and the Parent Company have not entered into any electricity future contract (31/12/2022: 12 contracts with total outstanding electricity purchase volume of 70,080 MWh and notional value of EUR 8 million). As of 31 December 2023 the Group and the Parent Company have entered into 48 natural gas price swap contracts (31/12/2022: 48 contracts) with total outstanding natural gas purchase volume of 2,850 MWh (31/12/2022: 1,162,000 MWh) and notional value of EUR 139 million (31/12/2022: EUR 218 million). Natural gas swap contracts are concluded with the maturities for one month or one quarter and with termination date during the period of 1 January to 30 April 2024.

The Group and the Parent Company conclude natural gas price swap contracts with financial institutions and other counterparties. Natural gas swap contracts are intended for hedging of the natural gas price risk and are used for fixing the price of natural gas purchased in wholesale gas market.

34 natural gas swap contracts with total outstanding volume of 2,020,806 MWh as of 31 December 2023 are designated to comply with hedge accounting treatment (31/12/2022: 31 contracts of 934,000 MWh) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period. All contracts are designed as cash flow hedges. For the contracts which are fully effective contracts fair value gains are included in other comprehensive income.

Fair value changes of energy forwards, futures, and swaps

EUR'000

		Group				Parent Company			
		2023		2022		2023		2022	
	Notes	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year		**450**	**(120,520)**	**25,735**	**(14,208)**	**450**	**(120,520)**	**25,466**	**(14,208)**
Included in the Statement of Profit or Loss	8	333	22,865	181	(10,277)	333	22,865	450	(10,277)
Included in other comprehensive income		4,514	97,655	(25,466)	(96,035)	4,514	97,655	(25,466)	(96,035)
Outstanding fair value at the end of the year		**5,297**	**–**	**450**	**(120,520)**	**5,297**	**–**	**450**	**(120,520)**

IV) Currency exchange forwards

During 2023, five EUR/USD forward foreign currencies exchange contracts in the amount of USD 153,482 thousand with an execution date of 22 February and 26 April 2023 were fulfilled, which concluded in 2022 in order to limit the currency risk of the payments in USD dollars planned in the natural gas purchase agreement concluded in 2022. As of 31 December 2023 there were no outstanding foreign exchange forward contracts.

Fair value changes of forward currencies exchange contracts

EUR'000

	Group				Parent Company			
	2023		2022		2023		2022	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**(1,499)**	**–**	**–**	**–**	**(1,499)**	**–**	**–**
Included in other comprehensive income	–	1,499	–	(1,499)	–	1,499	–	(1,499)
Outstanding fair value at the end of the year	**–**	**–**	**–**	**(1,499)**	**–**	**–**	**–**	**(1,499)**

25. Fair values and fair value measurement

Accounting policy

The Group and the Parent Company measure financial instruments, such as, derivatives, at fair value at each balance sheet date. Non–financial assets such as investment properties are measured at amortised cost, but some items of property, plant and equipment at revalued amounts.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimated based on market prices and discounted cash flow models as appropriate.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market prices used for financial assets held by the Group and the Parent Company are the actual closing prices.

The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. The Group and the Parent Company use a variety of methods and make assumptions that are based on market conditions existing at end of reporting period. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

In this Note are disclosed the fair value measurement hierarchy for the Group's and the Parent Company's financial assets and liabilities and revalued PPE.

Methods and assumptions used to estimate the fair values are disclosed in Note 4 i).

Quantitative disclosures of fair value measurement hierarchy for assets at the end of the year

EUR'000

		Group				Parent Company			
		Fair value measurement using				Fair value measurement using			
Type of assets	Notes	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**
As of 31 December 2023									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	–	–	2,909,307	**2,909,307**	–	–	1,277,600	**1,277,600**
Non-current financial investments	16	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:									
Interest rate swaps	24	–	5,872	–	**5,872**	–	5,872	–	**5,872**
Energy forwards, futures, and swaps	24	–	5,297	–	**5,297**	–	5,297	–	**5,297**
Assets for which fair values are disclosed									
Investment properties	14 b	–	–	2,309	**2,309**	–	–	2,261	**2,261**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	263,182	–	**263,182**
- Fixed rate loans	29 e	–	863	–	**863**	–	361,116	–	**361,116**
Current financial receivables	18 a, b	–	–	272,894	**272,894**	–	–	212,899	**212,899**
Cash and cash equivalents	19	–	118,456	–	**118,456**	–	107,163	–	**107,163**
As of 31 December 2022									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	–	–	2,622,747	**2,622,747**	–	–	998,090	**998,090**
Non-current financial investments	16	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:									
Interest rate swaps	24	–	10,279	–	**10,279**	–	10,279	–	**10,279**
Energy forwards, futures, and swaps	24	–	450	–	**450**	–	450	–	**450**
Assets for which fair values are disclosed									
Investment properties	14 b	–	–	2,297	**2,297**	–	–	2,222	**2,222**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	266,737	–	**266,737**
- Fixed rate loans	29 e	–	–	–	**–**	–	446,571	–	**446,571**
Current financial receivables	18 a, b	–	–	331,198	**331,198**	–	–	269,445	**269,445**
Cash and cash equivalents	19	–	112,757	–	**112,757**	–	100,268	–	**100,268**

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

- Key Figures
- Management Report
- **Financial Statements**
  - Statement of Profit or Loss
  - Statement of Comprehensive Income
  - Statement of Financial Position
  - Statement of Changes in Equity
  - Statement of Cash Flows
  - Notes to the Financial Statements
- Independent Auditors' Report

Annual Report

Quantitative disclosures of fair value measurement hierarchy for liabilities at the end of the year

EUR'000

		Group				Parent Company			
		Fair value measurement using				Fair value measurement using			
Type of liability	Notes	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**
As of 31 December 2023									
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	203,772	–	**203,772**	–	203,772	–	**203,772**
Borrowings from financial institutions	23	–	425,924	–	**425,924**	–	414,407	–	**414,407**
Trade and other financial current payables	26	–	–	136,014	**136,014**	–	–	87,078	**87,078**
As of 31 December 2022									
Liabilities measured at fair value									
Derivative financial instruments, including:									
Energy forwards, futures, and swaps	24	–	120,520	–	**120,520**	–	120,520	–	**120,520**
Forward currencies exchange contracts	24	–	1,499	–	**1,499**	–	1,499	–	**1,499**
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	151,634	–	**151,634**	–	151,634	–	**151,634**
Borrowings from financial institutions	23	–	724,284	–	**724,284**	–	708,987	–	**708,987**
Borrowings from related parties	23	–	–	–	**–**	–	3,317	–	**3,317**
Trade and other financial current payables	26	–	–	107,811	**107,811**	–	–	99,902	**99,902**

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

The fair value hierarchy for the Group's and the Parent Company's financial instruments that are measured at fair value, by using specific valuation methods, is disclosed above.

Set out below, is a comparison by class of the carrying amounts and fair values of the Group's and the Parent Company's financial instruments, other than those with carrying amounts which approximates their fair values:

EUR'000

	Group				Parent Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	31/12/2023	**31/12/2022**	**31/12/2023**	**31/12/2022**	**31/12/2023**	**31/12/2022**	**31/12/2023**	**31/12/2022**
Financial assets								
Fixed rate loans to related parties	863	–	863	–	361,116	446,571	343,998	414,187
Financial liabilities								
Issued debt securities (bonds)	203,772	151,634	188,678	128,948	203,772	151,634	188,678	128,948

Management assessed that cash and short–term deposits, receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short–term maturities of these instruments.

26. Trade and other payables

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Financial liabilities:					
Payables for suppliers		94,389	59,392	56,524	19,283
Payables to related parties	29 b	9,795	8,191	16,800	24,026
Accrued expenses		21,212	27,204	7,139	21,351
Accrued expenses from related parties	29 d	–	–	3,321	31,191
Other financial current payables		10,618	13,024	3,294	4,051
TOTAL financial liabilities		**136,014**	**107,811**	**87,078**	**99,902**
Non–financial liabilities:					
Taxes other than income tax		33,681	38,418	19,055	27,159
Contract liabilities		28,907	15,539	7,547	5,368
Other current payables		4,131	3 506	1,620	1,339
TOTAL NON–FINANCIAL LIABILITIES		**66,719**	**57,463**	**28,222**	**33,866**
TOTAL trade and other current payables		**202,733**	**165,274**	**115,300**	**133,768**

Contract liabilities include current advances received from the customers before the transfer of related goods or services, transferred in less than 12 months.

The carrying amounts of trade and other payables are assumed to approximate their fair values.

27. Provisions

Accounting policy

Provisions are recognised when the Group or the Parent Company have a present obligation as a result of past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required for settling the obligation by using pre–tax rate that reflects current market assessments of the time value of the money and the risks specific to the obligation as a discount rate. The increase in provisions due to passage of time is recognised as interest expense.

EUR'000

	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
Non-current:				
- post–employment benefits (recognised in profit or loss)	14,378	14,413	6,265	6,395
- post–employment benefits (recognised in equity)	3,862	1,153	2,300	1,157
TOTAL post–employment benefits	**18,240**	**15,566**	**8,565**	**7,552**

Provisions for post–employment benefits

Accounting policy

The Group and the Parent Company provide certain post–employment benefits to employees whose employment conditions meet certain criteria. Obligations for benefits are calculated considering the current level of salary and number of employees eligible to receive the payment, historical termination rates as well as number of actuarial assumptions.

The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

The liability recognised in the Statement of Financial Position in respect of post–employment benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using weighted average discount rate of EIOPA risk-free interest rate, interest rates of Latvian government bonds (maturity of 5 years) and EURBMK BBB electricity industry rate. The discount rate used is determined by reference to market yields on government bonds due to lack of deep market on high quality corporate bonds. The Group and the Parent Company use projected unit credit method to establish the present value of fixed benefit obligation and related present and previous employment expenses. According to this method it has been stated that each period of service gives rise to an additional unit of benefit entitlement and the sum of those units comprises total Group's and the Parent Company's obligations of post–employment benefits. The Group and the Parent Company use objective and mutually compatible actuarial assumptions on variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts).

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Comprehensive Income in the period in which they arise. Past service costs are recognised immediately in the Statement of Profit or Loss.

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
At the beginning of the year		**15,566**	**15,421**	**7,552**	**7,407**
Current service cost		253	1,029	153	497
Interest cost		492	511	225	246
Post–employment benefits paid		(780)	(750)	(508)	(388)
Losses / (gains) on remeasurement on defined benefit plan	21 a	2,709	(645)	1,143	(210)
At the end of the year		**18,240**	**15,566**	**8,565**	**7,552**

Total charged / (credited) provisions are included in the Statement of Profit or Loss position 'Personnel expenses' within state social insurance contributions and other benefits defined in the Collective agreement (Note 9):

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
At the beginning of the year		**15,566**	**15,421**	**7,552**	**7,407**
(Credited) / charged to the Statement of Comprehensive Income	21 a	2,709	(645)	1,143	(210)
Charged to the Statement of Profit or Loss		(35)	790	(130)	355
At the end of the year		**18,240**	**15,566**	**8,565**	**7,552**

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Weighted average discount rate used for discounting benefit obligations was 2.98% (2022: 3.32%), considering EIOPA risk-free interest rate, interest rates of Latvian government bonds and EURBMK BBB electricity industry rate at the end of the reporting year. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long–term inflation determined at the level of 5.0% (2022: 6.0%) when calculating long–term post–employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

A quantitative sensitivity analysis for significant assumptions on provisions for post–employment benefits as of the end of the year is as shown below:

EUR'000

Assumptions	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Retirement probability changes		Discount rate		Future salary changes		Retirement probability changes	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post–employment benefits	31/12/2023	2,107	(1,754)	2,065	(1,754)	2,279	(1,912)	943	(782)	924	(781)	1,019	(851)
	31/12/2022	1,779	(1,483)	1,737	(1,477)	1,936	(1,625)	799	(664)	780	(661)	869	(727)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on post-employment benefits obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Contributions are monitored on an annual basis and the current agreed contribution rate is 5%. The next valuation is due to be completed as of 31 December 2024.

Expected contributions to post–employment benefit plan for the year ending 31 December 2023 is EUR 4.9 million.

In 2023 the weighted average duration of the defined benefit obligation is 19.58 years (2022 – 19.94 years).

EUR'000

		Group				Parent Company			
		Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL
Defined benefit obligation	31/12/2023	2,831	3,209	12,200	**18,240**	1,896	1,394	5,275	**8,565**
	31/12/2022	2,454	2,780	10,332	**15,566**	1,755	1,340	4,457	**7,552**

28. Deferred income

Accounting policy

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Government grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. For grants received as part of a package of financial or fiscal aid to which a number of conditions are attached, those elements which have different costs and conditions are identified. Treatment of the different elements determine the periods over which the grant will be earned.

In Latvia, Lithuania, and Estonia, according to the state support mechanism for reducing the prices of energy, end-users have been granted state support. This state support was provided for electricity, distribution system services, consumed natural gas and for heat. These regulations do not change agreements on the scope of provided services and do not change the approved distribution system tariffs and energy prices, and respectively do not change the Group's and the Parent Company's revenue recognition principles, but the process of receiving the transaction fees and the payer for the services. The Group or the Parent Company are not considered to be a grant receiver because the provision of services and sales of goods are still provided in full, and revenues are recognised in accordance with IFRS 15 (Note 6).

Grants related to expense items

When a grant relates to an expense item, and it has a number of conditions attached, it is initially recognised at fair value as deferred income. Grants are credited to income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Management judgements related to the measurement of government grants is disclosed in Note 4.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to a company with no future related costs are recognised in profit or loss of the period in which it becomes receivable. Related income is recognised in the Statement of Profit or Loss as 'Other income' (Note 7).

Grants related to assets

Property, plant and equipment received at nil consideration are accounted for as grants. Those grants are recognised at fair value as deferred income and are credited to the Statement of Profit or Loss on a straight–line basis over the expected lives of the related assets.

Accounting policy on recognition of deferred income from connection fees to distribution and transmission system disclosed per Note 6.

EUR'000

	Notes	Group 31/12/2023	Group 31/12/2022	Parent Company 31/12/2023	Parent Company 31/12/2022
I) Non-current deferred income					
a) contracts with customers					
From connection fees	6	137,838	132,381	–	–
Other deferred income		668	735	668	735
		138,506	**133,116**	**668**	**735**
b) operating lease					
Other deferred income		300	321	300	321
		300	**321**	**300**	**321**
c) other					
On grant for the installed electrical capacity of CHPPs		89,470	113,460	89,470	113,460
On financing from European Union funds		22,702	7,329	4,456	1,973
Other deferred income		37	70	37	44
		112,209	**120,859**	**93,963**	**115,477**
TOTAL non-current deferred income		**251,015**	**254,296**	**94,931**	**116,533**
II) Current deferred income					
a) contracts with customers					
From connection fees	6	16,510	15,386	–	–
Other deferred income		4,794	13,944	67	13,714
		21,304	**29,330**	**67**	**13,714**
b) operating lease					
Other deferred income		20	20	20	20
		20	**20**	**20**	**20**
c) other					
On grant for the installed electrical capacity of CHPPs		23,990	23,990	23,990	23,990
On financing from European Union funds		963	891	142	142
		24,953	**24,881**	**24,132**	**24,132**
TOTAL current deferred income		**46,277**	**54,231**	**24,219**	**37,866**
TOTAL deferred income		**297,292**	**308,527**	**119,150**	**154,399**

In 2023, received financing in the amount of EUR 12,570 thousand as part of the agreement with the Ministry of Economics of the Republic of Latvia on the financing of the European Union Recovery and Resilience Facility by Sadales tīkls AS, financing in the amount of EUR 2,625 thousand from Connecting Europe Facility (CEF) for the development of electric vehicles charging network received by the Parent Company and received European Union financing in the amount of EUR 1,050 thousand for fossil fuels substitution in Liepāja by Liepājas Enerģija SIA.

The Group and the Parent Company ensure the management, application of internal controls and accounting for the Group's and the Parent Company's projects financed by the European Union funds, according to the guidelines of the European Union and legislation of the Republic of Latvia.

Accounting of the transactions related to the projects financed by the European Union is ensured using separately identifiable accounts. The Group and the Parent Company ensure separate accounting of financed projects with detailed income and expense, non–current investments and value added tax in the relevant positions of the Statement of Profit or Loss and Statement of Financial Position.

Movement in deferred income (non-current and current part)

EUR'000

	Notes	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
At the beginning of the year		**308,527**	**323,071**	**154,399**	**164,981**
Received connection fees for connection to distribution system	6	23,015	11,840	–	–
Received deferred income (financing and other income)		20,606	13,647	2,625	13,647
Other deferred income credited to the Statement of Profit or Loss		(24,933)	(24,920)	(24,139)	(24,142)
Deferred income from contracts with customer and operating lease credited to the Statement of Profit or Loss		(29,923)	(15,111)	(13,735)	(87)
At the end of the year		**297,292**	**308,527**	**119,150**	**154,399**

29. Related party transactions

Accounting policy

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Group and the Parent Company are Shareholder of the Company who controls the Company in accepting operating business decisions, members of Latvenergo Group entities' management boards, members of the Supervisory board of the Company, members of Supervisory body of the Company – the Audit Committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state–controlled entities and providers of public utilities are excluded from the scope of related party quantitative disclosures. The Group and the Parent Company enter into transactions with many of these bodies on an arm's length basis. Transactions with government related entities include sales of energy and related services and does not contain individually significant transactions and quantitative disclosure of transactions with those related parties is impossible due to broad range of the Latvenergo Group's and the Parent Company's customers, except for transactions with transmission system operator – Augstsprieguma tīkls AS.

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a) Sales/purchases of goods, PPE and services to/from related parties

EUR'000

	Group		Parent Company			
	2023	2022	2023		2022	
	Other related parties*	Other related parties*	Subsidiaries	Other related parties*	Subsidiaries	Other related parties*
Sales of goods, PPE and services, finance income:						
- Sales of goods and services	54,759	54,528	183,807	54,665	69,136	54,223
- Sales of property, plant and equipment	–	–	–	–	27	–
- Lease of assets	882	1,034	1,669	882	1,457	1,034
- Interest income	–	–	15,757	–	9,353	–
TOTAL	**55,641**	**55,562**	**201,233**	**55,547**	**79,973**	**55,257**
Purchases of goods, PPE, and services:						
- Purchases of goods and services	122,209	123,151	149,371	39,274	268,123	50,380
- *including gross expenses from transactions with Sadales tīkls AS recognised in net amount*	–	–	*145,236*	–	*92,691*	–
- Purchases of property, plant and equipment and construction services	7,774	3,313	1,408	830	76	715
- Lease of assets	1,049	1,114	150	669	168	788
TOTAL	**131,032**	**127,578**	**150,929**	**40,773**	**268,367**	**51,883**

* Other related parties included transmission system operator – Augstsprieguma tīkls AS and its subsidiary Conexus Baltic Grid AS, Latvijas valsts meži AS, Pirmais Slēgtais Pensiju Fonds AS and other entities controlled by the management members of Latvenergo Group, if any

EUR'000

	Notes	Group		Parent Company	
		31/12/2023	31/12/2022	31/12/2023	31/12/2022
b) Receivables and payables at the end of the year arising from sales/purchases of goods, PPE, and services::					
Receivables from related parties:					
- Subsidiaries	18 a, b	–	–	41,642	35,120
- Other related parties*		15,506	17,245	15,172	16,810
- Loss allowances for expected credit loss from receivables of subsidiaries	18 a, b	–	–	(31)	(22)
- Loss allowances for expected credit loss from receivables of other related parties*		(33)	(20)	(33)	(20)
		15,473	**17,225**	**56,750**	**51,888**
Payables to related parties:	26				
- Subsidiaries		–	–	15,214	22,369
- Other related parties*		14,864	12,511	6,176	5,439
		14,864	**12,511**	**21,390**	**27,808**
c) Accrued income raised from transactions with related parties:					
- For goods sold / services provided for subsidiaries	18 a, b	–	–	11,425	2,483
- For interest received from subsidiaries	18 a, b	–	–	3,483	2,100
		–	**–**	**14,908**	**4,583**
d) Accrued expenses raised from transactions with related parties:	26				
- For purchased goods / received services from subsidiaries		–	–	3,321	31,191
		–	**–**	**3,321**	**31,191**

* Other related parties included transmission system operator – Augstsprieguma tīkls AS and its subsidiary Conexus Baltic Grid AS, Latvijas valsts meži AS, Pirmais Slēgtais Pensiju Fonds AS and other entities controlled by the management members of Latvenergo Group, if any

The Group and the Parent Company have not incurred write–offs of trade payables and receivables from transactions with related parties, as all debts are recoverable.

Receivables and payables with related parties are current balances for services and goods. None of the amounts at the end of the reporting year are secured.

Remuneration to the Latvenergo Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board, and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board, and the Supervisory body (Audit Committee). Information disclosed in Note 9.

Dividend payments to Shareholder of the Parent Company and share capital contributions are disclosed in Note 20 and Note 21 b, respectively.

Dividends received from subsidiaries are disclosed in Note 16.

Annual Report

e) Loans to related parties

Non-current and current loans to related parties

EUR'000

	Group		Parent Company	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Non–current loans to subsidiaries				
Sadales tīkls AS	–	–	445,553	494,979
Elektrum Eesti OÜ	–	–	6,960	7,260
Elektrum Lietuva, UAB	–	–	10,888	8,535
Allowances for expected credit loss	–	–	(371)	(306)
Non-current loans to other related parties				
UAB Geniva	432	–	–	–
UAB Vėjo miestas	431	–	–	–
TOTAL non–current loans	**863**	**–**	**463,030**	**510,468**
Current portion of non–current loans				
Sadales tīkls AS	–	–	105,839	95,312
Elektrum Eesti OÜ	–	–	300	300
Elektrum Lietuva, UAB	–	–	1,555	904
Allowances for expected credit loss	–	–	(85)	(57)
Current loans to subsidiaries				
Sadales tīkls AS	–	–	1,961	10,000
Elektrum Eesti OÜ	–	–	18,965	41,700
Elektrum Lietuva, UAB	–	–	3,731	54,746
Enerģijas publiskais tirgotājs SIA	–	–	29,046	–
Allowances for expected credit loss	–	–	(44)	(65)
TOTAL current loans	**–**	**–**	**161,268**	**202,840**
TOTAL loans to related parties	**863**	**–**	**624,298**	**713,308**

Counterparty model is used on individual contract basis for assessment of expected credit risk for non-current and current loans to subsidiaries. The expected credit losses according to this model are based and impairment for expected credit loss is recognised on assessment of the individual counterparty's risk of default and recovery rate assigned by Moody's credit rating agency for 12 months expected losses (Note 4 b). Credit risk of subsidiaries is assessed at the same level as Latvenergo AS credit risk considering that they are 100% controlled by Latvenergo AS – 'Baa2 level' credit rating. Since the initial recognition of loans, credit risk has not increased significantly that matches Stage 1.

All current loans to related parties as of 31 December 2023 will be settled in 2024.

Movement in loans issued to related parties

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
At the beginning of the year	**–**	**–**	**713,308**	**706,378**
Change in current loans in cash (net)	–	–	(68,272)	225,482
Change in current loans by non–cash offsetting of operating receivables and payables (net)	–	–	76,311	(120,831)
Issued non–current loans in cash	863	–	–	–
Repaid non–current loans by non–cash offset	–	–	(96,977)	(97,746)
Impairment for expected credit loss	–	–	(72)	25
At the end of the year	**863**	**–**	**624,298**	**713,308**
incl. loan movement through bank account				
Issued loans to subsidiaries	863	–	719,798	921,687
Repaid loans issued to subsidiaries	–	–	(788,070)	(696,205)
(Repaid) / issued loans, net	**863**	**–**	**(68,272)**	**225,482**

Interest received from related parties

EUR'000

	Group		Parent Company	
	2023	2022	2023	2022
Interest received	3	–	15,812	9,378
TOTAL interest paid	**3**	**–**	**15,812**	**9,378**

l) Non–current loans, including current portion

Concluded non–current loan agreements with Sadales tīkls AS

EUR'000

	Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
			31/12/2023	31/12/2022		
	29/09/2011	316,271	4,156	12,538	6 months EURIBOR + floating rate	01/09/2025
	18/09/2013	42,686	–	4,269	fixed rate	10/08/2023
	29/10/2014	90,000	10,000	20,000	fixed rate	10/09/2024
	20/10/2015	90,000	20,000	30,000	fixed rate	21/10/2025
	22/08/2016	60,000	20,000	26,667	fixed rate	22/08/2026
	22/08/2016	50,000	20,000	25,000	fixed rate	14/06/2027
	14/12/2018	260,000	147,750	175,811	fixed rate	31/01/2030
	03/03/2020	200,000	154,136	177,067	fixed rate + floating rate	25/03/2030
	08/03/2022	175,000	175,350	118,939	6 months EURIBOR + floating rate	31/03/2032
	31/08/2023	175,000	–	–	6 months EURIBOR + floating rate	31/01/2034
TOTAL		**1,458,957**	**551,392**	**590,291**		

As of 31 December 2023, total outstanding amount of non–current loans with Sadales tīkls AS amounted to EUR 551,392 thousand (31/12/2022: EUR 590,291 thousand), including current portion of the loan repayable in 2023 – EUR 105,839 thousand (31/12/2022: EUR 95,312 thousand). As of 31 December 2023, 34.46% of non–current loans issued to Sadales tīkls AS (31/12/2022: 24.3%) was bearing floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2023 the effective average interest rate of non–current loans was 2.22% (2022: 1.42%).

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As of 31 December 2023, for non–current floating rate loans issued to Sadales tīkls AS 6-month EURIBOR ranged from 4.000% to 4.125% (31/12/2022: 6M EURIBOR ranged from 1.763% to 2.726%). As of 31 December 2023, impairment for expected credit loss of non–current loans to Sadales tīkls AS in the amount of EUR 441 thousand EUR (31/12/2022: EUR 354 thousand) was recognised. Non–current loans are not secured with a pledge or otherwise.

Non–current loans to Sadales tīkls AS by maturity

EUR'000

	Parent Company	
	31/12/2023	31/12/2022
Non–current loan:		
- < 1 year (current portion)	105,839	95,312
- 1 – 5 years	326,443	334,109
- > 5 years	119,110	160,870
	551,392	**590,291**

Concluded non–current loan agreements with Elektrum Eesti OÜ

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2023	31/12/2022		
25/08/2021	**7,860**	**7,260**	**7,560**	6 months EURIBOR + fixed rate	24/08/2031

As of 31 December 2023, total outstanding amount of non–current loans with Elektrum Eesti OÜ amounted to EUR 7,260 thousand (31/12/2022: EUR 7,560 thousand), including current portion of the loan repayable in 2023 – EUR 300 thousand (31/12/2022: EUR 300 thousand). The annual interest rate according to the loan agreement is 6 (six) months EURIBOR (Euro Interbank Offer Rate) plus margin 0.74% (2022: 0.74%). If the Base rate is negative, it is equal to zero. The final repayment date of the loan is 24 August 2031.

Non–current loans to Elektrum Eesti OÜ by maturity

EUR'000

	Parent Company	
	31/12/2023	31/12/2022
Non–current loan:		
- < 1 year (current portion)	300	300
- 1 – 5 years	600	900
- > 5 years	6,360	6,360
	7,260	**7,560**

Concluded non–current loan agreements with Elektrum Lietuva, UAB

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2023	31/12/2022		
31/10/2021	**22,280**	**12,443**	**9,439**	6 months EURIBOR + fixed rate	29/09/2031

As of 31 December 2023, total outstanding amount of non–current loans with Elektrum Lietuva, UAB amounted to EUR 12,443 thousand (31/12/2022: EUR 9,439 thousand), including current portion of the loan repayable in 2023 – EUR 1,555 thousand (31/12/2022: EUR 904 thousand). The annual interest rate according to the loan agreement is 6 (six) months EURIBOR (Euro Interbank Offer Rate) plus margin 0.68% (2022: 0.68%). If the Base rate is negative, it is equal to zero. The final repayment date of the loan is 29 September 2031.

Non–current loans to Elektrum Lietuva, UAB by maturity

EUR'000

	Parent Company	
	31/12/2023	31/12/2022
Non–current loan:		
- < 1 year (current portion)	1,555	904
- 1 – 5 years	6,222	4,340
- > 5 years	4,666	4,195
	12,443	**9,439**

II) Current loans / borrowings

To ensure efficiency and centralised management of Latvenergo Group companies' financial resources and using the functionality of Group accounts and possibility for non–cash offsetting of mutual invoices between the parties, current loans / borrowings are provided. In the reporting period Latvenergo AS issued loans to subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources', allowing the subsidiaries to borrow and to repay the loan according to daily operating needs and including non-cash offsetting of operating receivables and payables. In 2023 the effective average interest rate was 3.70% (2022: 0.74%). Within the framework of the agreement, as of 31 December 2023, Parent Company issued loans to subsidiaries in the amount of EUR 53,703 (31/12/2022: EUR 106,446 thousand), as of 31 December 2023 Latvenergo AS had no current borrowings from subsidiaries (31/12/2022: there was current borrowing from Enerģijas publiskais tirgotājs SIA in the amount of EUR 3,317 thousand).

As of 31 December 2023 impairment for expected credit loss of current loans to related parties is recognised in the amount of EUR 44 thousand (31/12/2022: EUR 65 thousand).

f) Interest paid to related parties

Financial transactions between related parties have been carried out by using current loans / borrowings with a target to manage Latvenergo Group companies' financial resources effectively and centrally, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement "On provision of mutual financial resources". In 2023 the effective average interest rate was 3.70% (2022: 0.74%).

EUR'000

	Parent Company	
	2023	2022
Interest paid	12	18
TOTAL interest paid	**12**	**18**

30. Commitments and contingent liabilities

As of 31 December 2023, the Group had commitments amounting to EUR 112.2 million (31/12/2022: EUR 82.4 million) and the Parent Company had commitments amounting to EUR 57.1 million (31/12/2022: EUR 49.6 million) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has issued support letters to its subsidiaries – on 16 February 2024 to Sadales tīkls AS and on 22 February 2024 Elektrum Eesti OÜ acknowledging that its position as the shareholder is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

31. Events after the reporting year

Accounting policy

Events after the reporting period that provide significant additional information about the Group's and the Parent Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

After the end of the reporting year, at the beginning of 2024, Renewable energy generation capacity portfolio of Latvenergo AS has been expanded by seven solar power plant projects in Latvia, with a total capacity of 40 MW and which are planned to be built by the end of the year 2024. Also has been starter the development of a new wind station project in Lithuania, Akmenes district, with a capacity of up to 15 MW. The project is planned to be completed in the second half of the year 2025.

Latvijas valsts meži AS was permitted to terminate its participation in Latvijas vēja parki SIA, the joint venture of Latvijas valsts meži AS and Latvenergo AS, by alienating all shares (20%) of Latvijas vēja parki SIA owned by Latvijas valsts meži AS for the benefit of Latvenergo AS.

There have been no other significant events after the end of the reporting year that might have a material effect on the Latvenergo Consolidated and Latvenergo AS Annual Financial Statements for the year ending 31 December 2023.

This document is signed with a secure digital signature and contains a time stamp

Mārtiņš Čakste
Chairman of the Management Board of Latvenergo AS

Guntars Baļčūns
Member of the Management Board of Latvenergo AS

Liāna Ķeldere
Accounting director of Latvenergo AS

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INDEPENDENT AUDITORS' REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the Shareholder of Latvenergo AS

Report on the audit of the financial statements

Opinion

We have audited the accompanying consolidated financial statements of Latvenergo AS and its subsidiaries (the Group) and the accompanying financial statements of Latvenergo AS (the Parent Company) contained in file latvenergo-2023-12-31-en.zip (SHA-256-checksum: 5b45c6c219f9a57ccf0970db9f4d4eb03340cef4f5a43b997d4c891eb7107d7b), which comprise the statements of financial position as at 31 December 2023, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2023, and of their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Parent Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Parent Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How we addressed the key audit matter
Revenue recognition from contracts with customers with focus on periodization (the Group and the Parent Company)	
The Group and the Parent Company in 2023 have recognized in the statement of profit or loss revenue from contracts with customers amounting to EUR 2 032 947 thousand and EUR 1 394 109 thousand, respectively, as disclosed in Note 6. Accurate revenue recognition is inherently more complex in the energy sector when compared to some other industries due to the large number of the customers, including both residential and corporate customers, and various pricing arrangements included in the range of products and services provided to different groups. Given the variety of contractual terms with the customers, as well as different revenue streams and product types included in each stream, appropriate periodization of revenue recognition is considered to be relatively complex and requires, among other things, continual operating effectiveness of controls over the various categories of revenue streams.	In relation to revenue recognition, we performed the following procedures, among others: • we updated our understanding of the revenue recognition and measurement for electricity supply, and distribution system services revenue streams; • we updated our understanding and tested the relevant key controls implemented over revenue recognition and measurement for electricity supply and distribution system services revenue streams. Our test covered key controls over revenue recording, calculation of amounts billed to the Group's and Parent Company's customers and matching of cash receipts to the customers' accounts; • we obtained external customer confirmations for selected largest trade receivables balances; • we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into consideration the number and composition of the Group's and Parent Company's customers, electricity supply volumes, changes in electricity prices and also comparing the results of our analysis against the prior reporting period; • we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period.

Revenue recognition, including its proper periodization, was significant to our audit due to the materiality of revenue to the financial statements and the variety of products and components included in revenue.	We also assessed the adequacy of the revenue related disclosures contained in Note 2, Note 5 and Note 6. In addition, we evaluated the sufficiency of disclosures made regarding significant judgements made by the management in relation to revenue recognition Note 4 c).
Impairment assessment of property, plant and equipment (the Group and the Parent Company)	
As at 31 December 2023, the Group and the Parent Company have recognized property plant and equipment (PPE) amounting to EUR 3 301 051 thousand and EUR 1 505 411 thousand, respectively, as reported in the statements of the financial position and disclosed in Note 14 a). Certain PPE categories are carried at revalued amounts, as disclosed in the accounting policies. The Group performed impairment tests based on the value in use estimation. In addition, the Parent Company performed impairment tests for certain Hydro power plants (HPPs) (combined impairment test for Riga, Plavinu and Keguma HPPs) and assets of Riga Combined Heat and Power Plant (CHP). Each of the above in the judgement of the management represents a separate cash generating unit (CGU). In relation to the impairment tests for the assets of the distribution system assets, significant assumptions used by the management include the selection of the discount rate, pricing forecast for major revenue streams, which are contingent on regulatory approvals, assumptions related to capital investment plans, as well as terminal value calculation. HPPs impairment test is based on significant assumptions in relation to the selection of the discount rate, electricity price and operating expenses forecasts, as well as terminal value calculation. Riga Combined Heat and Power Plant CGU impairment test is based on significant assumptions in relation to the selection of the discount rate, variable revenue stream forecast in view of legislation regulating the cogeneration unit capacity component payments and the terminal value calculation.	In relation to impairment assessment of property, plant and equipment, we performed the following procedures: • we updated our understanding of the revaluation and impairment assessment process; • for distribution system CGU impairment test we involved our valuation specialists to assist us with the assessment of the impairment test model, • we assessed discount rates applied in each model and other significant management assumptions; • we held discussions with management regarding the significant assumptions, management judgments, and data utilized in the impairment tests for all cash-generating units. • we compared the most significant inputs to the source data. We also compared the amounts used by the management in the cash flow forecasts with the historical results and compared the estimated cash flows with the long-term budgets approved by the management. Finally, we evaluated the adequacy of the disclosures in relation to the impairment tests and the outcome of these tests as disclosed in Note 4 a) II) and in Note 14 c).

Impairment test was significant to our audit as it involves significant management estimates and material judgements.	

Revaluation of Daugava hydropower plants (HPPs) (the Group and the Parent Company)	
Property, plant and equipment (PPE), as disclosed in Note 14 a), is carried at historical cost or revalued amounts less accumulated depreciation and accumulated impairment loss. As per accounting policy outlined in Note 14 b) certain groups of PPE are revalued regularly but not less frequently than every five years. During the financial year HPPs recognized by the Parent Company and the Group were revalued by applying the income approach model (Note 14 b). The management used an external appraisal to carry out the revaluation of this PPE group with the revaluation date of 1 April 2023. As a result of upward revaluation of HPPs as at the revaluation date in the Group's and Parent Company's financial statements, a gross revaluation reserve of EUR 312 061 thousand was recognized in equity and a reversal of previously recognised impairment of EUR 1 108 thousand was recorded to the Statement of Profit or Loss in the year 2023. Revaluation of this PPE group involves significant estimates and assumptions, such as the selection of appropriate valuation method, estimation of remaining useful lifetime and condition of PPE items, determination of the discount rate, market knowledge and data on the historical transactions provided by the management to the external experts. Revaluation was significant to our audit as it involves significant estimates.	We involved our valuation specialists to assist us assessing the revaluation model, assumptions and methods used by the management in the revaluation. We discussed the revaluation model with the management and the external appraiser. We also tested the data used in the revaluation models on sample basis to the source data. We evaluated the measurement of the results of the revaluation as presented in the financial statements Note 14 b) and compared the accounting treatment applied to the requirements of IFRS. For a sample of revalued PPE items, we tested that the revaluation results have been properly accounted on the individual transaction level in the Group's accounting system. Finally, we also evaluated the disclosures relating to the revaluation model, revaluation outcome and the assumptions used as disclosed in Note 4 a) III) and in Note 14 b).

Building a better working world

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 3 to 4 of the accompanying Annual Report;
- the Management Report, as set out on pages 5 to 11 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 9 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 three of the Financial Instruments Market Law.

Based solely on the work undertaken in the course of our audit, in our opinion, the Statement of Corporate Governance includes the information required in Article 56^2, paragraph three of the Financial Instruments Market Law.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement our responsibility is to report whether the Company has prepared the Non-financial Statement
and whether the Non-financial Statement is included in the Management Report or prepared as a separate element of the Annual Report.

We hereby report that the Group has prepared a Non-financial Statement, and it is included in the Management Report.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

<u>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</u>

We were first appointed as auditors of the Group and the Parent Company in the year 2021 by Shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years.

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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 Article 5(1). We also remained independent of the audited entity in conducting the audit.

Report on the auditors examination of the European Single Electronic Format (ESEF) Report

Report on the compliance of format of the Group and the Parent Company financial statements with the requirements for European Single Electronic Reporting Format

Based on our agreement we have been engaged by the management of the Parent Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the European Single Electronic Reporting format of the Group and the Parent Company financial statements, including Group and the Parent Company financial statements for the year ended 31 December 2023 (the Single Electronic Reporting Format of the Group and the Parent Company financial statements) contained in file latvenergo-2023-12-31-en.zip (SHA-256-checksum: 5b45c6c219f9a57ccf0970db9f4d4eb03340cef4f5a43b997d4c891eb7107d7b).

Description of a subject and applicable criteria

The Single Electronic Reporting Format of the Group and the Parent Company financial statements has been applied by the management of the Parent Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a Single Electronic Reporting Format (the ESEF Regulation). The applicable requirements regarding the Single Electronic Reporting Format of the Group and the Parent Company financial statements are contained in the ESEF Regulation.

The requirements described in the preceding paragraph determine the basis for application of the Single Electronic Reporting Format of the Group and the Parent Company financial statements and, in our view, these requirements constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibilities of management and those charged with governance

Management is responsible for the application of the Single Electronic Reporting Format of the Group and the Parent Company financial statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Single Electronic Reporting Format of the Group and the Parent Company financial statements which is free from material non-compliance with the requirements of the ESEF Regulation.

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

Auditor's responsibility

Our responsibility is to express a reasonable assurance conclusion whether the Single Electronic Reporting Format of the Group and the Parent Company financial statements complies with the ESEF Regulation.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (the ISAE 3000 (R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Single Electronic Reporting Format of the Group and the Parent Company financial statements is prepared, in all material aspects, in accordance with the applicable requirements. Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance ISAE 3000 (R) will always detect a material misstatement when it exists.

We apply International Standard on Quality Management 1 (ISQM 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Single Electronic Reporting Format of the Group and the Parent Company financial statements was applied, in all material aspects, in accordance with the applicable requirements and such application is free from material errors or omissions.

Our procedures include in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Single Electronic Reporting Format of the Group and the Parent Company financial statements, including the preparation of the XHTML format and marking up the Group and the Parent Company financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the Group and the Parent Company financial statements using the iXBRL markup language according to the requirements of the implementation of Single Electronic Reporting Format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of iXBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

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Opinion

In our opinion, the Single Electronic Reporting Format of the Group and the Parent Company financial statements for the year ended 31 December 2023 complies, in all material respects, with the ESEF Regulation.

The responsible certified auditor on the audit resulting in this independent auditors' report is Diāna Krišjāne.

ERNST & YOUNG BALTIC SIA
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga,

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP