AUGSTSPRIEGUMA TĪKLS
GROUP CONSOLIDATED AND
AS “AUGSTSPRIEGUMA TĪKLS”

SUSTAINABILITY AND ANNUAL REPORT

2023

Translation note: This version of Augstsprieguma tīkls group’s consolidated and AS “Augstsprieguma tīkls” separate Sustainability and Financial Statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of Augstsprieguma tīkls group’s consolidated and AS “Augstsprieguma tīkls” separate Sustainability and Financial Statements takes precedence over this translation. This is a translation in pdf format without the European Single Electronics Format (ESEF) markups of the digitally signed original which was prepared in Latvian and submitted in machine-readable xhtml format to the Nasdaq Riga exchange.

CONTENTS

STATEMENT BY THE CHAIRMAN OF THE MANAGEMENT BOARD

2023 – MOVING TOWARD LATVIA'S ENERGY INDEPENDENCE AT A FASTER PACE

Russia's invasion of Ukraine and the European countries' subsequent move away from Russian energy resources in 2023 have given further impetus to the internal integration of the European market and the diversification of energy supply routes. The Baltic market has fully adapted to the new circumstances and operates without importing natural gas and electricity from Russia. At the same time, geopolitical instability and the threat of sabotage to critical infrastructure persist, and therefore, continuous monitoring the situation and maintaining action plans in operational readiness have been the priority of the companies making up the Augstsprieguma tīkls Group ("Group") consisting of the electricity transmission system operator AS "Augstsprieguma tīkls" ("AST") and the unified natural gas operator AS "Conexus Baltic Grid" ("Conexus"), which was successfully pursued in 2023.

Through concerted efforts, many risks that existed in the Baltic Sea region in the winter of 2022/2023 have lost their importance this winter. Conexus has ensured the availability of natural gas for power plants. Last year, the highest amount (21.7 TWh) in five years was pumped in the Inčukalns Underground Gas Storage (UGS), and several alternative natural gas supply routes have currently been created in the region.. The players in the natural gas market have made a targeted effort of supplying themselves with natural gas by storing it in the Inčukalns UGS facility, and in the first half of the year, all the storage capacities on offer were fully auctioned off. The project to expand Lithuanian-Latvian interconnection capacities (ELLI) was completed, significantly improving the availability of electricity at the Kiemenai interconnection point.

Accelerated synchronisation with continental Europe

The transmission grid infrastructure and management technologies are undergoing fundamental changes so that the Latvian transmission grid can operate in synchronisation with continental Europe by 2025. The decoupling of Latvia's electricity supply system from the Russian grid is a prerequisite for Latvia to become energy-independent and secure in terms of its energy supply. The Russian war in Ukraine has also increased the risks in the energy systems of the Baltic countries. Therefore, in 2023, the Prime Ministers of the Baltic States expressed their determination to implement this key project of energy independence in the Baltic States as soon as possible, and the climate and energy ministers agreed on joint efforts to synchronise as early as the beginning of 2025 – almost a year earlier than previously planned. At the same time, AST with the Lithuanian and Estonian transmission system operators (TSOs) signed a cooperation agreement to ensure readiness for synchronisation and to jointly continue the implementation of the final phase of the synchronisation project.

In the context of strengthening the infrastructure of the transmission system, the construction of infrastructure objects of strategic importance for the stability of the energy system is taking place – high-performance synchronous compensator stations. These are new technologies that have not yet been utilised in the Baltic countries. During the reporting period, the construction of the first compensator station in Latvia began at Grobiņa. Three such stations will be built in Latvia and connected to the transmission network – in addition to Grobiņa, also in Ventspils and Līksna, where the connection construction work was nearly completed in 2023. In 2023, the reconstruction of Latvian-Estonian 330 kV Valmiera-Tartu connection was also completed; this year, the reconstruction of the Valmiera-Tsirgulina interconnection will be completed. The new Latvian-Estonian third interconnection and the reconstructed line already improves the reliability of electricity supply in the Baltic countries and bring additional benefits to the electricity market by providing a greater opportunity to import electricity from Scandinavia and export Latvian renewable energy. The implementation of the above projects is being carried out with co-financing of approximately 75% from the European Union.

Investments in RES development

In the area of sources of renewable energy (RES) development, 2023 was a significant year as important agreements were reached on the development of new interconnected networks. A memorandum was signed on the establishment of the fourth interconnector of the Estonian-Latvian electricity transmission network. This new sea link will increase the transmission capacity between Estonia and Latvia while at the same time promoting the development of renewable energy in the Baltic Sea region. On the other hand, the memorandum signed by the TSO of the Baltic States with the German TSO 50Hertz on the creation of the "Baltic WindConnector" electricity transmission link in the Baltic Sea will ensure the possibility of connecting powerful offshore wind farms in the future, enabling the Baltic countries to become green electricity exporters on the Western European markets.

Over the next three years, a total of 44 RES projects intend to be connected to the transmission network, due to a significant increase of electricity generated in solar and wind power plants in Latvia. Overall, the capacity currently reserved in the transmission network for RES projects is 6 GW, which is five times higher than the current maximum load of the Latvian electricity system. At the same time, it is highly uncertain as to how many of these projects will be implemented by the developers.

Peak load and electricity consumption in the electricity systems of the Baltic and Nordic countries are expected to increase over the next ten years. In order to prepare for the upcoming changes in the energy sector, AST began a study in 2023 to evaluate the development possibilities for peak load and electricity consumption in Latvian electricity systems and the application of innovative measures for integrating renewable energy into the transmission network of Latvian electricity. Additionally, a feasibility study for the establishment of a Latvian-Swedish electricity interconnection has been started. Such an interconnection would contribute to a better market balance by ensuring the flow of electricity between the Baltic countries and Scandinavia at times when one of the regions has a higher production of RES. In addition to the need for additional capacity, interconnections with the Nordic countries are also required to achieve this goal.

Promoting the use of RES and energy efficiency, Conexus has begun construction of a solar park near the Inčukalns UGS facility on an area of more than 16,000 sq.m. in the area of Inčukalns UGS facility. It is expected that the use of solar energy will enable the production of around 1,000 MWh per year, which is estimated to be 25% of the total electricity consumption in the storage facility.

Conversely, Conexus together with other operators of the European gas transmission system has signed an agreement to conduct a feasibility study of the green hydrogen corridor that will enable the development of a cross-border hydrogen infrastructure from Finland through the Baltic countries and Poland to Germany.

By implementing the mentioned works, Latvia and Europe will be able to accomplish their commitments to achieving climate goals, as well as meeting the Sustainable Development Goals (SDGs) of the UN Organization enshrined in the Group's Medium-Term Operational Strategy, which call for urgent actions to be taken to combat climate change, to build sustainable infrastructure, to promote inclusive and sustainable industrialization, and to promote innovation.

Sustainable governance and financial performance of a sustainable Group

At the beginning of 2023, the Ministry of Climate and Energy (MoCE) became the shareholder of AST's capital shares, thus contributing to the participationof energy policymakers – MoCE – in the development of the companies belonging to the Group, which are the operators of the critical infrastructure.

The Group has implemented Sustainability management process that promotes sustainable decision-making by integrating the principles of sustainable development into the Group's internal processes and cooperation with counterparties, and by aligning business development objectives with European Union regulatory requirements and sustainability best practices. In fulfilment of the objectives set out in the Strategy, the Parent company continued work on the construction of an environmentally friendly "green" substation at Carnikava – in 2023, the tendering process for the design and construction of the substation was completed, a contract was signed with the construction company and a construction project was developed.. Conexus and AST also devote particular attention to the health, well-being, and safety of their employees. As a result of the Group's effective management system for occupational health and safety, there were no grave occupational accidents or fatalities in 2023, just like in 2022.

The international credit rating agency "S&P Global Ratings" (S&P) maintained AST's long-term credit rating unchanged at A- in 2023, and raised its outlook from stable to positive. S&P also acknowledged Conexus' financial performance and maintained its credit rating at BBB+/Stable

In the reporting period, the Group's net turnover totalled EUR 234,480 thousand, and its net profit was EUR 10,235 thousand, which was over half less than the net profit reported in 2022.In the reporting year, the electricity transmission segment had a significant impact on the Group's key financial indicators. In the first six months of the year, the electricity price for technological losses in transmission exceeded the price used to calculate the transmission tariffs applicable until 1 July 2023 three times. To compensate for the significant increase in costs, income from intergovernmental auctions for transmission capacities was diverted with the authorisation of the Public Utility Commission, so that the year ended with a positive performance.

With effect from 1 July 2023, a new, economically justified electricity transmission tariff has been introduced with a 30% increase over the previous tariff approved at the end of 2020. The need to change electricity transmission tariffs resulted from the significant increase in energy resource prices that began in 2022. In addition to the optimisation measures that the Company has already implemented, an agreement was reached with the Public Utility Commission, which made it possible to use AST's revenue from interstate auctions for transmission capacity to reduce the tariff. Through the measures taken in cooperation with the parties concerned, the competitiveness of electricity transmission tariffs has been maintained in the region.

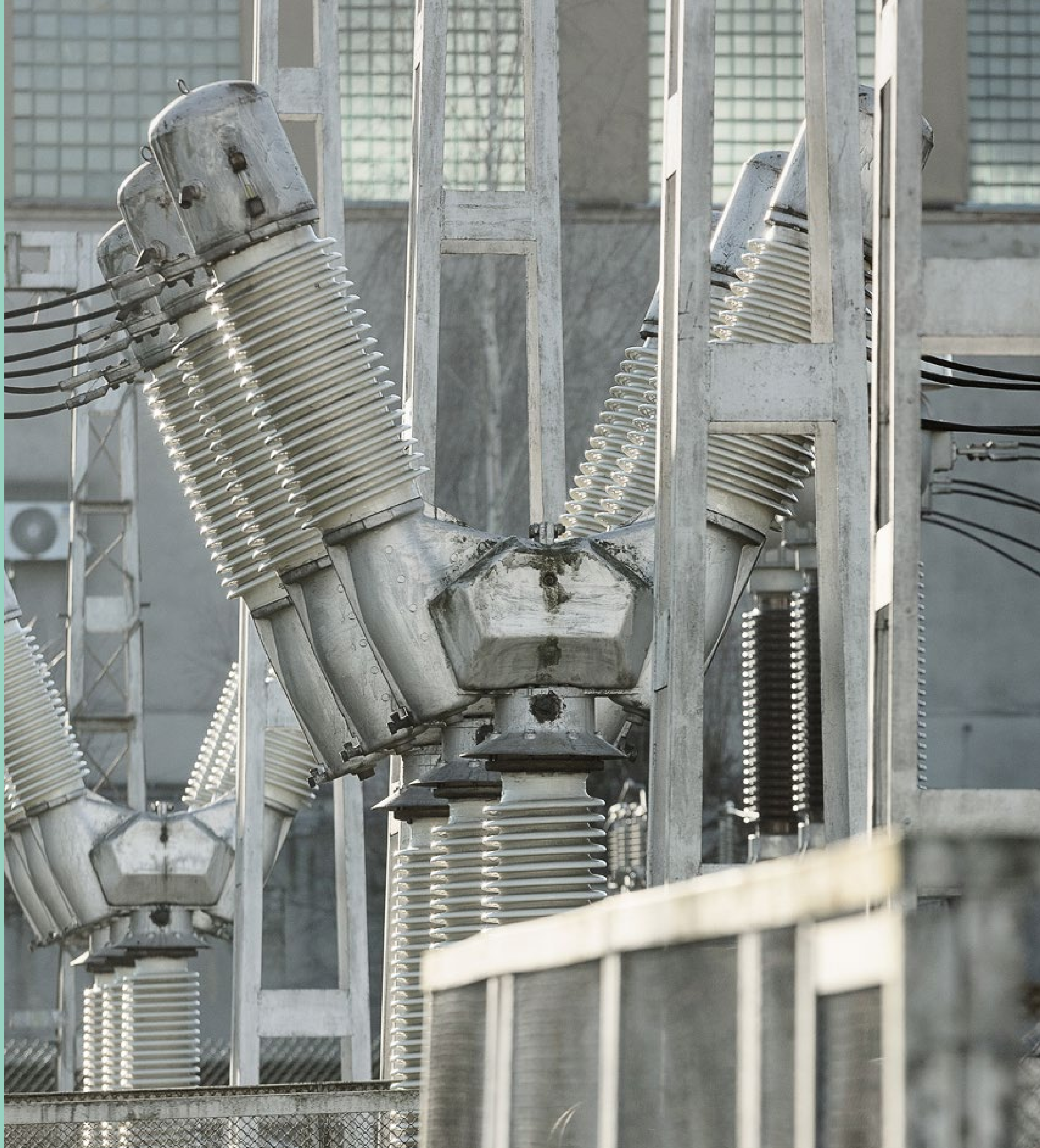
At the same time, based on the gradual reduction of natural gas consumption in the last ten years, the tariff for the Conexus transmission system services was increased in 2023. From December, it has increased by approximately 0.72 EUR/MWh to 2.65 EUR/MWh, leaving a minimal impact on natural gas users.

Along with the performance of the Group's principal business – to ensure continuous, safe and sustainably efficient transmission of electricity and gas throughout Latvia, AST continued to support Ukraine that has suffered significantly due to the Russian invasion: with donations of materials and equipment in the restoration of its energy system infrastructure,. In the autumn of 2023, a 66-tonne shipment of various electricity transmission system equipment and transformer oil reached Ukraine, which Ukrainians will be able to use for at least 20 years.

We would like to thank all employees, customers and contractual partners for their commitment and contribution in 2023.

ROLANDS IRKLIS
Chairman of the Management Board of AS "Augstsprieguma tīkls"

GRI INDICATORS



GRI INDICATORS

AS “Augstsprieguma tīkls” reports information about the Augstsprieguma tīkls Group and AS “Augstsprieguma tīkls” as referred to in the table below for the reporting period from 1 January 2023 to 31 December 2023, in accordance with the Global Reporting Initiative (GRI) guidelines.

The sustainability report has been prepared in accordance with the requirements laid down in “GRI 1 Foundation 2021”.

The GRI industry standard applicable to the Subsidiary is GRI 11 “Oil and Gas Sector”.

GRI General Standards

GRI indicator		Section of the Report
ORGANISATION PROFILE		
2-1	Organization details	Information about the report
2-2	Entities included in the organization’s sustainability reporting	Information about the report
2-3	Reporting period, frequency, and contact point	Information about the report
2-4	Restatements of information	Information about the report
2-5	External assurance	Information about the report
ACTIVITIES AND EMPLOYEES		
2-6	Activities, value chain, and other business relationships	Information about the group,
2-7	Employees	Employees and workers; Health, safety and well-being of employees
2-8	Workers who are not employees	Employees and workers; Health, safety and well-being of employees
MANAGEMENT		
2-9	Governance structure and composition	Governance structure and composition; Shareholders and shareholder meeting; Supervisory Board; Management board
2-10	Nomination and selection of the highest governance body	Nomination and selection of members of the executive governance body; Supervisory Board; Management board
2-11	Chair of the highest governance body	Supervisory Board; Management board
2-12	Role of the highest governance body in overseeing the management of impacts	Governance structure and composition; Supervisory Board; Management Board; Audit committee; Internal audit
2-13	Delegation of responsibilities for managing impacts	Supervisory Board; Management board
2-14	Role of the highest governance body in sustainability reporting	Governance structure and composition; Supervisory Board
2-15	Conflicts of interest	Conflicts of interest

GRI indicator		Section of the Report
2-16	Communication of critical concerns	Communication of critical concerns; Supervisory Board
2-17	Collective knowledge of the highest governance body	Supervisory Board
2-18	Evaluation of the performance of the highest governance body	Evaluation of the performance of the highest governance body
2-19	Remuneration policies	Remuneration and principles for its determination
2-20	Process to determine remuneration	Remuneration and principles for its determination
2-21	Annual total compensation ratio	Remuneration and principles for its determination
STRATEGY, POLICY, AND PRACTICE		
2-22	Statement on sustainable development strategy	Statement by the chairman of the Management board
2-23	Policy commitments	Policy commitments
2-24	Embedding policy commitments	Implementation of policy commitments in practice
2-25	Processes to remediate negative impacts	Processes for mitigating/compensating negative impacts
2-26	Mechanisms for seeking advice and raising concerns	Mechanisms for asking questions and whistleblowing
2-27	Compliance with laws and regulations	Compliance with laws and regulations
2-28	Membership in associations	Membership in associations
INVOLVEMENT OF STAKEHOLDERS		
2-29	Approach to stakeholder engagement	Involvement of stakeholders
2-30	Collective bargaining agreements	Employees and workers; Collective bargaining agreements
KEY AREAS OF SUSTAINABILITY		
3-1	Process to determine material topics	Process of identifying key areas
3-2	List of material topics	List of key areas

GRI specific standards

	Aspect		GRI standard name	GRI indicator or AST-specific indicator, developed additionally, based on a set of key aspects		Section of the Report
Environment	Sustainable energy solutions	3-3	Management approach			Environmental impact
		-	AST specific indicator	AST-1	Measures to promote the transition to a more sustainable energy sector	Sustainable energy solutions
	Climate impact and energy efficiency	3-3	Management approach			Energy consumption and efficiency
		302	Energy	302-1	Energy consumption within the organisation	Energy consumption and efficiency
				302-3	Energy intensity	Energy consumption and efficiency
				302-4	Reduction in energy consumption	Energy consumption and efficiency
		305	Emissions	305-1	Direct (Scope 1) GHG emissions	Impact on climate and emissions
				305-2	Energy indirect (Scope 2) GHG emissions	Impact on climate and emissions
				305-3	Other indirect (Scope 3) GHG emissions	Impact on climate and emissions
				305-5	Reduction of GHG emissions	Impact on climate and emissions
	Responsible use of resources and waste management	3-3	Management approach			Responsible use of resources and waste management
		301	Materials	301-1	Materials used by weight or volume	Responsible use of resources and waste management
				301-2	Recycled input materials used	Responsible use of resources and waste management
		303	Water and Effluents	303-1	Interactions with water as a shared resource	Responsible use of resources and waste management
		306	Waste	306-1	Waste generation and significant waste-related impacts	Responsible use of resources and waste management
				306-2	Management of significant waste-related impacts	Responsible use of resources and waste management
				306-3	Waste generated	Responsible use of resources and waste management
				306-4	Waste diverted from disposal	Responsible use of resources and waste management

	Aspect		GRI standard name		GRI indicator or AST-specific indicator, developed additionally, based on a set of key aspects	Section of the Report
Social impact areas	Employee competence, growth, and skilled workforce of the future	3-3	Management approach			Employee competence, growth, and skilled workforce of the future
		404	Training and education	404-1	Average number of training hours per year per employee	Employee competence, growth, and skilled workforce of the future
				404-2	Programs for upgrading employee skills and transition assistance	Employee competence, growth, and skilled workforce of the future
				404-3	Percentage of employees receiving regular performance and career development reviews	Employee competence, growth, and qualified workforce of the future
	Health, safety, and well-being of employees	3-3	Management approach			Health, safety, and well-being of employees
		403	Occupational health and safety	403-1	Occupational health and safety management system	Health, safety, and well-being of employees
				403-9	Work-related injuries	Health, safety, and well-being of employees
		-	AST specific indicator	AST-2	Information about how the company implements and fosters the well-being of its employees	Health, safety, and well-being of employees
	Inclusive work culture and gender equality	3-3	Management approach			An inclusive work culture and gender equality in employment relations
		405	Diversity and equal opportunities	405-1	Diversity of governance bodies and employees	An inclusive work culture and gender equality in employment relations

	Aspect		GRI standard name		GRI indicator or AST-specific indicator, developed additionally, based on a set of key aspects	Section of the Report
Economic impact areas	Infrastructure security, sustainable management, and digitisation of processes	3-3	Management approach			Infrastructure security, sustainable management, and digitisation of processes
		416	Customer health and safety	416-1	Assessment of health and safety impact factors of product and service categories	Infrastructure security, sustainable management, and digitisation of processes
				416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Infrastructure security, sustainable management, and digitisation of processes
		-	AST specific indicator	AST-3	Performance in digitisation processes/activities, innovation projects	Infrastructure security, sustainable management, and digitisation of processes
	Sustainable procurement and selection of partners	3-3	Management approach			Sustainable procurement practices and selection of partners
		204	Procurement practices	204-1	Proportion of spending on local suppliers	Sustainable procurement practices and selection of partners
	Direct economic impact	3-3	Management approach			Direct economic impact
		201	Direct economic impact	201-1	Direct economic value generated and distributed	Direct economic impact
	Indirect economic impact	3-3	Management approach			Indirect economic impact
		203	Indirect economic impact	203-1	Infrastructure investments and services supported	Indirect economic impact
				203-2	Significant indirect economic impact	Indirect economic impact
	Fair and ethical governance, prevention of corruption	3-3	Management approach			Fair and ethical governance, prevention of corruption
		205	Combatting corruption	205-1	Operations assessed for risks related to corruption	Fair and ethical governance, prevention of corruption
				205-2	Communication and training about anti-corruption policies and procedures	Fair and ethical governance, prevention of corruption
				205-3	Confirmed incidents of corruption and actions taken	Fair and ethical governance, prevention of corruption

INFORMATION ABOUT THE REPORT

GRI 2-1, 2-2, 2-3, 2-4, 2-5

INFORMATION ABOUT THE REPORT

The principal activity of the AUGSTSPRIEGUMA TĪKLS GROUP is the provision of functions of the electricity transmission system operator, efficient management of energy supply system assets, and natural gas transmission and storage.

As at 31 December 2023, the structure of the Augstsprieguma tīkls Group consisted of a set of commercial companies in which the Parent Company AS "Augstsprieguma tīkls" had a decisive influence and which included the subsidiary AS "Conexus Baltic Grid". All capital shares of AS "Augstsprieguma tīkls" are held by the Republic of Latvia.

The share of investment of the Parent Company in the Subsidiary's capital is 68.46%. 29.06% of the shares in Subsidiary are owned by the Japanese company "Marubeni" fund, i. e. "MM Infrastructure Investments Europe Limited", and 2.48% – by other shareholders.

This is the Augstsprieguma tīkls Group's consolidated sustainability report which, like its consolidated financial statements, covers the Parent Company and commercial companies in which the Parent Company has a decisive influence (holds more than 50% of capital shares). Based on the aforementioned principles, the consolidated sustainability report, like the financial statements, covers AS "Augstsprieguma tīkls" and its subsidiary AS "Conexus Baltic Grid".

When preparing the sustainability report for the year 2023, the Group relied on both its view of the important aspects of sustainability and on the assessment of stakeholders, which was obtained by conducting a stakeholder survey and in-depth interviews at the end of 2022. Detailed information on the determination of the essential aspects of sustainability is available in the chapter "Process of identifying key areas". AST has no information that this opinion contradicts the views of the minority shareholders of the Subsidiary. Detailed information on the sustainability aspects of the Subsidiary is available in the Conexus's 2023 separate sustainability report (link: https://www.conexus.lv/finansu-parskati).

In accordance with the financial statements of the Augstsprieguma tīkls Group, the reporting period of the consolidated sustainability report corresponds to the financial year running from 1 January 2023 to 31 December 2023. The consolidated sustainability report is prepared once a year and published on the last working day of April each year. The report for the year 2023 has been published on 30 April 2024 on the Group's website: https://www.ast.lv/lv/content/ilgtspejas-parskati

The contact email to be used for suggestions and queries about the Sustainability Report: ast@ast.lv

SIA "PricewaterhouseCoopers", which is also the auditor of the 2023 financial statements of AS "Augstsprieguma tīkls", as well as the auditor of the Subsidiary, has provided independent limited assurance report on the 2023 Sustainability Report. See the auditors' report on page 108 of this report.

INFORMATION ABOUT THE GROUP

GRI 2-6

INFORMATION ABOUT THE GROUP

The principal business of the Group is categorised into three segments, i. e. electricity transmission, natural gas transmission, and natural gas storage. The division has been made on the basis of the internal organizational structure of the Group, which forms the basis for monitoring and controlling the performance of the segments.

Based on the Group's vision, the Augstsprieguma tīkls Group's Middle-Term Operational Strategy 2021-2025 ("Strategy") was developed and approved in 2021, outlining the strategic direction of the Group and laying out the financial and non-financial goals for the Parent Company and Conexus for the next five years. The goals set, the projects already launched, and action directions shape the future goals – the movement toward a climate-neutral economy within the framework of the European Green Deal, and achieving the goals set out in the Latvian National Energy and Climate Plan for 2021-2030.

The general strategic goal of the Augstsprieguma tīkls Group is to ensure the reliability of energy supply in Latvia, to provide a continuous, high-quality and affordable energy supply transmission service, as well as to implement the sustainable management of energy supply assets of strategic importance to the country and to promote their integration into the internal energy market of the European Union.

The main strategic direction of the Augstsprieguma tīkls Group are:

FINANCIAL STABILITY – to ensure optimal return on state investment, financial risk management;

ENERGY SECURITY – synchronisation and integration with European transmission networks, including electricity and ancillary services markets;

QUALITY ENERGY SUPPLY – qualitative energy supply with a focus on innovation at the lowest possible tariff;

SOCIAL RESPONSIBILITY – safe working environment, engaged employee and social responsibility towards society;

SUSTAINABLE AND EFFICIENT MANAGEMENT – continuous improvement of efficiency.

The strategic goals of the Group

HIGH PRIORITY GOALS

7 RENEWABLE ENERGY

ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL

- Continuous provision of high-quality and affordable energy supply services
- Sustainable management of energy supply assets
- Promotion of development in the electricity market

9 INNOVATION AND INFRASTRUCTURE

BUILD RESILIENT INFRASTRUCTURE, PROMOTE INCLUSIVE, AND SUSTAINABLE INDUSTRIALISATION AND FOSTER INNOVATION

- Maintenance and renovation of the power transmission network, creation of the most efficient network structure
- Digitisation of the transmission network that promotes energy efficiency and reduction of costs
- Involvement in international projects with the aim of developing future technologies
- Synchronisation with the transmission networks of continental Europe

13 PROTECTING THE PLANET

TAKE URGENT ACTION TO FIGHT CLIMATE CHANGE AND ITS IMPACT

- Reduction of the impact of energy supply assets on the environment
- Development of the energy supply system, adapting it to the needs of climate-neutral energy producers
- Reduction of energy losses

MEDIUM PRIORITIES

15 LIFE ON EARTH

We strive to reduce the negative impact of the energy supply system on biodiversity, landscape, and land use. We follow environmentally friendly practices.

8 GOOD WORK AND ECONOMIC GROWTH

We encourage responsible and sustainable business practices.

5 GENDER EQUALITY

We believe that inclusive culture and gender equality spur innovation and growth.

12 RESPONSIBLE CONSUMPTION

We ensure sustainable consumption and practices in our operations and strive to be an example to others. In our development projects, we mainly use existing power line rights-of-way.

We recycle almost 100% of our waste.

17 COOPERATION TO IMPLEMENT GOALS

We accumulate our competence and share experience with transmission system operators all over the world; we engage in research and development.

THE GROUP IS AWARE OF ITS ROLE AND CONTRIBUTION TO SUSTAINABLE DEVELOPMENT AND STRIVES IN ITS ACTIVITIES TO DEVELOP PROCESSES, PRODUCTS AND SERVICES THAT CONTRIBUTE TO ACHIEVING THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS). THREE SDGS WITH HIGH PRIORITY AND FIVE SDGS WITH MEDIUM PRIORITY HAVE BEEN IDENTIFIED AS PRIORITIES AND CORRESPOND TO AST'S PRINCIPAL ACTIVITIES. BY IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES, AST ALSO CONTRIBUTES TO THE ACHIEVEMENT OF OTHER SDGS.

Geographically, the Group operates in Latvia. The registered office of the Augstsprieguma tīkls Group is at Dārzciema iela 86, Riga, LV-1073, while the structural units of the Group companies are also located elsewhere in Riga and throughout Latvia.

PARENT COMPANY

The Parent Company operates within the territory of Latvia.

The general objectives of the Parent Company are defined as follows:

- Implement sustainable management of energy supply assets strategically important to the country
- Promote their integration in the internal energy market of the European Union
- To ensure the safety of Latvia's energy supply
- To provide a continuous, high-quality and affordable energy supply transmission service

The Parent Company divides its activities into one main business segment – **electricity transmission**. Below is information on the strategic goals and sustainability aspects of the Parent Company, as well as the operating environment and financial results of the segment.

FINANCIAL goals

Energy SECURITY

QUALITY power supply

Sustainable and EFFICIENT governance

RESPONSIBILITY towards employees and society

DIGITAL TRANSFORMATION

GREEN TRANSFORMATION

2025 — FINANCIAL goals

Achieve an optimal CAPITAL STRUCTURE. FINANCIAL RISK MANAGEMENT

DIVIDEND policy

- Investment grade credit rating determined by an international credit rating agency.

2025 — Energy SECURITY

SYNCHRONISED with continental European transmission networks

- Increasing the transmission capacity of connections with Estonia;
- Disconnection of the power system from the BRELL network and synchronous connection to the Continental European electricity system.

DEVELOPMENT and INTEGRATION of electricity and auxiliary services markets in European markets

- Development of an integrated balance management system;
- Transition to the 15-minute control and imbalance payment period of the energy system; introduction of 15-minute product trading in the next-day and current-day market;
- Compatibility of the market of electricity and auxiliary services information system (IS) with the IS necessary for synchronisation.

2025 — QUALITY power supply

Power supply with an operating mode focused on INNOVATION and SAFE

- Completed digital substation pilot project and environmentally friendly (green) substation pilot project;
- As part of the ELWIND project, a study was carried out of the options for connecting wind farms to the land power transmission network, with detailed surveys of lines at several substations in Latvia;
- The environmental impact process was carried out for the ELWIND network infrastructure in the amounts planned for 2025 (assuming that the corresponding decisions of the Cabinet of Ministers are adopted).

2025 — Sustainable and EFFICIENT governance

MODERNISATION OF GOVERNANCE COST OPTIMISATION

- Digital transformation road map developed, with a corresponding expansion of the data and information system;
- Processes were improved according to the digital transformation road maps.

2025 — RESPONSIBILITY towards employees and society

SAFE and INNOVATIVE working environment

- Construction of the AST main building complex:
- Implementation of the AST cybersecurity operations centre (CSOC) technology platform; drafting of CSOC rules and procedures, and training of CSOC staff.

Improvements in employee COMMITMENT

- Change of culture, improvements in employee competences.

SOCIAL RESPONSIBILITY towards the public

- Implementation of HR management and social responsibility activities in accordance with policies and the strategy.

VISION

Become the region's leading transmission system operator that quickly and successfully implements growth-orientated changes

MISSION

Ensure continuous, reliable, and sustainably efficient energy supply across Latvia

CORE VALUES

The company has developed a quality policy which, based on the Energy Law, the Electricity Market Law, and the Network Code, defines the following principal values of the company.

TRUST

HONEST

Independent, ethical and open behaviour towards anyone and everyone

DEVELOPMENT

SMART

Efficient. Forward-looking. Long-term thinking

SAFETY

RESPONSIBLE

Thoughtful action. High sense of responsibility towards people, work, and nature.

TEAM

UNITED

Joining forces to achieve more. Strong team that encourages and challenges.

The Parent Company, as Latvia's only electricity transmission system operator (hereinafter also referred to as "TSO"), provides continuous and high-quality electricity transmission service, carries out sustainable and efficient management and development of energy supply assets, promotes integration in the internal market of the European Union.

AST is obliged to ensure:

- Safety and stability of electricity supply;
- Transmission network development and safe connectivity with other energy supply systems;
- Management and supervision of electricity flows in the transmission system;
- Operation management and supervision of power generation equipment connected to the transmission system;
- Non-discriminatory conditions of use of the transmission system for all users of the transmission system.

The Parent Company provides the following critical services:

ELECTRICITY TRANSMISSION SERVICES, including the transmission of electricity and the maintenance and development of capacity. Since Latvia has only one transmission system operator, there is no competition in the provision of the aforementioned services. The Parent Company's activities are focused on providing low-cost, high-quality electricity transmission services.

CONNECTIONS TO THE ELECTRICITY TRANSMISSION GRID – the grid operator is permanently obliged to provide grid members with the required connection to the transmission grid or changes to the permitted load of the existing connections in accordance with the rules issued by the Public Utilities Regulatory Commission (hereinafter "PURC" or "Regulator") for the connection of grid members and for the connection a fee determined by the Transmission System Operator in accordance with the method for calculating the connection fee determined by the PURC, if the grid member fulfils the technical requirements determined by the Transmission System Operator.

ELECTRICITY MARKET PARTICIPANTS:
- Balancing services;
- Regulatory services;
- Energy identification codes;
- Access to electricity accounting data;
- Certificates of origin of electricity.

Group companies use their own infrastructure to provide the service. To maintain and improve the infrastructure, they enter into supply, construction, and service contracts with those companies (see detailed information in Chapter "Sustainable procurement practices and selection of partners").

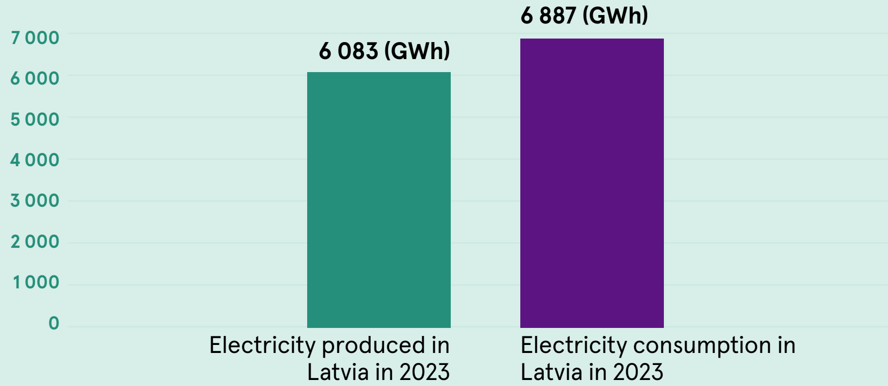
Until 31 March 2023, the electricity required to ensure the technological process of electricity (transmission losses) was purchased under the jointly concluded agreement with the only nominated electricity market operator (electricity exchange) AS "Nord Pool" in Latvia. To ensure the stability and predictability of electricity transmission tariffs and reduce the negative impact of electricity price fluctuations, as a result of the procurement process, a contract was concluded for the purchase of electricity for transmission losses to ensure the technological process at a fixed price, with the term of the contract set from 1 April 2023 to 31 December 2024.

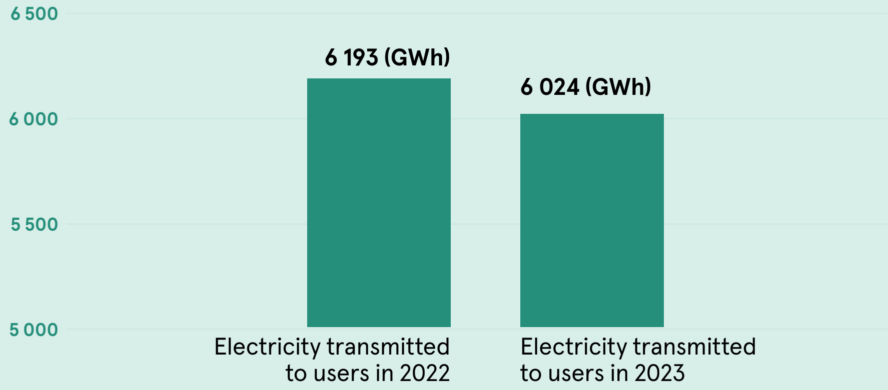
In 2023, AS "Augstsprieguma tīkls" continued its operation together with the Estonian and Lithuanian electricity transmission system operators, the Regional Coordination Centre of the Baltic States Electricity Systems "Baltic RCC" OÜ (hereinafter also "Associated Company" or "Baltic RCC"), which was established in 2022, registered in Estonia. The Regional Coordination Centre is managed according to the equality principle of all three Baltic States, i. e. each operator owns the same number of capital shares in the new structure (AS "Augstsprieguma tīkls" shareholding is 33.33%). The main task of the Regional Coordination Centre is to coordinate the planning of the development of the electricity systems and to coordinate the daily activities of the individual operators to ensure the security of the electricity supply.

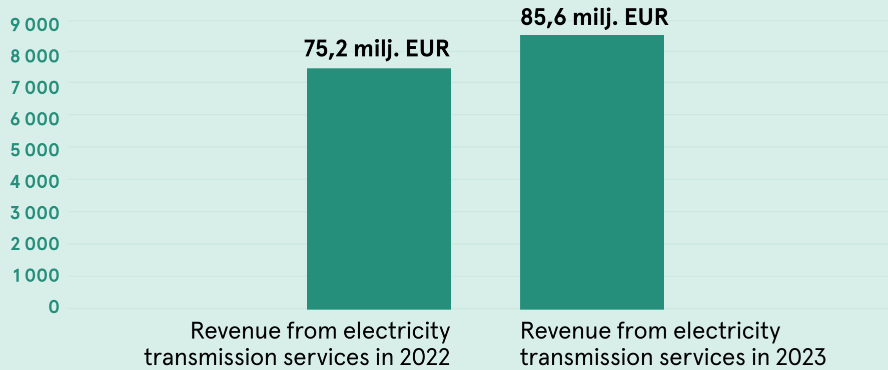
In 2023, 6,083 gigawatt-hours (GWh) of electricity were produced in Latvia, which is 26.2% more than a year ago, while Latvia's electricity consumption decreased by 3.4%, reaching 6,887 GWh per year. In 2023, the Parent Company provided electricity transmission to users in Latvia in the amount of 6,024 GWh, which is 2.7% less than in 2022, when the Parent Company transmitted 6,193 GWh to users in Latvia. Revenues from transmission services in 2023 reached EUR 85.6 million (in 2022: EUR 75.2 million).

As a result of the installation of solar generation equipment for self-consumption in households and businesses, the amount of electricity consumed in Latvia has decreased by 3.4% and 2.7%, respectively. Thus, the actual amount of electricity produced and consumed in Latvia is greater because instead of being transmitted to the network, a portion of the electricity is used for immediate self-consumption.

A detailed review of the electricity market for 2023 is available on the Parent Company's website: https://www.ast.lv/en/electricity-market-review?year=2023&month=13.







SUBSIDIARY

The Subsidiary is an independent unified operator of the natural gas transmission and storage system in Latvia, which manages one of the most advanced natural gas storage facilities in Europe – the Inčukalns underground gas storage facility (hereinafter “Inčukalns UGS facility” or the “storage facility”) and the trunk natural gas transmission system that connects the Latvian natural gas market with Lithuania and Estonia.

The Subsidiary’s customers – users of the natural gas transmission and storage system – are both private local companies, state-owned and international companies representing various business sectors: natural gas wholesale and retail, energy producers, heating operators and manufacturing companies.

The customers of the Subsidiary, as the owner of the natural gas transmission and storage system, represent several countries of the Baltic Sea region, i. e. Finland, Estonia, Latvia, Lithuania and Poland; as well as other European countries, i. e. Norway, the Czech Republic, and Switzerland.

The natural gas transmission and storage services provided by the Subsidiary are supervised by the Public Utilities Commission (hereinafter “PUC” or the “Regulator”).

The Subsidiary is responsible for ensuring the sustainability and safety of the infrastructure, the high quality of services, which promotes market development and provides economic value to customers and society as a whole.

The Subsidiary is a socially responsible company that ensures the joint development of the industry, the growth of employees and sustainable employment by creating economic added value, taking care to minimise the impact of technological processes on the environment.

Russia’s invasion of Ukraine has changed the European natural gas industry completely, including Latvia, which has banned the import of Russian natural gas for national consumption from 1 January 2023. These conditions created new challenges for natural gas import sources and business processes, with security of supply becoming a key dimension of the natural gas industry, both nationally and regionally.

Considering the significant milestones in the natural gas sector, the Subsidiary renewed its strategic directions and priorities in 2022. The Medium-Term

Operational Strategy 2023-2027 sets strategic goals, priorities and a set of measures for achieving the set goals that will ensure sustainable development. The directions of the Subsidiary strategic goals are as follows:

Market development

Developing and further integrating the gas sector, as well as developing hydrogen and other gaseous energy markets

- **Promoting regional market integration**
- **Promoting cooperation with other regional TSOs**, creating a common position for the integration of biogas and hydrogen in transmission networks, supporting the introduction of biomethane into the transmission system
- **Further development of the Inčukalns UGS facility**, providing greater flexibility, including the possibility of decompression

Security of infrastructure and supply

Developing affordable and secure transmission and storage infrastructure, as well as exploring and promoting adaptation options for gaseous energy inputs

- **Implementing projects of common interest**
- **Carrying out research and development projects** to identify technical possibilities and necessary investments for adapting the existing infrastructure to the use of natural gas/hydrogen mixture or pure hydrogen, i. e. see building infrastructure for hydrogen
- Future challenges-proof asset management

Durability

Focusing on climate and environmental sustainability aspects

- Focusing on sustainability, Conexus will pay attention to environmental aspects:
- **E** – regional market integration that promotes the development of renewable gases, secure transmission and storage infrastructure with a focus on reducing NO_x and GHG emissions
- **S** – safety-oriented culture, professional and development-oriented team
- **G** – compliance with the Corporate Governance Code

Strategic goals have been set according to Conexus's values, vision and mission. In addition to its strategic goals, Conexus has defined horizontal goals that are closely related to all planned medium-term activities. Horizontal goals complement strategic goals and contribute to their achievement.

Focusing on organizational development and effectiveness	Conexus will facilitate funding opportunities, as well as increase operational efficiency.
Digitisation and cyber security	Conexus will continue digitisation projects focusing on operational technology, physical security, fire protection and cyber security.
Professional and development-oriented team	The value of Conexus is a professional team, so the Subsidiary will create a programme that will give employees the opportunity to develop their skills by creating an individual development plan. The acquisition of new competences will be promoted in order to adapt to renewable gas technologies, as well as the transfer of knowledge and skills of long-term employees to new employees. In order to promote the professional development of the team, Conexus will create a competitive and flexible remuneration system.

Vision – Sustainable gas transmission and storage operator in a regionally integrated energy market.

Mission – To ensure reliable operation of gas transmission and storage, promoting decarbonization of the energy sector and market development.

Vērtības:

SAFETY AND SECURITY
It is important to us that gas transmission and storage is safe and reliable.

COMPETENCE
We value the competence, knowledge, professional experience, and progress of our employees.

COOPERATION
We support each other in making decisions, we listen, and we look for mutual solutions both internally and with customers, as well as existing and potential counterparties.

EMPLOYEES AND WORKERS

Management approach

In its daily work, the Group attaches great importance to the environment, safety, economic and social sustainability. Initiatives that reflect the Group's core values and the principle of equal treatment have long been implemented and supported, creating a diverse and inclusive working environment for all employees.

The Group is driven by development. The key to success is a team of almost 900 professional and responsible employees (as at 31 December 2023, there were 896 employees; as at 31 December 2022: 878 employees), who take care of electricity and gas transmission, continued, reliable and effective service throughout Latvia. The Group's management is aware that employees with different competences and diversity are an asset that enables the company to develop and achieve new goals.

The Group's employees and managers are professionals in their field, who build both mutual relations and relations with representatives of stakeholders in core activities based on values:

HONESTLY

independent, ethical and open behaviour towards anyone and everyone;

WISELY

effectively; with a view to the future; long-term thinking;

RESPONSIBLY

considerate action; with high responsibility towards work, people and nature;

TOGETHER

we join forces to achieve more; a strong team that encourages and challenges.

Personnel management policy and general principles

The AST Personnel management policy guidelines were developed based on the goals and objectives set out in the Group's Medium-Term Operational Strategy 2021-2025. The guidelines reflect AST's vision and values in dealing with employees and cover the main directions of human resources management, setting goals and objectives for the medium-term period from 1 January 2022 to 31 December 2025.

The purpose of these guidelines is to set out the basic principles for the implementation of standardised, contemporary and effective personnel management in order to provide AST with professional, committed and motivated employees, who achieve a high level of efficiency.

In view of AST's dynamic development, the processes associated with integration into the EU internal electricity market, synchronisation with the European electricity transmission grids and the digital transformation, AST's sustainability and the achievement of the goals set are impossible without committed and professional employees. Employees are AST's most important strategic resource and contribute to maximising the company's operating productivity.

The guidelines of AST's personnel policy include the following directions of personnel management – personnel planning, recruitment, integration of newly hired employees, personnel development, work performance management, remuneration system and working environment, as well as the key efficiency indicators of personnel management.

The main fundamental principles are based on the following values:

- Compliance with laws and regulations;
- Acceptance and adherence to AST's mission, values and ethical principles;
- AST's priorities and goals;
- Fair, just and equal treatment of all employees;
- Diversity-inclusive work environment, ensuring equal opportunities;
- Sustainability – developing employees' competencies, transferring knowledge, sharing experience and ensuring the succession of relevant activities;
- Building and maintaining AST traditions;
- Social dialogue with the organisations representing employees.

AST constantly monitors employees' opinions on both the safety of the working environment and other important elements related to the working environment that promote employee attraction to the organisation and engagement. The engagement study is conducted annually using the TRI*M Employee Commitment methodology tool. The aim of the study is to obtain a general overview of the employee engagement indicator and changes in the company's performance rating, to identify strengths and areas for improvement, and to determine the main priorities for the future development and management of the company. The most recent study was conducted was in February 2023, and 84% of all AST employees surveyed took part (in 2022: 77%). The results of the study showed that employees' understanding of career opportunities in the company is problematic, particularly in terms of the vertical aspect. To reduce this, in 2023 employees were asked to share their experiences of career development at AST in the form of "experience reports". In the case of selection competitions for positions, applicants are also first selected from among existing employees and only then are candidates sought on the external labour market. In 2023, 6 selection competitions were advertised internally by AST, while a total of 29 employees (4 women and 25 men) received career support. In comparison to 2022, eight competitions were announced internally, whereas 23 employees were promoted. The study also concluded that employees value the opportunity to work remotely. Therefore, a flexible working environment was introduced, offering the opportunity to work remotely, as well as at the workplace. In order to promote a deeper understanding of the company's strategy and goals, an employee conference was held where participants had the opportunity to familiarise themselves with the challenges of the energy sector and the progress of strategic projects. The next study is planned for the beginning of 2024.

Year	Number of internal selection competitions	Number of employees received career support
2023	6	29
2022	8	23

Employees maintain a positive reputation and brand for the company, which is important for business partners and customers as well as for society as a whole. Mutual relationships are based on general ethical principles, honesty and mutual respect as well as the avoidance of conflicts of interest.

Remuneration and principles for its determination

The main objective of the Group's remuneration policy is to maintain a competitive and motivating remuneration system by establishing uniform and fair principles for the monetary remuneration of employees, making rational use of financial resources. In 2023, the Parent Company began revising the remuneration policy, which will continue in 2024. The objectives of the remuneration policy are as follows:

- Ensure the competences required to accomplish the goals of the Medium-Term Operational Strategy by attracting qualified employees;
- Motivating employees to achieve high levels of work performance and productivity;
- Providing support and recognition to employees for their individual performance and contribution to the achievement of work objectives;
- Attracting, retaining, and motivating highly motivated, competent, and performance-oriented professionals to improve the efficiency of the organization;
- Creating an attractive employer brand by promoting employee development and loyalty to the organization thereby ensuring sustainable development of the company's operations;
- Ensuring equal opportunities without any form of discrimination;
- Maintaining appropriate risk management and control, avoiding conflicts of interest, and ensuring a predictable and transparent compensation model.

THE REMUNERATION OF THE EMPLOYEES OF THE GROUP AND THE PARENT COMPANY CONSISTS OF:

BASIC SALARY –
the salary specified in the employee's employment contract based on the assessment of the corresponding position;

VARIABLE SALARY –
the portion of the salary that is determined by the employee's performance. It aims to maintain a working environment that encourages the achievement of quantitative and qualitative metrics and to ensure that employees are compensated appropriately for their contribution to the accomplishment of common objectives. Each year, the work performance of the heads of the structural units are evaluated and an additional bonus (annual bonus) is determined for their implementation. The performance appraisal consists of the following parts: Fulfilment of the structural unit's objectives and assessment of competences, additionally – contribution to

the fulfilment of particularly important/priority objectives of AST. Employees, on the other hand, receive a short-term or quarterly performance assessment, for which a corresponding bonus (quarterly bonus) is determined. The evaluation criteria include work performance within the set standards (deadlines, quality, quantity, etc.), initiative, commitment, performance of additional tasks and, where applicable, outstanding performance in achieving the targets set for a given period. Employees also receive an irregular, individual bonus for tasks that they fulfil in addition to their main job duties;

ADDITIONAL BENEFITS AND BENEFITS IN ACCORDANCE WITH THE COLLECTIVE LABOUR AGREEMENT –
these elements of the variable remuneration system aim to offer social guarantees to the widest possible range of employees, taking into account their age and the risks of the working environment and ensuring a work-life balance.

The Group has developed and introduced a system for determining remuneration that ensures internal and external fairness in remuneration matters. It is based on the evaluation of all positions, whereby each position is assigned a relative value in points, the formation of salary groups considering the points achieved and the definition of salary ranges for groups (salary "brackets"). The level of the salary ranges is determined by the median of the salary market*. In order to promote the quality of the salary data analysis and to regularly evaluate and renew the salary grade intervals, the Parent Company and the subsidiary take part in Figure Baltic Advisory's general salary study every year. This ensures the full application of the Group's remuneration policy – remuneration levels are designed and maintained in such a way that the remuneration set for each position is aligned with the remuneration levels in the labour market while promoting AST's competitiveness in the labour market. The parent company submits the results of the evaluation of all positions and the current salary survey to the union.

* The median is the average indicator that lies in the centre of the ascending or descending employees' salaries, i. e. half of the employees' salaries are above the median and the other half – below. As the median is not influenced by extreme wage values compared to the arithmetic mean, it is a better representation of typical wages.

To ensure a fair and competitive basic salary system in line with labour market trends, work began in 2022 on developing the process for evaluating positions and determining remuneration was completed in 2023. The working group, in cooperation with the consultant Figure Baltic Advisory, evaluated the Parent Company's positions according to common principles and criteria, using the analytical method of evaluating intellectual and physical labour positions. It is planned to further develop the procedure for evaluating positions and determining remuneration at regular intervals and to update it if necessary.

The long-term realisation of the Group's strategic goal – sustainable development and business continuity – requires qualified employees with specialist knowledge and specific experience. Competitive remuneration makes it easier for existing employees to fulfil these conditions and facilitates the recruitment of new employees.

Considering the results of the general salary survey conducted by Figure Baltic Advisory in 2022 and the clause agreed in the AST collective bargaining agreement on the review and increase of employees' monthly salary by the amount of the previous year's inflation, the basic salary of employees at AST was reviewed at the beginning of 2023 and increased by 20.8% (in 2022: by 7.9%) for those employees who started work before 1 July of the previous year. In accordance with the subsidiary's remuneration policy and the subsidiary's financial resources, the increase in the average basic salary for employees was 6.9% in 2023.

The table below shows the data on the salary of the highest-paid employee against the average annual salary of the entire workforce over the last two years:

	Parent company		Subsidiary	
	2023	**2022**	**2023**	**2022**
Salary increase				
Increase in the median annual total salary for employees[1]	17.8%	9.7%	15.1%	13.7%
Highest paid employee (increase in total annual salary)	25.7%	7.8%	14.6%	6.2%
Highest paid employee (total annual salary)	2.9 times	2.8 times	4.1 times	4.1 times

The following basic elements were used to calculate the median total annual salary:

- All employees who were in employment throughout the reporting year participated in the analysis, except for the highest paid employee;
- Management Board members were excluded from the analysis;

- The highest paid employee was determined by their total annual salary, not base salary;
- The calculation of the total annual salary includes all elements of the basic salary (salary, regular bonuses, payment of sick leave, vacation pay, one-time bonuses, etc.), bonus for annual/semi-annual results, contributions to the private pension fund;
- Unless otherwise specified in the collective bargaining agreement, the total annual salary does not include tax payments and benefits.

GRI 2-30, AST-2

Collective bargaining agreements

With a view to sustainable development and building a united, strong and professional team, both the Parent Company and the Subsidiary have concluded collective bargaining agreements. In addition to the statutory provisions and the employment contract concluded with the employee, the Group's collective bargaining agreements regulate issues relating to labour relations such as the obligations of the parties, employment guarantees, wage structures, occupational health and safety of employees, holidays, additional leave and social guarantees. The Group respects the right of employees to collective representation.

In 2023, 51% (52% in 2022) of the Group's employees were members of a trade union. The collective bargaining agreements concluded by the Group companies apply not only to members of the Group companies' trade union, but to all employees of the Group companies.

As a result of the mutual cooperation, the collective bargaining agreement concluded between the Parent Company and LAB "Energia" provides additional guarantees for all AST employees, regardless of their union affiliation, thus ensuring equal economic and social protection. In 2023, 69% of AST employees were union members; in 2022, 71% of employees were union members. AST is aware of the importance of employees in achieving its goals and pays contributions to the pension fund for the benefit of employees in accordance with the provisions of the collective bargaining agreement; employees receive a pension upon retirement; AST also ensures the implementation of family-friendly principles in the company – benefits are paid to employees at important life events, for example when a child starts school; a week's holiday is granted in addition to that required under the Labour Law; employees with children have additional paid leave, etc. The aforementioned benefits not only contribute to the motivation and ability to working of employees, but also to the common good.

AST is a shareholder (1.9%) of the pension fund "Pirmais Slēgtais Pensiju Fonds". Contributions to the pension plan are included in AST's operating costs and are covered from AST's operating revenues. In 2023, contributions for the benefit of the employees were made in the amount of 4% (in 2022: 6%) of the employees' wages. In 2023, AST contributed EUR 558 thousand to the Pension fund (85% of employees), in 2022: EUR 698 thousand (92% of employees), and in 2021: EUR 654 thousand (93% of employees). No contributions are made for the Company's Management Board members.

In addition to contributions to the Pension Fund, in 2023, in accordance with the collective bargaining agreement, benefits of EUR 891 thousand were paid to employees, in 2022: EUR 811 thousand and in 2021: EUR 721 thousand.

	2023 Thousand EUR	2022 Thousand EUR	2021 Thousand EUR
Contributions to the pension plan	558	698	654
Share of employees for whom contributions to the pension fund have been made	85%	92%	93%
Benefits paid to employees (in addition to contributions to the Pension Fund) in accordance with the Collective bargaining agreement.	891	811	721
Contributions for company management board members to the Pension Fund are not made.			

Post-employment benefits are provided to employees who terminate employment and are eligible to receive a state pension as a result of aging or disability. The amount of the benefit depends on the time worked in the company – for each year of work, a benefit in the amount of one week's average salary is granted. In 2023, the benefits paid amounted to EUR 183 thousand, in 2022: EUR 389 thousand, and in 2021: EUR 326 thousand.

	2023 Thousand EUR	2022 Thousand EUR	2021 Thousand EUR
Benefits paid	183	389	326

In 2023, joint work took place on the improvement of the collective bargaining agreement concluded between the Parent Company and LAB "Enerģija", and this work will continue in 2024. It is AST's policy to regularly inform its employees and trade union representatives of the current developments that relate to its business activity, development, and planned changes to its organizational structure.

GOVERNANCE STRUCTURE OF THE GROUP

GOVERNANCE STRUCTURE OF THE GROUP

GRI 2-9

GOVERNANCE STRUCTURE AND COMPOSITION

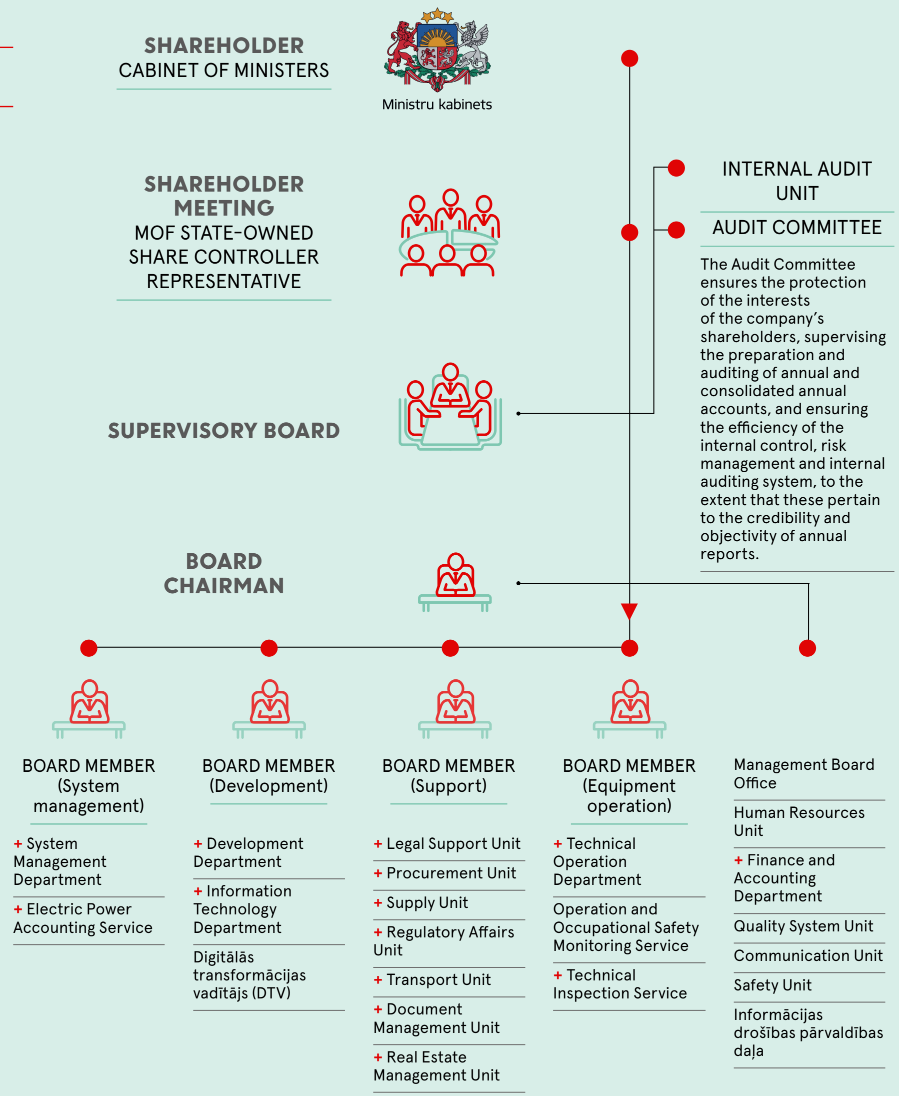
The corporate governance model of the Augstsprieguma tīkls Group has been created in accordance with good governance practices, laws, and corporate governance guidelines.

The governance of the Parent Company is carried out by the shareholders' meeting, the Supervisory Board and the Management Board, based on the Articles of Association of the Parent Company, bylaws of the Supervisory Board and the Management Board, the Medium-Term Operational Strategy, the Commercial Law, the Law on the Governance of Capital Shares of a Public Entity and Management of Capital Companies, and other laws of the Republic of Latvia.

The Supervisory Board of the Parent Company approves the Medium-Term Operational Strategy of the Group, setting the priority and sustainability goals corresponding to the Group's activities. The Supervisory Board examines and submits the separate and consolidated annual reports of the Group to the shareholders' meeting for approval, which, in accordance with the requirements of the Financial Instruments Market Law, including the non-financial statement, providing, among other things, information about the impact of commercial activities on the environment, social and employee-related aspects, compliance with human rights laws, and anti-corruption and bribery prevention measures. Detailed information is provided in the section "Supervisory Board".

The Corporate Governance Policy of Augstsprieguma tīkls Group has been developed considering the laws and regulations of the Republic of Latvia, the principles contained in the Latvian Corporate Governance Code, the recommendations of the European Union and the Organization for Economic Cooperation and Development for the corporate governance of the capital company, reviewing and summarising the corporate governance practices implemented by AS "Augstsprieguma tīkls".

In accordance with the requirements of the Financial Instruments Market Law and the principles and recommendations contained in the "Corporate Governance Code" developed by the Consultative Supervisory Board of the Ministry of Justice



of the Republic of Latvia, AS “Augstsprieguma tīkls” has prepared the Corporate Governance Report for 2023. The report is available on the AS “Augstsprieguma tīkls” website: https://www.ast.lv/en/content/model-corporate-governance and on the Nasdaq Baltic website.

Ethics and compliance

The Augstsprieguma tīkls Group adheres to high standards of professional ethics, ensures operational compliance with the requirements of laws and regulations and does not engage in restrictive, corrupt or discriminatory transactions. In order to prevent corrupt or fraudulent activities, employees are regularly informed about ethical and compliance standards and the Group’s internal regulations are constantly being improved. The Group also requires its contractual partners to observe equivalent ethical principles and asks for confirmation when concluding contracts that the collaboration will be based on honest principles of business cooperation. Each procurement regulation stipulates that the candidate/applicant must make a declaration on principles such as these: Fair Competition, Compliance with Laws and Contract Provisions, Confidentiality, Conflicts of Interest, Prohibition of Fraud and Corruption, Prohibition of Discrimination, Sustainable Development, Social Responsibility, Transactions and Financial Accounting.

The Parent Company’s Code of Ethics has been developed in accordance with socially responsible corporate policy and principles of good governance in order to strengthen the set of legality, ethics and moral principles of the actions of the company’s employees, as well as to exclude illegal behaviour and toleration of such behaviour. The Code of Ethics covers three interrelated areas – employees, reputation and safety. It aims to:

- promote the development of corporate culture;
- ensure that employees act in accordance with the company’s values;
- promote effective fulfilment of goals and tasks of AS “Augstsprieguma tīkls”;
- strengthen the image and reputation of AS “Augstsprieguma tīkls”.

The Code of Ethics and information on basic principles for cooperation with counterparties are published on the Parent Company’s website: https://www.ast.lv/en/content/responsible-business

ROLES, RESPONSIBILITIES, AND LIABILITY

The roles, responsibilities, and liability of the governance bodies are defined in the laws of the Republic of Latvia, as well as in the internal documents of the Group. The main ones are the Articles of Association and bylaws of the governance bodies, which are published on the Parent Company’s website.

Openness and transparency

The Augstsprieguma tīkls Group publishes financial and non-financial information both on the Augstsprieguma tīkls website and on the Nasdaq Baltic website. Once a year, the Group publishes sustainability and annual reports as well as corporate governance reports, and quarterly – interim financial reports of the Group and AS “Augstsprieguma tīkls”. The Subsidiary’s sustainability and annual report, as well as the interim financial figures are available on the Subsidiary’s website.

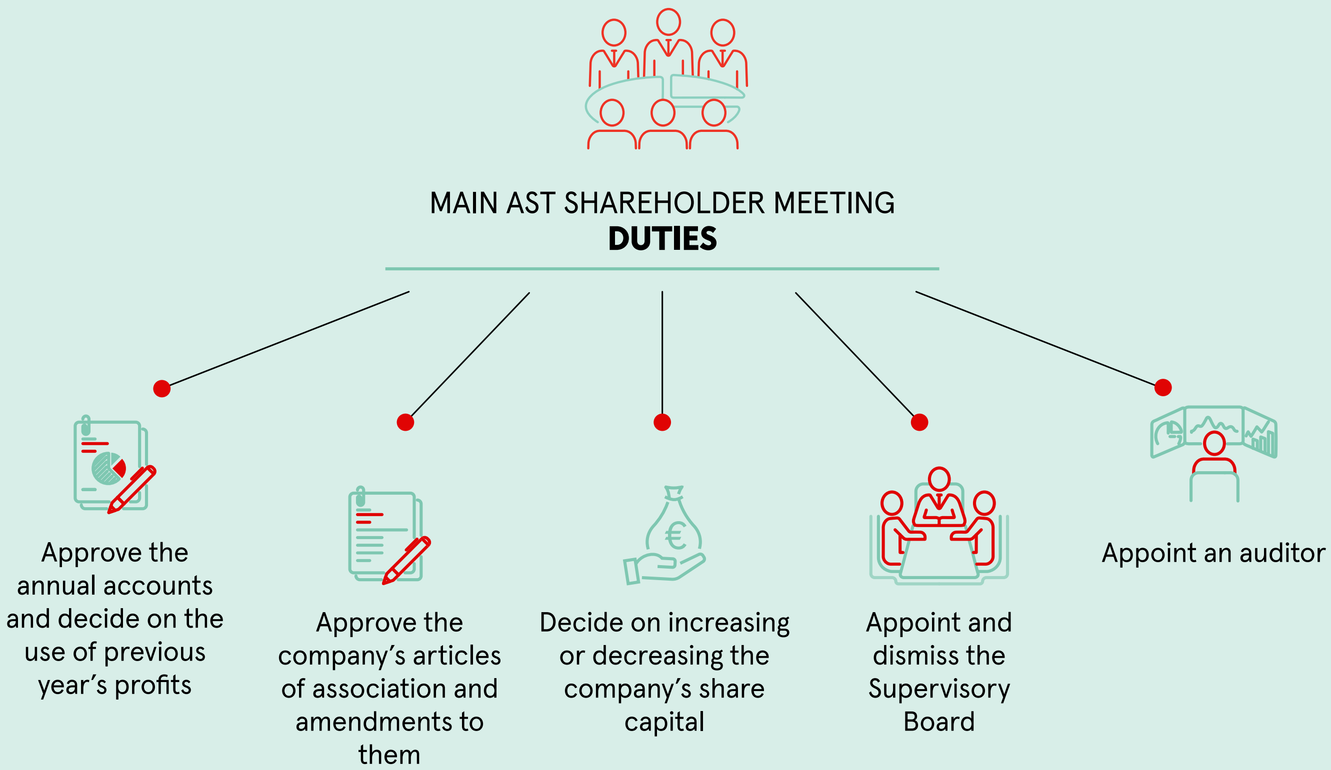
AST creates an appropriate and transparent organisational structure for the indicators that characterise AST’s size, strategic development and effective management of operational risks.

GRI 2-9

SHAREHOLDER AND SHAREHOLDERS' MEETING

100% of the capital shares of AST are owned by the State, and until 14 February 2023, the shareholder was the Ministry of Finance of the Republic of Latvia, and thereafter the Ministry of Climate and Energy. The transfer of the duties of the holder of the State's capital shares to the newly created sector ministry did not have a significant impact on the management of AST, as the competence of the AST shareholder is exercised by the CABINET OF MINISTERS. The shareholder carries out the management of AST together with the Shareholders' meeting, the Management Board and the Supervisory Board within the framework of the competence defined by the Law on the Governance of Capital Shares of a Public Entity and Management of Capital Companies. Decisions falling within the remit of the AST Shareholders' Meeting are made by the representative of the holder of the state capital shares.

Three shareholder meetings were held in 2023 (in 2022: four), at which a number of important decisions were made in connection with the election of the members of the AST Audit Committee, the approval of the 2022 consolidated and AST annual report of the Augstsprieguma tīkls Group, the appropriation of the 2022 profit, the fulfilment of the 2022 AST work plan and targets, the appointment of an auditor to audit the 2023 AST annual report, the consolidated report and the sustainability report, as well as the increase in AST share capital and the related amendments to the Articles of Association.



GRI 2-9, 2-10, 2-11, 2-12, 2-13, 2-14, 2-16, 2-17

SUPERVISORY BOARD

The AST Supervisory Board represents the Shareholder's interests between shareholders' meetings and oversees the activities of the AST Management Board, is involved in the strategic development of AST, as well as in monitoring the financial and risk management system. The principles of the AST Supervisory Board's operation, as well as the main duties, are determined by the statutes and the regulations of the supervisory board. The tasks and responsibilities of the AST Supervisory Board are regulated by laws and regulations.

The main duties of the AST Supervisory Board are as follows:

- electing and recalling the Management Board;
- approving the Medium-Term Operational Strategy, monitor its implementation;
- determining the Company's strategic direction, goals and policies;
- reviewing the annual report and submit it to the Shareholders' Meeting for approval;
- monitoring the effectiveness of the internal control and risk management system.

In accordance with the laws and regulations, the AST Supervisiory board consists of five members and their term of office is five years from the time of their election. Since Supervisory Board member Madara Melne left her position as a Supervisory Board Member on 26 January 2022, the Supervisory Board continues to work with a membership of four until a new Supervisory Board member is elected.

The AST Supervisory Board performs its official duties in good faith and is objective in making decisions, complies with laws and regulations, and its actions and behaviour meet high standards of professional behaviour and ethics.

The AST Supervisory Board approves the Group's Strategy and monitors its implementation. The AST Supervisory Board was actively involved in developing the Group's Middle-Term Operational Strategy for Group in 2021-2025, defining digital and green transformation as cornerstones of the Group's development, putting forward the priority and sustainable development goals of the United Nations Organization (hereinafter "UN") corresponding to the Group's principal business.

During the reporting period, the Supervisory Board has actively monitored the implementation of the goals set for the year under the Group's Medium-Term Operational Strategy 2021-2025.

To ensure the successful accomplishment of the objectives set out in the Strategy, each year a work plan and objectives for the following year are approved by the Supervisory Board and whose achievement is the responsibility of the AST Management Board. The fulfilment of the work plan and objectives is assessed once a year concurrent to the approval of the annual report. Together with the AST 2022 Annual Report, the AST Supervisory Board reviewed and assessed the AST 2022 Sustainability Report. To ensure the monitoring of AST's activities, a quarterly report on the results of financial activities and progress towards the fulfilment of targets is submitted to the Supervisory Board in accordance with the AST Supervisory Board's regulations. Once a month, the AST Management Board informs the Supervisory Board about the most important events, including sustainability aspects.

The members of the AST Supervisory Board continued their work during the reporting period: Kaspars Āboliņš, Chairman of the Supervisory Board, Olga Bogdanova, Deputy Chairwoman of the Supervisory Board, and Armands Eberhards and Aigars Ģērmanis, the Supervisory Board members. The term of office of the Supervisory Board members ends on 30 December 2024.

KASPARS ĀBOLIŅŠ
Chairman of the Supervisory Board

Term of office:
30.12.2024

EDUCATION

1996 –1999	University of Latvia, Faculty of Economics and Management, Master's degree in Social Sciences in Public Management
1992 –1996	University of Latvia, Faculty of Management and Economic Informatics, Bachelor's degree in Business Administration
1981 –1992	Riga 58th Secondary School, secondary education

WORK EXPERIENCE

2019 – present	AS "Augstsprieguma tīkls", Chairman of the Supervisory Board
2018 – 2020	AS "Conexus Baltic Grid", Chairman of the Supervisory Board
2016 – 2018	"Ziemeļu Investīciju banka", Chairman of the Board of Directors (by rotation)
2015 – 2023	AS "Air Baltic Corporation", Supervisory Board Member
2014	AS "Attīstības finanšu institūcija", Head of Restructuring
2013 – 2015	AS "Reverta", Supervisory Board Member
2012	VAS "Valsts nekustamie īpašumi", the Chairman of the Management Board
2011 – 2019	"Ziemeļu Investīciju banka", Management Board Member
2008 – 2010	AS "Parex banka", Supervisory Board Member
2008 – 2011	"Ziemeļu Investīciju banka", Deputy Member of the Management Board
2006 – present	State Treasury, Governor
2003 – 2010	SIA BO "Ziemeļvidzemes atkritumu apsaimniekošanas organizācija", Supervisory Board Member
2001 – 2006	Ministry of Finance of the Republic of Latvia, in charge for the financial stabilization process of Ugāle Parish
2000 – 2002	Ministry of Finance of the Republic of Latvia, Chairman of the Municipal Borrowings and Guarantees Control and Supervision Supervisory Board
1997 – 2000	Ministry of Finance of the Republic of Latvia, a member of the Municipal Borrowings and Guarantees Control and Supervision Supervisory Board
1999 – 2001	Ministry of Finance of the Republic of Latvia, Head of the Coordination and Monitoring Supervisory Board of Municipal Financial Stabilization Projects
1997 – 2006	State Treasury, Director of the Financial Risk Management Department
1996 – 1997	Ministry of Finance of the Republic of Latvia, Head of the Debt Forecasting and Analysis Department of the External Debt Management Department
1994 – 1996	Ministry of Finance of the Republic of Latvia, Senior Expert of the Borrowing Forecasting and Analysis Department of the External Debt Management Department

DR. OEC. OLGA BOGDANOVA
Deputy Chairwoman of the Supervisory Board

Term of office:
30.12.2024.

EDUCATION

2007 – 2012	Riga Technical University, Faculty of Engineering Economics and Management, Institute of International Economic Relations and Customs, PhD in Economics
2003 – 2006	Riga Technical University, Master's degree in Social Sciences in Management, Management of International Economic Relations (diploma with distinction)
2004 – 2005	Pforzheim Fachhochschule, Germany, International Management Programme, Further education diploma
2003 – 2006	Humanities Institute of Riga Technical University, Riga, Pedagogical specialization side studies with specialization in engineering subjects teaching
2000 – 2003	Riga Technical University, Bachelor's degree in Social Sciences in Management, Management of International Economic Relations (degree cum laude)

WORK EXPERIENCE

2023 – now	Ministry of Finance of the Republic of Latvia, deputy State Secretary on tax administration policy and shadow aconomy issues
2019 – now	AS "Augstsprieguma tīkls", Deputy Chairwoman of the Supervisory Board
2016 – 2019	AS "Augstsprieguma tīkls", Supervisory Board Member
2023 – now	Association "World Energy Supervisory Board Latvia", President
2018 – now	Ministry of Finance of the Republic of Latvia, head of the Tax Administration and Public Interest Policy Department
2018 – now	World Energy Supervisory Board, Expert, participant in the Future Energy Leadership Project
2021 – now	Riga Technical University, lecturer at the International Business and Customs Institute of the Faculty of Engineering Economics and Management
2017 – now	Latvian Science Supervisory Board, expert
2021 – now	University of Latvia, Associate Professor, Faculty of Business, Management and Economics
2016 – 2018	Riga Technical University, lecturer at the International Business and Customs Institute of the Faculty of Engineering Economics and Management
2016 – 2022	Riga Technical University, lecturer at the International Business and Customs Institute of the Faculty of Engineering Economics and Management
2016	Ministry of Economy of the Republic of Latvia, Acting Deputy State Secretary for Energy Affairs
2014 – 2016	Ministry of Economy of the Republic of Latvia, Deputy Director of the Energy Market and Infrastructure Department, Head of the Energy Market Department
2013 – 2014	Ministry of Economy of the Republic of Latvia, Head of the Energy Market and Infrastructure Department
2010 – 2013	Ministry of Economy of the Republic of Latvia, Senior Assistant at the EU Commodities and Services Market Department of the Internal Market Department (reorganised position of Deputy Head of the department with the duties of Deputy Head)
2006 – 2010	Ministry of Economy of the Republic of Latvia, Deputy Head of the EU Goods and Services Market Department of the Internal Market Department
2006	Ministry of Economy of the Republic of Latvia, Senior Assistant at the EU Goods and Services Market Division of the Internal Market Department
2005	Ministry of Economy of the Republic of Latvia, Senior Assistant at the Department of International Economic Relations, Department of EU Affairs
2005 – 2014	Riga Technical University, guest lecturer at the International Business and Customs Institute of the Faculty of Engineering Economics and Management

ARMANDS EBERHARDS
Supervisory Board Member

Term of office:
30.12.2024.

EDUCATION	
2005 – 2006	*London School of Economics and Political Science (LSE) (UK), MSc Politics of the World Eco (Merit)*
1998 – 1999	*EHSAL Management School (Belgium), International MBA (cum laude)*
1993 – 1994	University of Latvia, Master's degree in Environmental Science and Management
1990 – 1994	University of Latvia, Bachelor of Environmental Sciences

WORK EXPERIENCE	
2019 – now	AS "Augstsprieguma tīkls", Supervisory Board Member
2019 – now	European Investment Fund (EIB Group) (Luxembourg), Alternate Director, Board of Directors
2011 – now	Ministry of Finance, Deputy State Secretary for ESSFKF matters
2014 – now	European Investment Bank (Luxembourg), Director / Board member
2018	OECD/SIGMA (Montenegro), Consultant
2011 – 2012	AS "Hipotēku und zemes banka", Deputy Chairman of the Supervisory Board
2004 – 2011	Central Finance and Contracts Agency, Director
2010 – 2012	Hulla&Co. Hyman Dynamics TTSIB EuropeAid/ 130480/C/SER/MD; ECO 3, BE SATTO Project, Contract 200-049 (Moldova, Armenia), Consultant
1998 – 2004	Central Finance and Contracts Unit, Director
1995 – 1998	Ministry of Finance, Head of the International Aid Coordination Department
1994 – 1995	Ministry of Finance, Head of International Aid Coordination Department

AIGARS ĢĒRMANIS
Supervisory Board Member

Term of office:
30.12.2024.

EDUCATION	
1998 – 2000	University of Latvia, Master's degree in Management Science
1993 – 1997	University of Latvia, Bachelor's degree in Business Administration

WORK EXPERIENCE	
2019 – now	AS "Augstsprieguma tīkls", Supervisory Board Member
2021 – now	SIA "Rīgas meži", Deputy Chairman of the Supervisory Board
2010 – now	SIA "DPMC Baltic", Chairman of the Management Board
2018 – 2019	IMMER GROUP (Ukraine), Development Director
2014 – 2018	AMBER BEVERAGE GROUP, Management Board Member, Commercial Director
2009 – 2013	SANITEX GROUP (Latvia/Estonia), Chairman of the Management Board
2004 – 2009	PROCTER & GAMBLE Marketing Latvia (responsibility for the Baltic market), Chairman of the Board

In 2023, 23 meetings of the AST Supervisory Board were held, at which 63 AST Supervisory Board decisions were passed. A total of more than 115 agenda items were discussed. The number of Supervisory Board meetings within the reporting period has increased compared to 2022 – 18 meetings were held in 2022, at which 60 decisions were taken and a total of 112 agenda items were discussed.

In addition to fulfilling the Supervisory Board's duties set out in the Law on the Management of Capital Shares of Public Entity and Management of Capital Companies, the AST Supervisory Board also participated in the examination of several other important issues, in which it:

- Evaluated AST's long-term financial management plan and the 2024 procurement plan, work plan and goals, as well as the capital investment plan, approved the 2024 budget;
- Monitored the implementation of AST's Medium-Term Operational Strategy;
- Evaluated the draft electricity transmission system service tariffs prepared by the AST Management Board;
- Monitored the active implementation of the AST capital investment plan for the transmission system, as well as the progress of AST's digital transformation;
- Reviewed the reports prepared by the AST Audit Committee;
- Analysed AST's readiness to handle emergency situations and crises, its internal control system effectiveness, how it manages risks implemented by AST, as well as how it manages fraud, corruption, and conflicts of interest risks, and reviewed Internal Audit reports regarding the implementation of audit recommendations regularly;
- Reviewed several policies essential for the operation of AST (Risk Management Policy, Code of Ethics, Remuneration Policy);
- Set individually achievable work performance indicators for the AST Management Board for 2023, as well as evaluated the fulfilment of the goals for 2022;
- Provided support for making donations for the restoration of the Ukrainian energy system and support for the Ukrainian community;
- Assigned to AST Management Board the responsibility of implementing activities to optimize operating costs of the capital company, improve efficiency, and improve personnel management;
- Passed the decision to start the nomination process for the vacant positions of Management Board member and the Chairman of the AST Management Board, established a nomination commission, decided on the election of the Chairman of the AST Management Board;
- Passed the decision on the results of the selection of the vacant member of AST's Audit Committee and made recommendations to AST's shareholders' meeting for the election of the members of AST's Audit Committee.

https://www.ast.lv/en/content/supervisory-board

AUDIT COMMITTEE

The AST Audit Committee consists of three members, one of whom is a member of the AST Supervisory Board, while the other two are (independent) members elected at the AST shareholders' meeting. The Audit Committee is accountable to the AST Supervisory Board for its activities and task performance.

The main role of the AST Audit Committee is to ensure the protection of the interests of the shareholder and the shareholders' meeting regarding the preparation of the annual report, their audits and the effectiveness of the internal control, risk management and internal audit system, as far as it concerns ensuring the reliability and objectivity of the annual report.

Three meetings of the Audit Committee took place in 2023 (in 2022: six), where seven decisions were passed (in 2022: nine). Outside the meetings of the Audit Committee, individual meetings were held with the Heads of the AST Finance and Accounting Department, the Quality System Department and the Internal Audit Department, as well as with the auditors of the AST Group's consolidated and AST's 2023 annual report.

The objectives and tasks of the AST Audit Committee, operating principles, rights and responsibilities are defined in the AST Audit Committee Regulations, approved by the decision of the AST shareholders' meeting.

In light of the fact that the Chairman of the AST Audit Committee Andris Puriņš resigned from the AST Audit Committee on 31 December 2022 (the last day of authorization), in accordance with the Financial Instruments Market Law, the AST shareholders' meeting was convened within a certain period to decide on the election of a new member of the Audit Committee and re-election of the Audit Committee.

Under the decision of AST's extraordinary shareholders' meeting convened on 8 March 2023, it was decided to elect Roberts Ikaunieks and Ivars Blumbergs as two independent members of the Audit Committee of AST, as well as to re-elect the member of the AST Supervisory Board, Aigars Ģērmanis, as a member of the Audit Committee. The term of office of the members of the new composition of the Audit Committee is set from 8 March 2023 to 7 March, 2026 (inclusive).

Under Section 55.8 of the Financial Instruments Market Law, the work of the Audit Committee is led by its Chairman, who is elected by the members of the Audit Committee from among the members of the Audit Committee. Considering that the AST Audit Committee was re-elected in a new composition by the decision of the AST extraordinary shareholders' meeting, the new composition of the AST Audit Committee elected Roberts Ikaunieks as its Chairman from among themselves by the decision of 15 March 2023.

Information about the experience of Audit Committee members is available on the parent company's website: https://www.ast.lv/en/content/audit-committee

GRI 2-9, 2-10, 2-11, 2-12, 2-13

MANAGEMENT BOARD

The governance of AST's capital shares in day-to-day operations, managing and representing AST jointly, is ensured by its executive body – the Management Board.

MAIN AST BOARD
DUTIES

- Manage and represent the company
- Take charge of the operation of the company, as well as of the compliance of accounting with applicable legislation
- Manage company property
- Pursue the company's strategic field of activities, its goals and policies

The AST Management Board's tasks and responsibilities are governed by laws. Bylaws and the Articles of Association define the principles and duties of the Management Board. All members of the Management Board are independent in their activities, and none of the members of the Management Board has investments in the capital of counterparties or related companies of the Audit Committee of AST.

The AST Management Board consists of five members, who are elected by the AST Supervisory Board for a five-year term of office, following an assessment of their competences, experience, and planned area of responsibilities.

The AST Management Board organizes its work according to the functional principle: each member of the Management Board is responsible for a specific area of activity in accordance with their professional knowledge, experience and skills in the respective area of responsibility: the Chairman of the Management Board (Management), one member of the Management Board (System Management), one member of the Management Board (Development), one member of the Management Board (Support), one member of the Management Board (Operations):

THE CHAIRMAN OF THE MANAGEMENT BOARD
(MANAGEMENT)
is responsible for general management, including strategic management, financial and personnel issues, security, including information security and risk management;

THE MANAGEMENT BOARD MEMBER
(SYSTEM MANAGEMENT)
is responsible for dispatching the electricity trans-mission system, management and development of the system auxiliary services, as well as the development of the electricity market;

THE MANAGEMENT BOARD MEMBER
(DEVELOPMENT)
is responsible for the development of the electricity transmission system, management of investments in the system, as information technology management;

THE MANAGEMENT BOARD MEMBER
(SUPPORT)
is responsible for handling legal security, economic security and transport issues;

THE MANAGEMENT BOARD MEMBER
(OPERATIONS)
is responsible for the management of electricity transmission assets, work safety issues, technical laboratory.

The organizational structure of AST is based on the divisions of competence among the members of the Management Board. Each structural unit has its own regulations, which are approved by the corresponding member of the Management Board. Generally, the by-laws of structural units outline the subordination of the structural unit, the purpose of the structural unit, the structure, the work organization, and the tasks, rights, responsibilities and duties of the structural unit's Head.

Each month, the Management Board receives a report on the financial performance and progress of capital investment implementation, as well as a report on indicators that characterize the quality and performance of the electricity transmission service. This report includes various indicators such as safety factors – accidents at work, safety aspects of the working environment, etc. Every quarter, the Management Board reviews AST's material risk management report as well as its financial performance report.

AST manages sustainability aspects through a number of structural units based on their respective competences. At the beginning of 2023, the AST Management Board established a Sustainability Committee which is chaired by the Chairman of the AST Management Board (see "Commitments Embedded in the Policies" for details). AST participates in Swedbank's Sustainability Supervisory Board, where it is represented by Chairman of the AST Management Board.

During the reporting period, there were changes in the composition of the AST Management Board. On 14 April 2023, the decision of Gunta Jēkabsone, Chairwoman of the Management Board of AST, to leave her position as of 1 August 2023 was made public. Whereas, the Management Board Member (Development) Arnis Daugulis, the Management Board Member (System Management) Gatis Junghāns and the Management Board Member (Operations) Imants Zviedris continued to serve on the Management Board. In addition, a competition was announced to fill the vacant positions on the AST Management Board, and Rolands Irklis was elected to serve as the Chairman of the AST Management Board beginning 7 December 2023. On 1 February 2024, Ilze Znotiņa assumed the position of a Management Board member in charge of the Legal Support and Compliance Department. There will be no impact on the operation of the company from the changes in the composition of the Management Board of the Parent Company, and under the leadership of an experienced team, AST will continue to provide safe and stable power transmission.

In 2023, 65 AST Management Board meetings were held (in 2022: 80), where 382 agenda issues relevant to the principal activities of AST were considered (in 2022: 379), including 244 decisions that were passed (in 2022: 264): https://www.ast.lv/en/content/board

ROLANDS IRKLIS
Chairman of the Management Board

Term of office:
06.12.2028.

EDUCATION	
2017 – 2020	Riga Business School (RTU), EMBA programme
1999 – 2005	University of Latvia, Lawyer's qualification (5-year programme, equivalent to a Master's degree)

WORK EXPERIENCE	
2023 – now	AS "Augstsprieguma tīkls", Chairman of the Management Board
2022 – now	Organization for Economic Cooperation and Development (OECD), Member of the Audit Committee (expert)
2021 – 2023	State Audit Office, State Auditor
2018 – 2022	Energy Regulators Regional Association (ERRA), Course Instructor
2019 – 2021	Supervisory Board of European Energy Regulators (CEER), Vice President
2019 – 2021	Agency for the Cooperation of European Energy Regulators (ACER), Vice-President
2011 – 2021	Public Utilities Commission, Chairman (2016–2021), Member of the Council (2011–2016)
2015 – 2016	Secretariat of the Energy Community (Energy Community), Consultant
2010 – 2011	Attorney at law
2007 – 2010	Bank of Latvia, Legal Advisor
2003 – 2007	Ecovis Convents Law Office, Lawyer

ARNIS DAUGULIS
Management Board Member

Term of office:
14.07.2026.

EDUCATION

1995 – 1998	Stockholm Royal Technical University (Kungl Tekniska Hogskolan, KTH), Sweden, Licentiate of Engineering
1990 – 1995	Riga Technical University, Master's degree in Electrical Sciences

WORK EXPERIENCE

2021 – now	AS "Augstsprieguma tīkls", Management Board Member
2016 – 2021	AS "Augstsprieguma tīkls", Head of Information Technology Department
2015 – 2016	State Chancellery, Consultant in the State Administration Policy Department
2012 – 2015	Ministry of Environmental Protection and Regional Development, Deputy State Secretary for Information and Communication Technologies
2011 – 2011	AS "Latvenergo", Management Board Consultant
2006 – 2011	AS "Latvenergo", Management Board Member (Information Technologies and Telecommunications)
2000 – 2006	AS "Latvenergo", Head of the Information Technology Department

GATIS JUNGHĀNS
Management Board Member

Term of office:
24.04.2026.

EDUCATION	
2012 – 2018	Riga Business School, Master's degree in Business Management
2008 – 2010	Riga University of Economics, Master's degree in Business Management
2003 – 2008	Riga Technical University, Faculty of Energy, PhD in Engineering
2001 – 2003	Riga Technical University, Faculty of Energy, Master of Engineering
1997 – 2001	Riga Technical University, Faculty of Energy, Bachelor of Engineering

WORK EXPERIENCE	
2016 – now	AS "Augstsprieguma tīkls", Management Board Member
2022 – now	"Baltic RCC" OÜ, Chairman of the Supervisory Board
2024 – now	Riga Technical University, Professor
2017 – 2023	Riga Technical University, Associate Professor
2015 – 2016	"Elektrum Lietuva" UAB (Lithuania), Supervisory Board Member
2008 – 2015	"Elektrum Lietuva" UAB (Lithuania), Chairman of the Management Board and CEO, Management Board Member
2015. – 2016.	"Elektrum Eesti" OÜ (Estonia), Supervisory Board Member
2007 – 2015	"Elektrum Eesti" OÜ (Estonia), Management Board Member
2006 – 2014	AS "Nordic Energy Link" (Estonia), Supervisory Board Member
2007 – 2016	AS "Latvenergo", Head of the Sales Department
2005 – 2007	AS "Latvenergo", Project Manager
2003 – 2005	AS "Augstsprieguma tīkls", Electrical Engineer
2000 – 2003	AS "Latvenergo" structural unit "Rīgas Elektrotīkls", Electrical Engineer

IMANTS ZVIEDRIS
Management Board Member

Term of office:
17.12.2024.

EDUCATION	
1993 – 1996	Riga Technical University, Electrical Supply, Engineer – Electrician
1986 – 1990	Riga Industrial Polytechnic, ESM (electric computing machine) equipment and devices, Technician – Electrician

WORK EXPERIENCE	
2015 – now	AS “Augstsprieguma tīkls”, Management Board Member
2017 – 2018	AS “Conexus Baltic Grid”, Supervisory Board Member
2014 – 2015	AS “Latvijas elektriskie tīkli”, Technical Director
2011 – 2015	AS “Latvijas elektriskie tīkli”, Management Board Member
2011 – 2011	AS “Latvijas elektriskie tīkli”, Chairman of the Management Board
2005 – 2011	AS “Augstsprieguma tīkls”, Chairman of the Management Board
2000 – 2005	AS “Latvenergo” branch “Augstsprieguma tīkls”, Technical Director
1998 – 2000	PVAS “Latvenergo” branch “Augstsprieguma tīkls”, Head of the Operation and Safety Equipment Monitoring Service
1996 – 1998	VAS “Latvenergo” branch “Augstsprieguma tīkls”, Dispatcher Service, Power Network Dispatcher
1995 – 1996	VAS “Latvenergo” branch “Augstsprieguma tīkls”, Dispatch Service Technician

ILZE ZNOTIŅA
Management Board Member

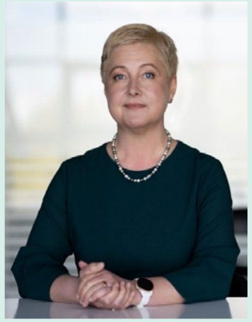
Term of office:
31.01.2029.

EDUCATION

2004 – 2010	University of Latvia, doctoral studies
2000 – 2001	Riga Graduate School of Law, Master's degree in law
1995 – 2000	University of Latvia, Bachelor's degree in law

WORK EXPERIENCE

2024 – now	AS "Augstsprieguma tīkls", Management Board Member
2024 – now	Internal Security Academy, Master's study programme "Management of Law Enforcement, Criminal Punishment and Rescue Services", implemented by the Faculty of Business, Management and Economics, University of Latvia, Lecturer
2023 – 2024	International Monetary Fund, Expert
2023 – 2024	SOFRECO, Expert
2023 – 2024	European Commission, Expert
2023 – 2024	Attorney at law
2018 – 2022	Financial Intelligence Unit, Director
2018 – 2022	Moneyval, Head of the Latvian Delegation
2010 – 2017	Deloitte Legal, Partner
2010 – 2017	Deloitte Latvia, Head of the Legal and Fraud Prevention Department
2008 – 2010	Law office "Znotina&Rubene", Partner
2005 – 2008	Law office "Sorainen", Lawyer
2001 – 2007	Riga Stradins University, Lecturer
2002 – 2004	Law office "Broks and partners", Lawyer / Lawyer's Assistant
1997 – 2003	Law office M. Šadurs, Lawyer
1996 – 1997	Riga 2nd Secondary School, Teacher



GUNTA JĒKABSONE
Chairman of the Management Board (until 1 August 2023)

Term of office:
GUNTA JĒKABSONE DECIDED TO RESIGN FROM HER POSITION EFFECTIVE FROM 1 AUGUST 2023

EDUCATION	
2001 – 2003	RISEBA, Master's degree in Business
1995 – 2001	University of Latvia, Bachelor's degree in Law

WORK EXPERIENCE	
2021 – 01.08.2023	AS "Augstsprieguma tīkls", Chairwoman of the Management Board
2017 – 2021	FICIL – Supervisory Board of Foreign Investors in Latvia, Management Board Member and Chairwoman of the Management Board
2015 – 2021	SIA "Circle K Latvia", executive director
2008 – 2015	SIA "Latvija Statoil", Finance and Control Department, Director
2002 – 2008	SIA "Latvija Statoil", Internal Auditor

INTERNAL AUDIT

AST's Internal audit evaluates and helps to improve the effectiveness of risk management, internal control and governance processes, contributing to the achievement of AST's goals and increasing value. The internal audit activity is functionally supervised by the AST Supervisory Board and the Audit Committee, but administratively it is subordinated to the Chairman of the AST Management Board.

Based on the performed risk assessment, the internal audit strategic and annual plan is prepared, which is reviewed by the AST Management Board and the Audit Committee but approved by the AST Supervisory Board. Reports prepared by the internal audit department are submitted to the Management Board and Supervisory Board of AST. The Internal audit complies with the International Standards of Professional Practice of Internal Auditing and the Code of Ethics.

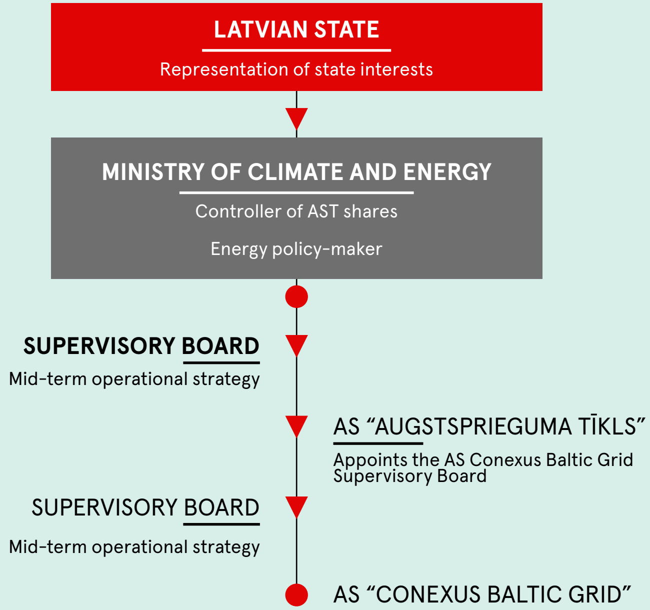
The Audit Committee, Management Board, and Supervisory Board received a summary of the results of planned audits conducted during the year, along with recommendations for improving internal control and risk management.

The general opinion is that the internal controls implemented by AST are effective enough to ensure the achievement of the AST's strategy and goals and to manage significant risks. Management Board members were also presented with proposals for improving internal control and risk management as part of the general opinion.

The Internal audit, based on the self-assessment prepared for the year 2023, has also confirmed its independence and objectivity in its report.

SUBSIDIARY GOVERNANCE

The Parent Company's investments in other capital companies are governed by its Corporate Governance Policy, in accordance with good corporate governance practices. Conexus's management is carried out by the Parent Company by implementing the set of rights and obligations of the shareholder set out in the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies and the Commercial Law, including appointing members of the Supervisory Board, who in turn represent the interests of shareholders between shareholders' meetings and oversee the operation of the Management Board. The goals to be achieved by Conexus derive from both the Group's general strategic goal and energy policy planning documents, as well as the Group's Medium-Term Operational Strategy for 2021-2025.



GRI 2-10

NOMINATION AND SELECTION OF MEMBERS OF THE EXECUTIVE GOVERNANCE BODY

Nomination and appointment procedures for members of AST's Management Board and Supervisory Board, as well as requirements for candidates, are governed by the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies, as well as the Cabinet regulations, and the Guidelines of the Coordination Centre.

The AST's Supervisory Board and Management Board are elected as a result of a competition, ensuring the attraction of highly qualified specialists. All candidates for AST Supervisory Board and Management Board members are given equal opportunities; gender, age, religious belief, or any other characteristic should not be taken into consideration during the nomination process.

Before the establishment of the nomination commission for members of the AST Supervisory Board, the holder of state capital shares sends the coordinating body the requirements for candidates for Supervisory Board members (including information on the necessary competences and professional experience), information on the situation in the capital company, its strategy (summary), goals and challenges, information on personnel selection the scope and tasks of the consultant's involvement), as well as information on the delegated representatives of the holder of state capital shares to work in the nomination commission and the potential composition of the nomination commission. The Nomination Committee evaluates and, if necessary, clarifies the requirements for candidates for Supervisory Board members, coordinating it with the holder of capital shares.

It falls within the competence of the AST Supervisory Board to decide on the need to start the nomination process for members of the AST Management Board, to determine the requirements for candidates for the position of a Management Board member, while considering the regulations, as well as to create a nomination commission.

A nomination commission is established for the selection and evaluation of candidates for AST Management Board and Supervisory Board members. The nomination commission includes representatives nominated by the Supervisory Board and independent experts, as well as representatives nominated by the coordination body, with voting rights. Including persons who have relevant knowledge and professional experience allows for the formulation of comprehensive criteria pertaining to professionalism and management competences necessary to evaluate candidates in each specific case, as well as their application to the evaluation of candidates' knowledge and management capabilities. Thus, for example, the nomination commission for the vacant positions of Management Board Member and Chairman of the Board created by the AST Supervisory Board in 2023 included AST Chairman of the Supervisory Board Kaspars Āboliņš, AST Management Board Member Aigars Ģērmanis, Head of the Capital Company Governance Department of the coordinating body Dzintra Gasūne, Chairman of the Latvian Trade Union "Enerģija" Aivars Āboliņš, Management Board Member of the Association "Institute of Corporate Sustainability and Responsibility" Dace Helmane, and the recruitment company SIA "EXECUTIVE SEARCH BALTICS" was engaged.

As part of the nomination process, the compliance of candidates for the position of Supervisory Board and Management Board member with the requirements of laws is also evaluated (for example, compliance with the requirements of Section 31, Paragraph four of the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies (candidates for the Supervisory Board and Management Board members of state capital companies)), and their reputation. Candidates are assessed for the same management competencies using the same methods of assessment.

Upon approval of the regulations and the announcement of the nomination commission, including the criteria for evaluating candidates, the holder of capital shares or the Supervisory Board announces a public application procedure for candidates for the vacant management board or Supervisory Board seat.

The procedure for nominating and appointing the members of the AST Audit Committee is determined by the nomination commission established by the AST Management Board and Supervisory Board, in compliance with the statutory requirements for the members of the Audit Committee.

The nomination process of AST Management Board and Supervisory Board members, as well as Audit Committee members, complies with the principles of good corporate governance practices, provides an open, fair, and professional selection of Supervisory Board members, and thereby contributes to the establishment of competent and professional capital company institutions.

The AST's Subsidiary's Supervisory Board members are also nominated, following the principles set out in the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies and the Cabinet Regulation issued on its basis, or in the order of combining positions, delegating AST employees to perform the functions of the Supervisory Board. Throughout the nomination process, AST adheres to the principles of good corporate governance practice.

Through its nominated Supervisory Board members, AST exercises its rights and interests as a shareholder between meetings of shareholders, as well as in matters that fall within its competence. Nominated members of the AST Supervisory Board serve as AST's fiduciaries and assume the duty of loyalty to AST's interests in their actions.

The nomination process of the higher management institutions of the Group ensures that all candidates are treated equally, regardless of their gender, age, religious beliefs, or any other characteristic.

The Chairman of the AST Supervisory Board is elected to the position in accordance with the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies and the Commercial Law, under which the members of the Supervisory Board elect the Chairman of the Supervisory Board and at least one of his deputies from among themselves. The Deputy Chairman of the Supervisory Board performs the duties of the Chairman of the Supervisory Board only if the Chairman of the Supervisory Board is absent or has given such a task.

The Chairman of the AST Management Board is elected by the AST Supervisory Board.

The Law on Financial Instruments Market requires that the work of the AST **Audit Committee** is led by its Chairman, who is elected by the members of the Audit Committee from among the members of the Audit Committee. During his absence, the Chairman of the Audit Committee must be replaced by another member of the Audit Committee upon his written instructions.

The chairpersons of the Management Board and Supervisory Board of the Subsidiary are elected by the decisions of the relevant bodies (Supervisory Board, shareholders' meeting).

The chairpersons of the executive governance bodies ensure the work organization and management of the relevant institutions, management of meetings, and their voice plays a decisive role in decision-making.

GRI 2-15

CONFLICTS OF INTEREST

The members of the Supervisory Board and management boards of public capital companies, as well as the members of audit committees have the status of a public official under the Law On Prevention of Conflict of Interest in the Activities of Public Officials, which limits their activities outside of their official powers in order to prevent personal or financial interest in their activities. The members of the AST Management Board and the Supervisory Board, as well as the members of the Audit Committee, must comply with the general and specific restrictions on the exercise of public office and on the receipt of income, commercial activities, the acceptance of gifts and donations and other restrictions laid down in the aforementioned law.

Supervisory Board Members and Management Board Members, as well as Audit Committee Members, must submit a public official's return every year. Types of conflict of interest and measures to prevent situations of conflict of interest are defined in the Augstsprieguma tīkls Group's Code of Ethics and the Rules for the Management of Risks of Fraud, Corruption and Conflict of Interest.

AST Management Board members require the prior approval of the Management Board to combine positions, whereas Supervisory Board members as well as members of the Audit Committee require the prior approval of the shareholders' meeting.

Members of the Management Board and the Supervisory Board of the Subsidiary, who represent the interests of AST, are public officials within the meaning of the Law On the Prevention of Conflict of Interest in the Activities of Public Officials.

Additional anti-corruption and conflict of interest measures and internal control systems are also defined in the:

- Bylaws of the Supervisory Board, the Management Board and the Audit Committee (the relevant member of the Management Board or Supervisory Board must not participate in the examination of an issue where the interests of their first or second degree relative, adopted child, adoptive parents and persons with whom he shares a farm and the interests of the Parent Company collide);

- In the Corporate governance policy (the general and special restrictions on holding public office, as well as earning income, commercial activities, acceptance of gifts and donations and other restrictions set forth in the Law On the Prevention of Conflict of Interest in the Activities of Public Officials must be observed. In carrying out their activities, the members of the AST Management Board comply with the restrictions set by the Commercial Law on the conclusion of transactions with related parties, as well as the prohibition of competition);
- In the Procurement policy (basic principles of suppliers' ethics are laid down);
- Financial risk management policy.

Members of the AST Management Board and Supervisory Board are personally responsible for promptly reporting any existing or potential conflict of interest in writing to its executive governance body. As for the Audit Committee, once a year, the member of the Audit Committee is required to fill in a declaration of economic interests, in which they indicates all their property interests and obligations, including information on investments made, credit obligations, declarable professional activity and other paid positions or activities. In any case, it is considered that a member of the Audit Committee has a conflict of interest if one of the following criteria is met in relation to a member of the Audit Committee (1. He or she has been involved in the daily decision-making of the management of AST during the last year; 2. He or she has been in direct, significant commercial relations with AST during the last three years; 3. During the last three years, he or she has been the owner or a managing employee of AST related or indirectly related to AST (for example, subsidiaries or associated companies) or another merchant who has had significant economic transactions with AST; 4. He or she has received or is receiving additional remuneration from AST, involved in AST incentive schemes related to receiving remuneration in the form of AST shares or share-related instruments, or is involved in receiving retirement-related benefits in the Company; 5. He has been a member of the AST Supervisory Board for more than nine years since the time of first election; 6. He or she is in close family ties (marriage, consanguinity or brother-in-law, as well as persons sharing a household) with a natural person who is subject to any of the above criteria).

Members of the Audit Committee (including the independent members of the Audit Committee) are obliged to report the existence of an existing or potential conflict of interest in the activities of the member of the Audit Committee. Each member of the Audit Committee is personally responsible for reporting any existing or potential conflict of interest in writing to the Chairman of the Audit Committee in a timely manner. In the event of such a report, the Chairman of the Audit Committee shall decide on the further course of action in relation to the respective member of the Audit Committee, assessing the significance and impact of each individual case. If a potential or existing conflict of interest is identified in relation to the Chairman of the Audit Committee, the Chairman shall immediately inform the AST Supervisory Board in writing, which shall then determine the further procedure for managing the conflict of interest.

Within the reporting period, no existing or potential conflict of interest situations have been identified in the activities of the AST Supervisory Board, Audit Committee and Management Board members.

Concurrently with the decision No. 1/29 of the PUC Supervisory Board of 23 November 2011, the approved Regulation on the Certification of the Electricity Transmission System Operator determines the obligation to certify the transmission system operator and evaluate the independence of the system owner. In order to certify the compliance of the transmission system operator with the requirements laid down in the Electricity Market Law, once a year AST submits the necessary documents and information, including a certificate that the holder of AST's capital shares is not, directly or indirectly, the holder of capital shares of the system owner or the holder of capital shares of merchants that conduct electricity manufacturing, marketing and distribution activities; the confirmation of the holder of capital shares of AST that the person who appoints the members of the board or the board of the transmission system operator cannot directly or indirectly appoint the members of the board or the board of the system owner or the board or board members of a merchant, who performs electricity production, trade and distribution activities; AST's Articles of Association and the employment contracts of the board members or other civil law contracts based on which the Management Board members act in AST and which certify that the same person cannot simultaneously hold the position of a member of the AST Management Board and the position of a Management Board member in a capital company that produces, trades or distributes electricity activities. AST submits documents certifying the fulfilment of this point concerning the members of the Supervisory Board.

In the Parent Company, the risks of fraud, corruption, and conflicts of interest are assessed for all structural units (100%) of the company, for all positions. Risks are grouped by job groups if the potential risks are comparable. In 2023, a total of 46 (+3, compared to 2022) structural units, 178 (+6, compared to 2022) job groups, and 41 unique manifestations of risks were assessed. In 2022, a total of 43 structural units, 172 job groups, and 41 unique manifestations of risks were evaluated. Risks with a critical residual risk value have not been identified.

	2023	2022
The number of assessed structural units	46	43
An increase compared to the previous year	3	
Number of assessed job groups	178	172
An increase compared to the previous year	6	
Number of unique manifestations of risks assessed	41	41

A set of fraud, corruption, and conflict of interest risk monitoring measures, which in 2023, as in previous years, include conflict of interest declarations of AST employees for the corresponding year, monitoring of AST employee data in "Lursoft" database, monitoring of the internal and external environment, indicate that AST employees comply with the requirements set by AST in the realm of fraud, corruption and conflict of interest risk management.

The Parent Company regularly provides training on how to act in conflict of interest situations for persons subject to the obligation to prevent conflict of interest. Training material and a knowledge test are sent electronically once a year, but at least once every three years, training is provided with the involvement of experts from the Corruption Prevention and Combating Bureau (KNAB). The most recent training of this type involving a KNAB specialist was organised on 26 November 2021, while the next training of this type was held on 1 February 2024.

In 2023, in the "Viszinis" internal training system, employee training was implemented with a knowledge test on fraud, corruption, and conflict of interest issues, which were mandatory for all employees who had at least one medium risk. The trainings were implemented using IT solutions, which allowed employees to familiarize themselves with the training materials remotely. Training materials are available to all AST employees.

A Code of Ethics has been developed within the Subsidiary. The purpose of the Code of Ethics is to create a unified set of ethical behaviour standards in the Subsidiary and to strengthen the internal culture, business practices, and reputation of the Subsidiary by defining basic ethical principles and internal organizational measures based on the Subsidiary's core values. The Subsidiary has evaluated the risk of corruption in the context of its entire operation and has not identified any risks with a high value. The Subsidiary has absolute intolerance towards any kind of abusive, incorrect or illegal behaviour of employees and officials for personal gain, and zero tolerance (risk appetite) has been set for the risk of corruption and fraud. In addition to mitigating the risk of corruption, the Code of Ethics requires that the Management Board of the Subsidiary approves the list of positions that must submit a declaration confirming the absence of conflicts of interest, as well as the content of this declaration. The list includes auditors of structural units, leading specialists, procurement specialists, and other employees, who participate in making or preparing decisions that significantly affect the activities of the Subsidiary, or who are constantly provided with restricted access to information or information containing commercial secrets for the performance of their work duties. Declarations must be submitted to specific employees every year and, if necessary, after evaluating the relevant declaration, measures can be taken to prevent a possible or real conflict of interest. Detailed information is provided in the Subsidiary's separate sustainability report in the section "Responsible management", subsection "Ethics and prevention of corruption".

GRI 2-16

COMMUNICATION OF CRITICAL CONCERNS

Openness and accurate information are the critical principles in the Group's communication. The Group companies publish information about the significant events and activities on the Nasdaq Riga stock exchange, on the companies' websites and on social networks, as well as inform the media by distributing press releases, with the members of the Management Board give comments and interviews.

The Supervisory Board of the Subsidiary carries out its activities independently, however, the nominated members of the Supervisory Board or, respectively, the Management Board reports to the AST Management Board and, in particularly important cases, also to the AST Supervisory Board on all particularly important issues on the agenda of the Supervisory Board and the Management Board of the Subsidiary, providing their assessment of the compliance of possible decisions with the interests of AST. Matters that are considered particularly important are such that:

- must be considered at the shareholders' meeting of the Subsidiary;
- affects the Medium-Term Operational Strategy of the Subsidiary;
- changes the composition of the Management Board of the Subsidiary;
- affects the tariffs of publicly regulated services;
- approves the interim quarterly reports of the Subsidiary;
- and other issues that AST has determined to be particularly important, including, but not limited to, giving consent to the issues aforementioned in the Subsidiary's Articles of Association.

During the reporting period, the AST Management Board, as part of the AST Supervisory Board meetings, provided the Supervisory Board members with information on a number of issues essential to the continuity of AST operations, such as AST's preparedness for managing emergency and crisis situations, the development and approval of the transmission tariff, as necessary, regularly, but not less than once a month, the decision to stop accepting new applications for connecting power plants to the transmission network until new regulation is developed, etc. In addition, information was provided to the Supervisory Board outside the Supervisory Board meetings, with the total number of reporting and significant issues reaching 25 items. If needs be, active communication and cooperation on the part of the AST Supervisory Board with the holder of capital shares – the energy policy maker encouraged by the AST Management Board to achieve the best possible solutions.

GRI 2-18

EVALUATION OF THE PERFORMANCE OF THE HIGHEST GOVERNANCE BODY

The performance of the AST Management Board and Supervisory Board is evaluated in accordance with the general principles defined in the binding statutory documents – the Cabinet Regulation "Procedure in which the performance and financial indicators of a capital company in which the state has a decisive influence are evaluated", the guidelines of the Interdepartmental Coordination Centre "Guidelines for carrying out the annual self-assessment of the performance of the work of Supervisory Board":

- The assessment of the performance of the management board member consists of the assessment of the achievement of the goals set for each management board member, in conjunction with the assessment of the company's performance;
- The assessment of the performance of the Supervisory Board member is basically based on the self-assessment performed by the Supervisory Board.

Based on the Strategy, the sustainable development goals included therein, every year, concurrently with the next year's budget, the Supervisory Board approves the financial and non-financial goals of the company for the next year, and the performance indicators to be achieved. In addition, the Supervisory Board approves individually achievable target indicators for each member of the Management Board, their impact on the variable part of the remuneration. The Parent Company's financial and non-financial goals for 2023 were approved at the Supervisory Board meeting on 20 December 2022. In 2023, the Parent Company's main goal is to continue activities related to synchronization with continental Europe in 2055, and work on efficiency improvement, digital and green transformation continues unremittingly. On the other hand, with the decision of the AST Supervisory Board of 3 February 2023, the individual achievable work performance indicators for 2023 were approved for the members of the Management Board of AS "Augstsprieguma tīkls". Once a quarter, the Management Board of the Company reports to the Supervisory Board on the progress of meeting the goals.

The evaluation of the performance of a member of the AST Supervisory Board is generally based on the self-assessment performed by the Supervisory Board, the results of which are reflected in the annual report of the AST Supervisory Board to the shareholders' meeting. The conditions for conducting the self-assessment of the Supervisory Board include the "Guidelines for the annual self-assessment of the work of the Supervisory Board" of the Interdepartmental Coordination Centre.

Once a year, the AST Supervisory Board evaluates the performance of the Management Board, evaluating the indicators of the goals (criteria, KPI – key performance indicators) set for each member of the Management Board. In addition, each Management Board member performs self-assessments once a year in accordance with the operational goals set for him, which are submitted to the Supervisory Board.

The AST Audit Committee annually provides the AST Supervisory Board with a written report on its activities and the performance of the tasks assigned to the Audit Committee, as well as reports to the AST Supervisory Board on the identified deficiencies and violations (if any) in the process of preparing and auditing the AST Group's consolidated and AST annual financial statements, as well as internally in the effectiveness of control, risk management and AST's Internal Audit part concerning the quality assurance of these reports. The work performance of the AST Audit Committee for the reporting year is examined as part of the AST Supervisory Board meeting.

In the AST Subsidiary, the nominated Supervisory Board members perform a self-assessment of their activities once a year and provide an assessment of its activity as a collegial body, including it in the Supervisory Board's report to the shareholders' meeting.

In the AST Subsidiary, the performance of the Management Board members is assessed (Supervisory Board's decision) based on the results of the audited annual report of the previous financial year and the fulfilment of the performance indicators set for the capital company and the members of its Management Board.

Based on the results of the evaluation of the performance of the relevant management institutions, decisions may be made on the payment of the variable part (bonus) (bonuses are not paid to the members of the Supervisory Board and the Audit Committee) for positive work performance, or decisions may be made on the dismissal of a specific member/s in the event that work performance is deemed to be unsatisfactory and inconsistent with the goals set by the respective capital company. Information on the remuneration of the Subsidiary's managment board and Supervisory Board is published in the relevant annual report of the Subsidiary.

Thus, for example, on 5 April 2023, the nominated members of the Subsidiary's Supervisory Board submitted a self-assessment on the Supervisory Board members' performance in the period from 1 April 2022 to 23 March 2023, which was developed in accordance with the Parent Company's Corporate Governance Policy, and in which the most important decisions were reflected: approval of the subsidiary's strategy for 2023-2027, approval of the medium-term business plan, approval of the internal audit strategy, obtaining the necessary long-term and short-term financing for the Subsidiary, approval of the most important investment projects, approval of the budget for 2023 and approval of the KPIs of the members of the management board, as well as approval of the annual report. When assessing the contribution of each nominated Board member, it was concluded that all nominated board members made an equal contribution to achieving results in accordance with their experience and most developed competences, fulfilled their duties in accordance with legal requirements, constantly monitored the activities of the subsidiary's management board, risk management, ensured the improvement of the subsidiary's corporate governance processes and can also be nominated for positions as Supervisory Board members for the next term of office of the Supervisory Board.

GRI 2-19, 2-20, 2-21

REMUNERATION POLICIES AND PRINCIPLES FOR ITS DETERMINATION

The remuneration policy of the Supervisory Board and the Management Board of the Group is determined in accordance with the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies and the Cabinet Regulation issued on its basis, as well as the guidelines of the Interdepartmental Coordination Centre. The laws provide a uniform regulation for the remuneration of members of the Supervisory Board and management board of capital companies of a public entity. The amount of compensation is determined by evaluating the criteria characterising the size of the capital company, the performance of the capital company's operation.

The amount of the monthly remuneration of the Chairman of the Supervisory Board and the Management Board is linked to the amount of the average monthly salary of the employees of the previous year published in the official statistical announcement of the Central Statistics Bureau of the Republic of Latvia, to which a coefficient determined according to the criteria characterizing the capital company (turnover, assets, number of employees) is applied. The monthly remuneration of members of the Supervisory Board and Management Board may not exceed 90% of the monthly remuneration of the Chairman of the Supervisory Board or Management Board.

A Supervisory Board Member who is also a member of a committee (Audit Committee) will not receive any remuneration for his work on the committee in question. Once a year, following the approval of the annual report, the Supervisory Board may decide on the payment of the bonus to the members of the management board. When determining the bonus, the performance of the capital company, the implementation of the strategy and the achievement of the targets set are considered. The amount of the bonus may not exceed two months' salary of a member of the management board.

Information on the connection of remuneration of the Group's council and management board with aspects of sustainability, and the achieved performance is provided in the chapter "Evaluation of the performance of the highest governance body" of this report.

The collective bargaining agreement does not apply to the members of the AST Supervisory Board and Management Board. The proxy agreements concluded with the members of the Supervisory Board and Management Board, provide, among other things, that in the event of the dismissal of a Supervisory Board Member, the authorised representative shall not receive a dismissal indemnity or any other form of compensation, while the management board member shall receive a dismissal indemnity in the amount of three fixed monthly remunerations, if the authorised representative is dismissed before the end of the term of office, including in the event of reorganisation or liquidation, and the reason for the dismissal is not a breach of powers, non-performance or improper performance of duties, inability to manage the capital company, damage to the public interest or lack of trust on the part of the board. If, after a comprehensive investigation, the law enforcement authorities of the Republic of Latvia conclude that the management board member does not fulfil the requirements of Section 9 of the Law on State Secrets, i.e. that the authorised representative is denied access to confidential, secret or top-secret state secrets, the authorised representative shall be dismissed from his position as a board member and no dismissal indemnity shall be paid in this case.

In 2023, the salary paid to the Chairman of the AST Supervisory Board Kaspars Āboliņš was EUR 40,140, the salary paid to Deputy Chairwoman of the Supervisory Board Olga Bogdanova was EUR 36,120, and the same amount was paid to Supervisory Board Members Armands Eberhards and Aigars Ģērmanis.

Remuneration for the year 2023 paid to the Chairwoman of the AST Management Board Gunta Jēkabsone, until 31 July 2023, was EUR 98,120, the amount of salary paid to the Chairman of the Management Board Rolands Irklis, from 7 December 2023 until 31 December 2023, was EUR 8,803, the salary paid to each of the Management Board members Arnis Daugulis (Development), Imants Zviedris (Operations) and Gatis Junghāns (System Management) was EUR 138,000.

STRATEGY, POLICIES AND PRACTICES

GRI 2-23

POLICY COMMITMENTS

In its activities, the Group is guided by internationally accepted standards of ethics, tolerance, respect for human rights, and other generally accepted standards of good governance. Governance is based on sustainable development, openness and transparency, compliance, performance, horizontal cooperation, professionalism, initiative, growth, the "four eyes" principle, equal opportunities, communication with interested parties, high-quality internal communication and reliable external communication.

At AS "Augstsprieguma tīkls", corporate governance is implemented respecting the laws and regulations of the Republic of Latvia, the recommendations of the European Union and the Economic Cooperation and Development Organization for the corporate governance of capital companies, the "Corporate Governance Code" developed by the Consultative Supervisory Board of the Ministry of Justice. The corporate governance report is available publicly on the AST website: https://www.ast.lv/en/content/model-corporate-governance

The basis for holding shares in AST by the State is determined by order of the Cabinet, approving the general strategic goal of AST. Whereas, in order to ensure the principal activity of AST, the development of strategic, tactical and operational plans of the transmission network, the development of a ten-year plan for the development of the transmission system is carried out.

The strategic development of the activities of AST, its subsidiary and dependent companies for a period of at least three years is set out in the Medium-Term Operational Strategy, as well as the process of evaluating its implementation and the fulfilment of the set goals is ensured.

AST's operational implementation policies set out the principles according to which the decisions necessary for commercial activity are based, in order to ensure and promote the efficient and effective use of resources and to limit the risks specific to the relevant field, moreover, they are also implemented in the AST Subsidiary, thus promoting the implementation of AST's essential management principles therein. Continuing the work started in 2022, in 2023 the Code of Ethics was actively refined, parallel to the improvement of the Remuneration Policy, the Risk Management Policy was revised and approved in a new version.

Currently, AST has developed the following policies:

- **Corporate governance policy**, which aims to establish common principles according to which AST implements corporate governance, promoting ethical, responsible and transparent corporate governance practices;
- **Code of Ethics** to promote the development of corporate culture, promote more successful fulfilment of AS goals and tasks, and strengthen the reputation of the AST Group's brand and services;
- The purpose of the **Remuneration policy** is to maintain a competitive and motivating remuneration system, with the rational use of financial resources. To ensure the competences necessary to achieve business goals, by attracting employees with appropriate qualifications in the long run, motivating employees to perform high-quality work, improving productivity and achieving goals, increasing employee responsibility and initiative, and efficiently and rationally using financial resources;
- **Environmental and energy management policy**, which aims to continuously improve AST's environmental and energy performance by introducing the most optimal technical techniques and technologies, reducing resource losses and the amount of generated waste, emissions of polluting substances into the environment, and impact in relation to climate change and biological diversity;
- **Corporate social responsibility policy (CSR)**, the purpose of which is to define the most appropriate activities and basic principles of AST in the field of CSR in order to promote the implementation of the Group's strategy and sustainable development;
- **The Security policy of information technology systems** determines uniform principles of information technology security and management of information systems, ensuring their confidentiality, integrity and availability;
- The purpose of **the Internal audit policy** is to establish uniform basic principles of operation to ensure compliance with the requirements of high-quality operations, independence and objectivity of the internal audit;
- The purpose of **the Risk management policy** is to provide uniform risk management principles in order to identify and effectively manage the most important factors that negatively impact operations, ensuring the

achievement of strategic objectives, successful development, and preventing potential losses and/or reputational damage;

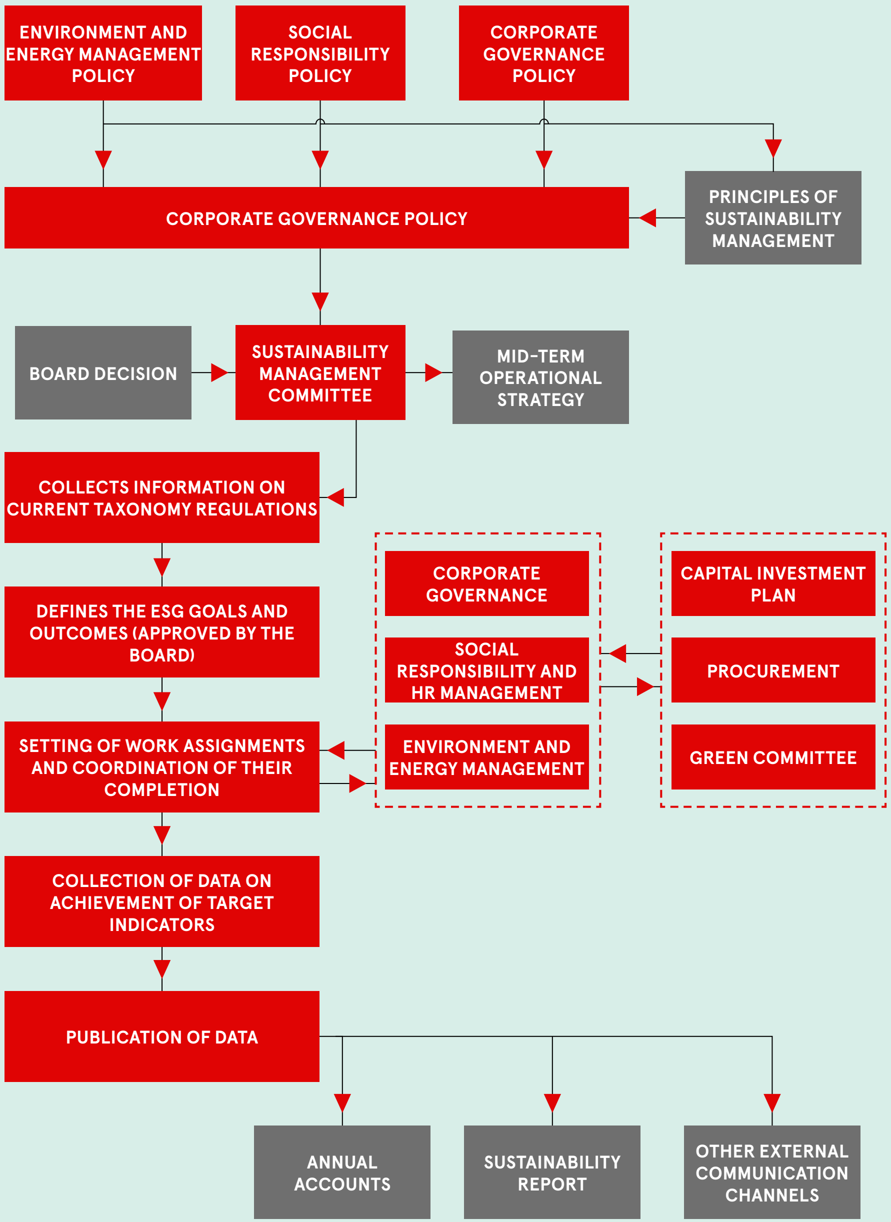
- **The Procurement policy** has been developed to establish common basic principles for purchasing goods, services, or construction works;
- The purpose of **the Financial risk management policy** is to define, implement, and maintain the basic principles of financial risk management to ensure the continuous improvement of financial management, reducing the potential negative impact of financial risks on financial performance;
- **Occupational safety policy** is the top management's setting in the field of occupational safety. The goal is set for the implementation of the policy, the achievement of which is ensured by the occupational safety system implemented in the company;
- **The Quality policy** is geared towards the implementation of AST's mission (to ensure continuous, safe, and sustainable electricity transmission throughout Latvia), operational efficiency, and sustainable development;
- **The Accounting policy** sets out the general principles of accounting in the main areas of business activity.

In the following period, it is planned to continue the work started on the improvement of policies for the implementation of activities.

AST has developed, implemented and maintains the Company's management system in accordance with the requirements laid down in ISO 9001:2015 (Quality), ISO 14001:2015 (Environment), ISO 45001:2018 (Occupational safety) and ISO 50001:2018 (Energy management).

The implemented Integrated Management System ensures the effective operation of AST, observing internationally accepted operating mechanisms regarding the management of quality, energy management, environmental protection, occupational protection and occupational health, ensuring the correct fulfilment of the statutory requirements, promoting the recognition and fulfilment of the wishes of customers and interested parties, and looking at the developments in the company through the prism of company processes.

In 2022, the Parent Company developed **a Sustainability governance process**, which was approved by the January 2023 decision of the AST Management Board. The purpose of the sustainability governance process is to promote sustainable



decision-making by integrating the principles of sustainable development in the internal processes of the concern and in cooperation with partners, balancing business development goals with the requirements of the European Union regulation and good practices in the field of sustainability. The procedure for the sustainability management process covers the following areas:

- Environmental protection and climate change mitigation;
- Promoting social responsibility towards employees and stakeholders;
- Corporate governance.

According to the approved sustainability governance process, the Sustainability Governance Committee was established in 2023, with the Chairman of the Management Board serving as its Chairman. In light of the fact that the AST Management Board worked with a partial composition in 2023, the Sustainability Governance Committee started its activities at the beginning of 2024, and in February 2024 a new composition of the Sustainability Governance Committee was approved. A major challenge facing the Sustainability Governance Committee in 2024 is integrating sustainability aspects and requirements into the Parent Company's processes, in accordance with the Corporate Sustainability Reporting Directive and binding sustainability reporting standards.

The Sustainability Governance Committee includes representatives of the structural units whose areas of responsibility affect the implementation of the established sustainability governance principles. As part of its activities, the committee provides approvals for and coordinates certain fields of activity in accordance with the operating procedure of the green committee and other related documents. It develops proposals for sustainability goals and indicators to be achieved, which are approved by a decision of the AST Management Board.

According to the Commercial Law, AST's Management Board is responsible for managing aspects of AST's influence. In 2023, several seminars on sustainability topics were organised for representatives of the company's governance bodies to attend. In addition, the highest governance body is provided with detailed information on sustainability issues when relevant topics are on the agenda of its meetings.

In 2023, AST Supervisory Board and Management Board members participated in the energy conference "Energy Trilemma – the Backbone for Energy Transition. Baltic Sea region focus" (Energy trilemma: The basis of the energy transition – the focus of the Baltic Sea region). Video link: https://www.youtube.com/watch?v=U_D1rqit8LQ. At the conference, internationally recognised experts, regional policy makers and energy company managers discussed the resilience of the Baltic Sea region's energy sector to security threats, the improvement of the electricity market model, and analysed whether the "sustainability and profitability" approach is possible in the energy sector. During the conference, possible solutions for the future of sustainable energy in the region were discussed in order to bring ambitions closer to actual action. In the context of sustainability in the energy sector, answers were sought to the questions of whether profitability and sustainability are compatible, and which innovative technologies are needed to promote the energy transition. At the same time, conference participants were able to learn more about inspiring initiatives on the road to energy sustainability – Europe's first large-scale cross-border hydrogen valley covering the Baltic Sea region and the US energy community's experience in personalising the benefits of the energy transition.

Meanwhile, within the initiative of the Business Sustainability Supervisory Board, which also includes AST, a practical guide for entrepreneurs on climate risk management in the company has been created (https://biznesam.swedbank.lv/klimata-risku-celvedis).

During the reporting period, the Supervisory Board gave its consent to AST's donation of materials and equipment to Ukraine, which was not only significant support for the restoration of the energy system infrastructure damaged by Russia, but also an initiative appreciated by international experts – AST was one of the five Latvian companies nominated by the jury in the final of the Baltic Sustainability Awards (more: https://www.balticssustainabilityawards.eu/finalists-2023). AST was awarded the main prize in the category of Social Initiatives for its role in the renewal of Ukraine's energy infrastructure. The support not only helped to overcome the crisis situation, but also set a precedent for sustainable and cooperative efforts in the development of energy infrastructure under difficult conditions. More information is available here: https://ej.uz/sustainabilityawardswinners.

AST is currently the only operator of the Baltic transmission grid that has issued green bonds on the securities market. The demand for green, social, and sustainable securities reflects the growing importance of sustainable financial instruments in the financial markets.

Information on the observance of human rights principles can be found in the sections "Inclusive work culture and gender equality" and "Personnel management policy and basic principles".

GRI 2-23

IMPLEMENTATION OF POLICY COMMITMENTS IN PRACTICE

AST policies are outlined in the bylaws of the Management Boards and Supervisory Boards of the relevant capital companies, as well as in the proxy agreements. The Group's Subsidiary's Supervisory Board members are responsible for informing their management board about the AST policies in a timely and appropriate manner and assisting in the implementation of the AST's policies in the Subsidiary. At the same time, responsibility for its maintenance and implementation in practice is determined for each of the developed policies.

In circumstances where the AST's policies need to be adapted to the Subsidiary's operations or if the AST's policy has not been developed in a particular area of importance to the Subsidiary, it develops its own. Subsidiary policies must not conflict with AST policies. In the event of a conflict between the Subsidiary's policy and the AST's policy, the AST's policy shall take precedence.

In other companies, such as the Baltic Regional Electricity Systems Coordination Centre, the implementation of the principles contained in the AST policy is ensured to the extent provided for by the level of voting rights in the respective company.

AST and the Subsidiary update the policies as required, but evaluate them carefully at least every three years. For example, the IT security policy is updated when the scope covered by the policy is expanded or changed, when IT security principles are changed or new security threats are discovered, guided by external or internal IT audit recommendations, security reviews and risk assessment results, in the event of significant IT security incidents.

In view of the fact that the policy establishes only the most essential principles of management and implementation of the Parent Company's operations, internal regulations (rules, procedures, instructions) are issued to implement them. When drafting or amending internal regulations, it is ensured that they are consistent with the basic documents and guidelines of the Parent Company, i. e. that these internal regulations are coordinated with the employee responsible for the respective policy. Following the entry into force of a new directive or other internal regulation, the responsible employee ensures that the employees to whom the legal act applies are informed of their obligations and rights arising from the legal act. If necessary, training is organised, i. e. the need to organise training, its format (face-to-face, online, etc.) and its regularity are assessed. The need for and effectiveness of training can be used to assess whether and how often inconsistencies in the application of internal regulations have been identified.

GRI 2-25

PROCESSES FOR MITIGATING / COMPENSATING NEGATIVE IMPACTS

The Group takes a responsible approach to mitigating and compensating negative impacts if any.

AST has developed interactive map of processes, which combines management, core activities, support and auxiliary processes, and ensures the connection of the control system related to process management.

MANAGEMENT PROCESSES

- SUSTAINABILITY MANAGEMENT PROCESS PROCEDURE K-6/1/4-236
- FINANCIAL MANAGEMENT
- RISK MANAGEMENT KON-1-1
- HR MANAGEMENT
- OCCUPATIONAL SAFETY MANAGEMENT K-5-230
- ENVIRONMENTAL PROTECTION MANAGEMENT K-5-229
- PHYSICAL SECURITY MANAGEMENT K-5/1-231

MAIN BUSINESS PROCESSES

- ELECTRICAL SYSTEM MANAGEMENT K-5/1-8
- MAINTENANCE OF TRANSMISSION ASSETS
- TRANSMISSION SYSTEM DEVELOPMENT K-5/1-6
- TED QUALITY MANUAL RGTED-1-001

SUPPORT PROCESSES

- DOCUMENTATION AND INFORMATION MANAGEMENT PROCESS
- BASIC RULES FOR PROCUREMENT PROCEDURES NOP-1-001
- SUPPLY PROCESS K-5/1-10
- CONTRACT SUPERVISION PROCESS K-5-227

AUXILIARY PROCESSES

- OIL MANAGEMENT PROCEDURE K-5/1-19
- REGULATION ON THE ORGANISING OF MEASUREMENTS NP-53-64

The processes have their owners and support teams. The processes are reviewed as necessary, but their relevance is evaluated at least once every three years.

In 2023, the financial management process, the personnel management process and the transmission system development process in AST were updated. The revised process flow diagrams have been simplified and made more transparent, with additional information to facilitate understanding of the processes and their progress. Information about the process managers and their support team is easier to access. Process management guidelines have been developed.

A contract monitoring process has been developed to improve understanding of the risks, duties and responsibilities involved in contract monitoring. The requirements of the legislation applicable to the working environment and the requirements of AST are considered when developing, maintaining, improving and developing processes. The requirements for the working environment are contained in process descriptions (procedures), operating and health and safety instructions and Technical Expertise Service procedures.

In order to ensure more complete compliance of the working environment (work performance technology, serviceable equipment, work tools and mechanisms, applicable personal protective equipment, etc.) with legal regulations and good practise, in 2023, as in previous years, an assessment of the risks of the working environment will be carried out and monthly technical training will be held, health and safety days, inspections of compliance with health and safety requirements, and unscheduled inspections of crews at workplaces and evaluation of the operation of equipment. The results of the inspections are discussed and documented with the staff and the responsible specialists, and corrective and/or preventive measures are developed and implemented if necessary.

Internal audits, environmental monitoring, environmental action plans and energy monitoring are carried out to ensure environmental monitoring and reduce the negative impact on the environment. The binding legal regulations in the field of environmental protection and the fulfilment of their requirements are constantly monitored. After audits and action plans have been carried out, reports are prepared, stakeholders and responsible parties are informed, corrective and/or preventive measures are developed and implemented if necessary.

AST participates in the Business Sustainability Supervisory Board organised by Swedbank, the initiative “Family-friendly workplace”, the movement “Diversity is strength” and the initiative in the field of occupational health and safety “Mission Zero”.

For the involvement of employees, a section has been created on the AST website, “Ideas Register”, where employees are encouraged to fill in an idea application form. The entries of the register of ideas are monitored by the Quality System Unit in cooperation with the Communication Unit and handed over to the responsible structural units for evaluation of the proposals and deciding on further action.

The proposals submitted to the Ideas Register are evaluated and the responses are published in the same section if the idea cannot be fully realised. The proposals submitted are anonymous (the register is only accessible from the internal network and the IP addresses of the computers are not registered in this area) unless the submitter has given their name.

GRI 2-26

MECHANISMS FOR ASKING QUESTIONS AND WHISTLEBLOWING

Whistleblowing is a way to promote legitimate, honest, open and transparent organisations in the public and private sector through the right to speak out freely. The Whistleblowing Law helps Latvian citizens to prevent offences before they harm the public interest, while protecting whistleblowers from adverse consequences.

Recognising the importance of clarifying problematic issues of unethical behaviour, a whistleblowing system has been established within the Group and the parent company.

The “Whistleblower” section has been set up on the AST website, where all relevant information about whistleblowers is summarised. In accordance with the law, AST has approved a whistleblowing procedure under which AST can seek advice (including anonymously) from the AST whistleblower contact person before raising the alarm in the event of questions or doubts. The information that the contact person receives as part of the counselling is confidential.

The “Responsible Business” section has been set up on the external website, which contains information on the AS “Augstsprieguma tīkls” Code of Ethics, whistleblowing, risk management in the event of fraud, corruption and conflicts of interest, procurement policy, supplier declaration, data protection policy.

No whistleblowing reports were received in 2023.

GRI 2-27

COMPLIANCE WITH LAWS AND REGULATIONS

In carrying out its activity, the Group monitors compliance with the statutory requirements. The Parent Company has developed a procedure for monitoring the statutory legislation binding on the company.

The company uses the "Legal bill public portal" ("LBPP") for the monitoring of legislative drafts affecting the interests of AST. LBPP portal notifications are received by the responsible AST structural unit. According to the division of competences determined by the AST, draft legal acts are directed to the company's structural units or structural units are involved in the evaluation of draft legal bills, as necessary. The evaluation decision is recorded in LBPP.

If changes in the laws are not identified in LBPP (state institutions have not referred the draft legislation to AST), then changes in laws are identified through the monitoring of laws according to the areas and competence distributed within the company. In total, in 2023, AST gave an opinion on 12 draft bills (in 2022 – on 48 draft bills).

All statutory requirements have been embedded into AST's internal documents and control environment.

In the reporting period, as in 2022, no violations of the requirements of laws and other legislation have been detected within the Group.

GRI 2-28

MEMBERSHIP IN ASSOCIATIONS

In order to ensure interaction with the stakeholders and interested parties, the Group and the Parent Company are actively involved in associations and public organizations.

AS "Augstsprieguma tīkls" is a member of the following public organizations:

ENtSO-E

AST's membership in the association ENTSOe – (European Network of Electricity Transmission System Operators) provides an opportunity to participate in the development of legislation, policy documents at the European level. 36 countries and 40 transmission system operators are represented in the association. Its purpose is to work on the liberalization of the gas and electricity market in the European Union.

Latvian National Committee of the World Energy Supervisory Board

AST has been a member of the association "Latvian National Committee of the World Energy Supervisory Board" since 2016. Membership of the association provides information on research, extraction, transport, transformation and effective use of energy resources both nationally and internationally.

LEEA

AST's membership in the association "Latvijas Elektroenerģētiķu un Energobūvnieku asociācija" (LEEA) provides the opportunity to participate in the assessment and improvement of legislation, policy documents and standards of electric energy and energy construction, in the organization of personnel certification and training programmes, in conducting scientific research in the field of electrical energy and in organising scientific and technical events, as well as in cooperating with educational institutions in the field of electrical energy. AST representatives regularly attend LEEA meetings to ensure the exchange of views on current developments in the energy sector, including energy security.

European Association of Issuing Bodies

AST is a member of the European Association of Issuing Authorities for Certificates of Origin. The distribution and trading of guarantees of origin for electricity in Europe is possible thanks to the "Association of Issuing Bodies" (AIB). A representative of AST is also on the board of the AIB and is involved in the development of the European system of guarantees of origin for electricity.

BEA

AST's membership in the Business Efficiency Association (BEA) – the leading association of business efficiency professionals in Latvia is an opportunity to receive support in the implementation of efficiency methods through continuous improvement. Membership in BEA ensures the exchange of experience between members of the association and promotes cooperation between entrepreneurs, educational institutions, scientists and state institutions. BEA is represented by more than 130 members – mainly legal entities.

Swedbank's Business Sustainability Supervisory Board

In 2021, AST joined Swedbank's Business Sustainability Supervisory Board to exchange knowledge, gain a deeper understanding of sustainability, and to create a more sustainable business environment in Latvia together with other companies.

Baltic Institute of Corporate Governance

AST has become a member of the Baltic Institute of Corporate Governance in order to promote the exchange of information between organizations and promote the implementation of good corporate practices in Latvia's largest companies.

STAKEHOLDER ENGAGEMENT

GRI 2-29

STAKEHOLDER ENGAGEMENT

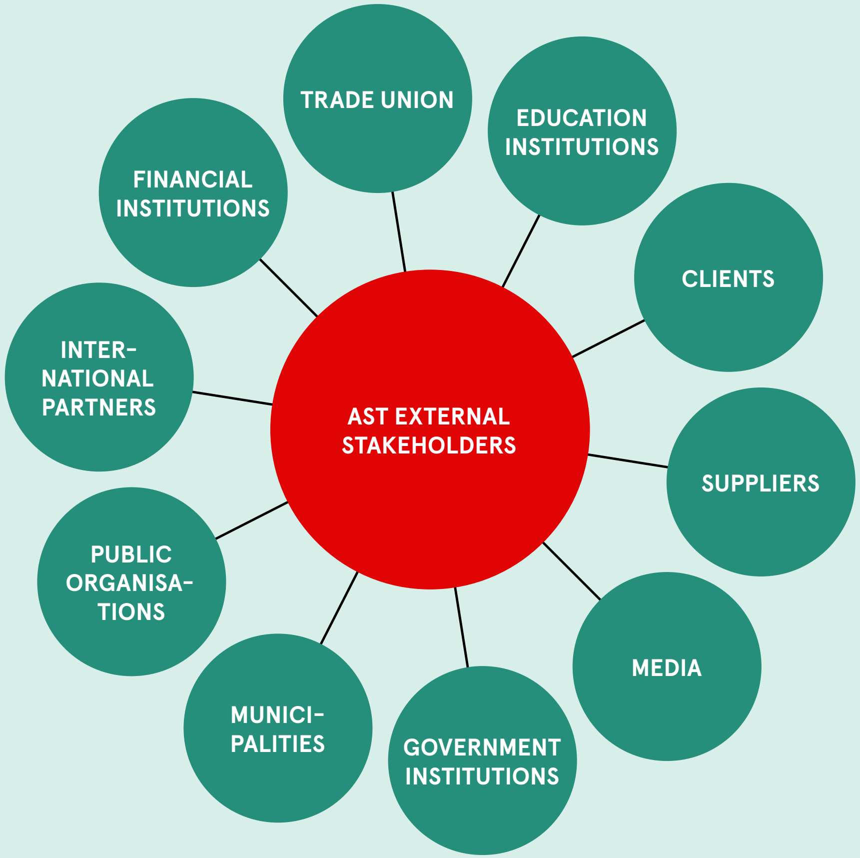


FIGURE 1. AST'S EXTERNAL STAKEHOLDERS

The Group analyses and considers both its influence on the stakeholders and their influence on the Group, and deals with the essential issues of all the parties of influence responsibly.

In preparing the Sustainability Report for 2023, the Group relied both on its view of the important aspects of sustainability and on the assessment of stakeholders, which was obtained through a stakeholder survey and in-depth interviews conducted between 13 January and 15 February 2023. 25 people took part in the survey of external parties, representing 65% of those originally contacted.

AST maintains a database of external stakeholders, which includes:

- Contracting partners (designers, builders, construction supervisors, suppliers-service providers);
- Customers (users and traders of the transmission electricity system);
- Other partners.

AST internal stakeholders:

- Shareholder and the Supervisory Board
- Management Board
- Employees

AST's stakeholder engagement aims to improve the company's performance towards all stakeholders and society as a whole. AST regularly organises public meetings with customers, suppliers and cooperation partners to inform them about news in the industry and current affairs of the company (events – electricity market forum, meetings with organisations involved in planning work, meetings with construction and repair companies). Prior to their adoption, public hearings are regularly held on draft regulations for the operation of the sector, public discussions on development projects are organised and other activities are undertaken in cooperation with influential parties.

In turn, the Subsidiary has developed a general corporate social responsibility policy aimed at taking the most appropriate measures to promote the implementation of the strategy and sustainable development, as well as integrating social and environmental aspects into business operations and relations with the parties concerned.

The review of the material sustainability aspects within the Subsidiary's management group (including the Subsidiary (including the Management Board and the Supervisory Board) was carried out in 2023, following which the position of the aspects on the influence axis was changed according to the current trends affecting the subsidiaries, increasing the importance of the aspect "employee competence, qualified future workforce" and the importance of "fair and transparent remuneration".

KEY AREAS OF SUSTAINABILITY

GRI 3-1

PROCESS OF IDENTIFYING KEY AREAS

AST's critical sustainability areas were determined in six steps, which meet the requirements of the GRI standards for identifying critical sustainability areas and engaging stakeholders. A summary of the process is reflected in Figure 2.

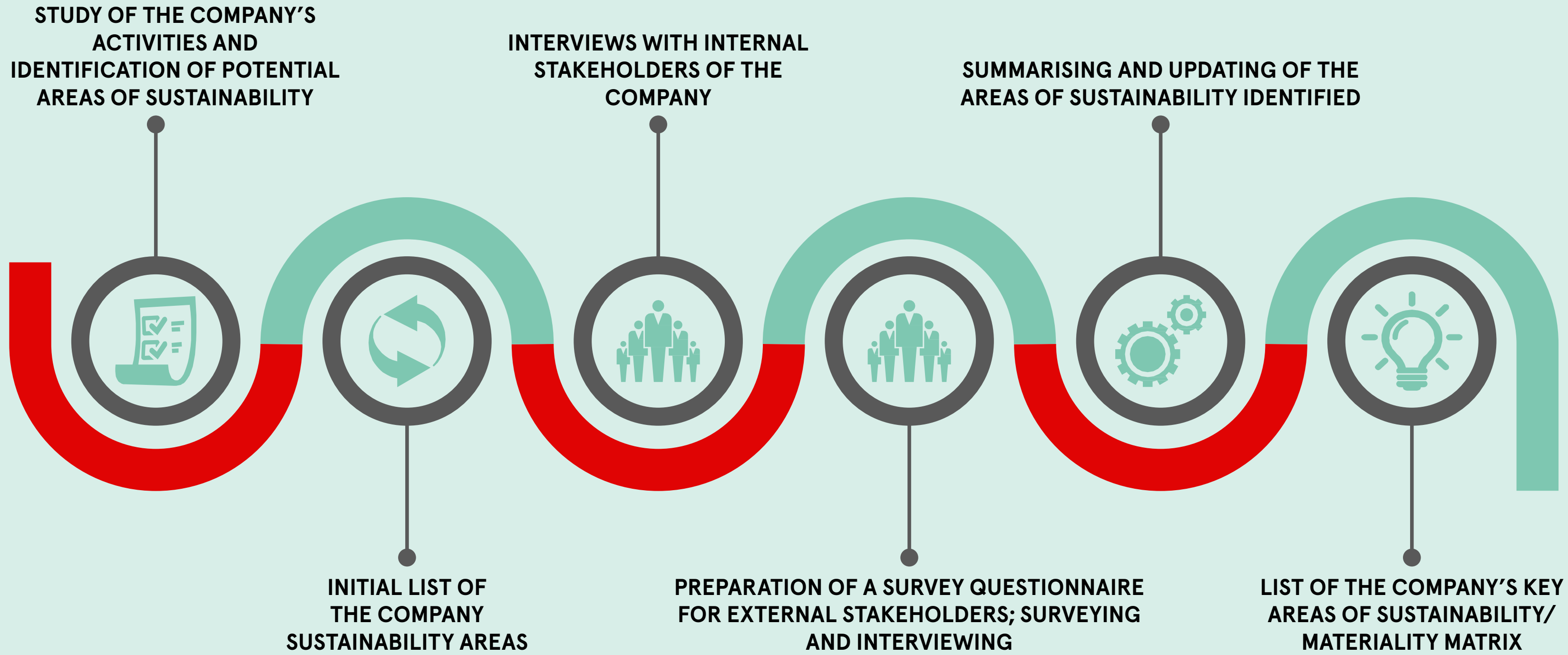


FIGURE 2. PROCESS TO DETERMINE MATERIAL SUSTAINABILITY TOPICS

IDENTIFICATION AND VALIDATION OF AREAS OF SUSTAINABILITY

An initial analysis of the operating directions of the Parent Company, the current industry problems, and sustainable practices in the electricity sector in previous years led to identification of the areas of sustainability, which include environmental, social, and economic aspects of AST.

OBTAINING THE VIEWS OF INTERNAL AND EXTERNAL STAKEHOLDERS

During interviews with representatives of the AST Supervisory Board and Board and managers of certain functions, the aforementioned sustainability areas were reviewed and clarified, as well as obtaining an assessment of these internal influence parties for each proposed sustainability area, prioritizing the most important areas. Based on the conclusions drawn from the internal interviews, the proposed sustainability areas were optimized and combined into the essential sustainability areas.

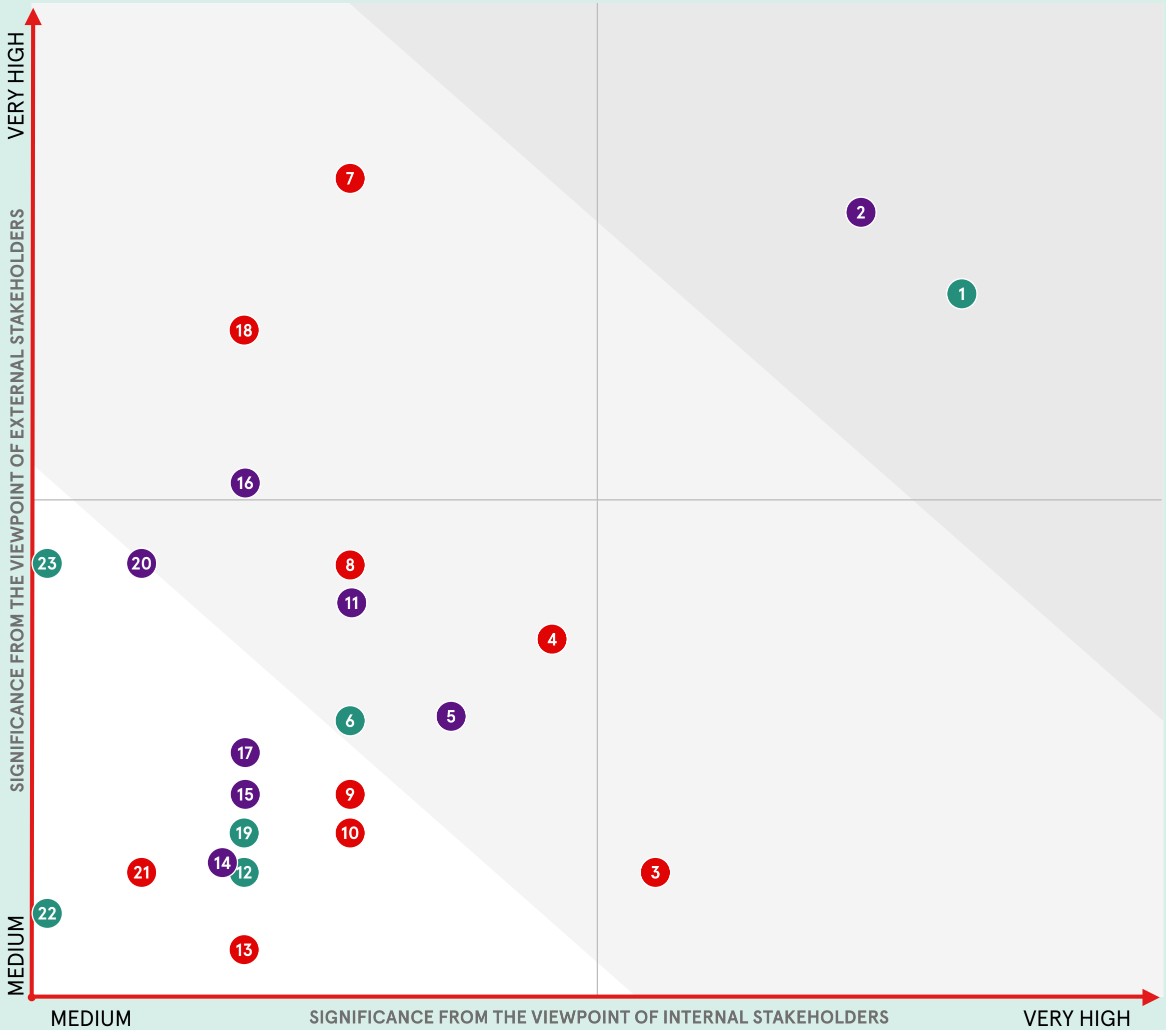
For the survey of external stakeholders, an online questionnaire was prepared. Answers were received from 25 respondents about the Company's priority areas of sustainability. Respondents were also given the opportunity to add additional topics in each of the areas, as well as to provide an opinion on AST's sustainability performance as a whole.

Besides questionnaires, detailed interviews were conducted with certain external stakeholders (e. g. financial institutions, customers, and public organizations) to obtain a broader understanding of the connection between the Parent Company's operations and the sector's planning processes, policies, improvement opportunities, and potential for sustainable development.

MATRIX OF KEY AREAS OF SUSTAINABILITY

According to the external and internal stakeholder questionnaire and the results of the interviews, the vision of both parties on critical sustainability topics of AST has been summarised and is depicted in Figure 3.

Both external and internal stakeholders consider the sustainable management of the energy supply infrastructure (including efficient, environmentally friendly and promoting the use of renewable resources) and ensuring the continuity of the energy supply service as the most essential areas of AST's sustainability.



AREAS OF ENVIRONMENTAL IMPACT

1. Sustainable management of energy supply infrastructure
6. Promoting the development of a green electricity market
12. Gradual reduction of emissions generated by managed assets
19. Responsible use and recycling of resources
22. Mitigation of the impact of maintaining transmission assets on biodiversity and landscapes
23. Reduction of energy losses

SOCIAL IMPACT AREAS

2. Assurance of the continuity of the energy supply service
5. Support for employee growth and excellence
11. Occupational health and safety
14. Inclusive work culture and gender equality
15. Employee well-being and social protection
16. Service security and responsibility
17. Education of the public on sustainability in electricity supply
20. Effective and coordinated emergency management

ECONOMIC IMPACT AREAS

3. Digitisation of processes to improve operational efficiency and data quality
4. Secure connectivity of power supply with the European energy supply network
7. Indirect economic impact
8. Direct economic impact
9. Prevention of conflict of interest and corruption
10. Fair and transparent selection of partners and suppliers
13. Incentivising of the training of young professionals in the industry
18. Provision of a balancing service
21. Support for scientific research in the industry

FIGURE 3. AST'S CRITICAL SUSTAINABILITY AREAS' MATRIX

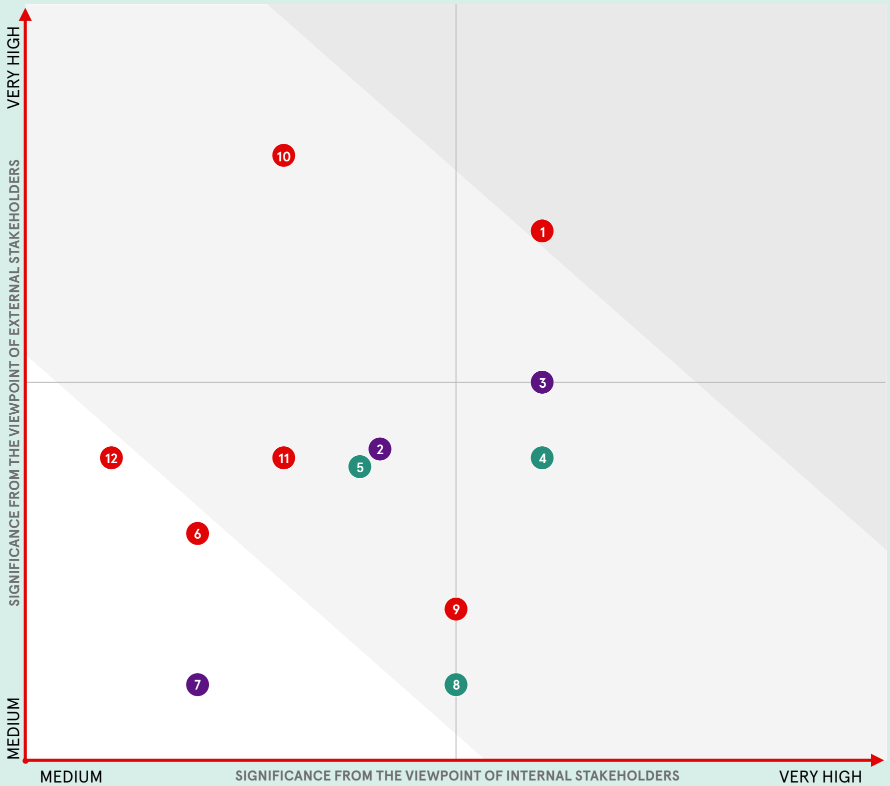
GRI 3-2

LIST OF THE GROUP'S CONSOLIDATED KEY AREAS

After identifying AST's critical sustainability areas and creating a matrix, the Parent Company analysed the sustainability areas reflected in the Subsidiary's 2021 sustainability report and annual report, creating the Group's consolidated material sustainability areas' matrix. The consolidated critical sustainability areas' matrix of AST and Conexus was prepared using the average values of external and internal ratings of each company's critical sustainability areas.

In addition, AST's critical sustainability areas have been identified, which do not overlap with Conexus's critical sustainability areas, but are included in the consolidated matrix, as they are considered critical:

- Direct economic impact;
- Indirect economic impact;
- Effective and coordinated management of emergencies.



Areas related to climate change and energy loss mitigation are relatively undervalued in the AST stakeholder assessment, but given their interrelationship and global priority, they remain among the key areas.

The topics of climate change and minimising energy losses received a relatively low rating in the assessment by the AST stakeholders, however, they are still kept as material topics given their mutual relationship and global priority. The area "Effective and coordinated management of emergencies" is not included in the 2023 report as it is one of the three areas with the lowest rating in the assessed materiality segment.

Combined sustainability areas	Key sustainability areas
Infrastructure security, sustainable management and digitisation of processes	Economic impact
Employee competence, growth and qualified workforce of the future	Social impact
Health, safety and welfare of employees	Social impact
Sustainable energy solutions	Environmental impact
Climate impact and energy efficiency	Environmental impact
Sustainable purchasing and selection of counterparties	Economic impact
Inclusive work culture and gender equality	Social impact
Responsible use of resources and waste management	Environmental impact
Fair and ethical management, prevention of corruption	Economic impact
Indirect economic impact	Economic impact
Direct economic impact	Economic impact
Effective and coordinated management of emergencies	Economic impact

ENVIRONMENTAL IMPACT

4 Sustainable energy solutions
5 Climate impact and energy efficiency
8 Responsible use of resources and waste management

SOCIAL IMPACT

2 Employee competence, growth, and skilled workforce of the future
3 Health, safety, and well-being of employees
7 Inclusive work culture and gender equality

FIELD OF ECONOMIC IMPACT

1 Infrastructure security, sustainable management, and digitisation of processes
6 Sustainable procurement and selection of partners
9 Fair and ethical governance, prevention of corruption
10 Indirect economic impact
11 Direct economic impact
12 Effective and coordinated emergency management

FIGURE 4. GROUP'S CONSOLIDATED MATERIALITY MATRIX AND SUSTAINABILITY AREAS

ENVIRONMENTAL IMPACTS

ENVIRONMENTAL IMPACTS

the Group's environmental philosophy and attitude towards the environment hinges on the principles of environmental management, responsibility and main environmental activities, determining environmentally friendly and efficient technologies and promoting the Group's sustainable development.

The key environmental protection principles of the Parent Company are as follows:

- organising its activities and plans development in accordance with the basic principles of sustainable development, observing economic and environmental aspects and complying with Latvian legislation in the realm of environmental protection;

- identifying potential environmental risks and minimizing their negative impact on the environment in all areas of the company's activities;

  The periodic review of environmental risks is carried out once in every three years, whereas the monitoring of environmental risks is carried out continuously, controlling the compliance of operations with the statutory requirements, and properly maintaining transmission assets to prevent environmental pollution, in accordance with the risk management concept.

- implementing the best available technical techniques, reducing the emission of polluting substances into the environment, the impact in relation to climate change and the amount of generated waste;

When drawing up procurement regulations, the requirements of laws and regulations, standards, as well as experience are considered, so that the necessary capital expenditure is more efficient and sustainable.

- promoting continuous improvement of environmental performance in each structural unit and the company as a whole, promoting efficient use of resources;

- when planning development, evaluating the impact of investment projects on the environment, preventing damage to the environment and public interests, as well as ensuring the maximum reduction of damage to the environment during the stages of construction, use and closure of the planned facilities;

- maintaining and improving the environmental management system in accordance with the requirements laid down in the standards LVS EN ISO 14001 and LVS EN ISO 50001;

- taking care of and promoting the preservation of biological diversity, evaluating and controlling the impact of the company's activities on specially protected natural areas, species and habitats;

When planning and carrying out work on power transmission lines, nature reserves and the conditions applicable to them are considered including technology and methods of work, nesting period of birds, etc.

- ensuring the competence of responsible employees in the field of environment, promoting the creation of environmental awareness of employees in each workplace and informing employees about the essential environmental aspects of the company's operations;

- regularly and openly informing the public and stakeholders about the company's environmental activities;

- acting in an environmentally friendly manner and engaging counterparties and community to act in an environmentally friendly manner.

The Subsidiary's underlying principle for environmental management hinges on the assessment of the environmental impact of the activities performed and the planning and implementation of measures to reduce the impact. The Subsidiary has implemented an environmental management and energy management system to ensure sustainable and environmentally friendly operation and development of natural gas storage and transmission systems, as well as to reduce environmental risks related to the operation.

The management systems implemented in the Group are based on the ISO 14001 environmental management standard, as well as on the requirements of the ISO 50001 energy management standard, which are certified accordingly. An internal audit is carried out every year, during which the employees' understanding and the work performed in accordance with the requirements of the standards are checked on a sample basis. In 2023, a total of 48 structural units were audited (the same as in 2022), 37 substations (in 2022: 43) and 6 administrative and technical bases of the Line Service (the same as in 2022) and 13 administrative and technical bases of substation groups (the same as in 2022) were surveyed and evaluated. While compliance with these standards is voluntary, it indicates the Group's responsible attitude towards the environment, as well as efforts to constantly improve environmental performance.

- There is much attention paid to the management of environmental aspects and environmental impacts in natural gas transmission, with six certificates of category C polluting activity obtained and the seventh certificate received at the administration object, for storing natural gas underground in a facility that has been granted a permit for polluting activity category B as well as a greenhouse gas emission permit. Conexus participates in the European Union emission allowance trading system.
- All activities are carried out in accordance with the conditions set out in the permits and certificates. Pollution monitoring and control of the limits set for polluting substances are carried out. The Group pays a natural resource tax for the pollution caused.
- In 2023, as in 2022, no violations of environmental laws and regulations were ascertained, and the conditions outlined in them were followed.

AST-1

SUSTAINABLE ENERGY SOLUTIONS

Through the implementation of the Group and Parent Company's Environmental Protection Policy, the Group and Parent Company aim to continuously improve their environmental performance by preventing or reducing harmful effects on the environment, rationally utilizing natural resources, and implementing the best available technical techniques across all of their activities.

The Group's energy resource management system covers electricity transmission, natural gas storage and transmission, which are mainly related to electricity consumption in electricity-using appliances, natural gas consumption in natural gas combustion plants, energy resources for the operation of motor vehicles and mechanisms. In order to continuously improve the energy efficiency of the Group and the Parent Company, the consumption of energy resources is monitored and annual targets for improving energy efficiency and measures to achieve them are set.

When planning the Parent Company's activities for the current period, programmes are developed for carrying out specific work to reduce the negative impact of business activities on the environment and increase the safety and performance of the electricity supply sector. At the end of each period, a report is drawn up on the work carried out and the indicators achieved as a result. These reports relate to the implementation of the Environmental management programme and the implementation of the Energy management programme.

A total of 268 transformers are installed in AST's 141 substations, of which 26 are autotransformers and 242 are transformers. In order to reduce the risk of environmental pollution, in 2023, AST implemented the Plan of Environmental Protection and Energy Efficiency Measures for 2023, within the framework of which the surface receiving pits of transformers were renovated. Transformer oil collection pits for 3 transformers in Substations No. 20 "Krustpils", No. 167 "Valdemārpils" and No. 169 "Ugāle". A project was started for the restoration of the surface oil collection pit of transformers in Substation No. 114 "Vairogs". By way of comparison, in 2022, surface oil receiving pits for five transformers and one autotransformer were renovated, and three underground oil receiving pits were renovated, and three separators were installed.

	2023	2022
Number of substations	141	140
Number of installed transformers	268	271
Autotransformers	26	
Transformers	242	245
A number of the sthe surface receiving pits of transformers	3	5

To increase energy efficiency, obsolete transformers are replaced. The new transformers are selected in compliance with the requirements of eco-design (EU Regulation No. 548/2014 (implemented by the European Parliament and 2009/125/EC) and EU Regulation No. 2019/1783 (implemented by the European Parliament and 2009/125/EC for small, medium and large power transformers)) requirements that ensure the reduction of technical losses. In 2023, the Environmental Protection and Energy Efficiency Action Plan was implemented in AST, as part of which a total of 4 power transformers were replaced in 2023, the life cycle losses of which amount to 22,294.53 MWh, while the annual energy savings are 743.99 MWh, respectively. Accordingly, in 2022, after the implementation of the Energy Management Programme No. 7, a total of 13 transformers and 2 autotransformers were replaced, the life cycle losses of which amount to 292,148.88 MWh, while the annual energy saving is 5,448.43 MWh, respectively. The calculation of energy savings is obtained by the engineering calculation method.

	2023	2022
Number of power transformers replaced	4	15
Life cycle losses, MWh	22,294.53	292,148.88
Energy savings per year, MWh	743.99	5,448.43

Parallel to the implementation of the agreed work plans, research work is being carried out on innovative solutions that would provide opportunities to reduce the negative impact of economic activity on the environment and climate. To improve energy efficiency, the temperature in substation control rooms is reduced to +12 °C during the heating season without personnel (requirement fixed in ID-82-20). In 2023, Substation No. 663 “Tārgale” is connected to the created monitoring, monitoring, and control system of heating, ventilation, and conditioning equipment (including implemented for user management). Substation No. 80 “Gulbene” solar power plant produced 13,177 kWh, which compensated for the economic electricity consumption itself.

Conexus is also constantly working on finding more efficient solutions and evaluating the best available technical solutions for technological improvements to find ways to reduce the amount of greenhouse gas emissions.

Key related activities and development projects:

1. Inčukalns UGS facility compressors 12z330 modernization project to reduce NO_X, CO_2, and CH_4 emissions and improving energy efficiency;

2. Inčukalns UGS facility gas collection point modernization project to reduce CH_4 emissions;

3. Natural gas transmission network repairs to reduce CH_4 emissions and improvement of gas regulation station equipment to improve energy efficiency are constantly being planned.

GRI 3-3, 302-1, 302-3, 302-4

ENERGY CONSUMPTION AND EFFICIENCY

In order to carry out its principal activity, the Group consumes certain energy resources, such as electricity, thermal energy, fuel, and gas. The consumption of these resources is registered and supervised/monitored so that it is possible to analyse the obtained data and draw conclusions about consumption trends and possible reasons for changes, to identify activities that provide insight into unfavourable aspects of consumption and significant resource savings.

Annual key energy consumption and the Group's energy resource consumption indicators:

	GROUP		
	2023	2022	2021
Total energy consumption in the Group, MWh (including natural gas (for heating and technological processes), fuel and electricity)	**183,096**	**138,570**	**178,161**
of which electricity consumption, MWh	15,886	14,694	16,162
of which heat energy consumption, MWh	160,854	117,604	156,106
Underground gas storage energy consumption indicator	0.0114	0.0102	0.0105
Indicator = consumption of natural gas for ensuring processes at Inčukalns UGS facility (m^3/year)/amount of natural gas pumped into Inčukalns UGS facility (m^3/year)			
Natural gas transmission system energy consumption indicator	0.046	0.048	0.054
Indicator = consumption of natural gas to ensure the processes of the transmission system (m^3/year)/ the amount of natural gas transported in gas regulation stations (m^3/year)			
Proportion of losses, technological consumption, %/year	2.17	2.08	2.2
Indicator = % calculation (Amount of AST losses (kWh/year)/Total electricity transmitted (kWh/year)			

The data on thermal energy in the Subsidiary in terms of MWh are calculated based on the monthly calorific value of natural gas, i.e., thermal energy consumption (natural gas for heating and technological processes).

In 2023, the Subsidiary's energy consumption indicator at Inčukalns UGS facility increased compared to 2022. Although in 2023 the modernisation of the gas pumping plant at compressor station No. 2 was completed, which resulted in a reduction in natural gas consumption of at least 5% during the efficient operation of the plant, it was not possible to operate the plant with the highest possible efficiency in terms of the consumption of natural gas per volume of natural gas to be pumped, as the plant had to be operated flexibly and in line with market demand, when gas pumping volumes fluctuated quite widely and were difficult to predict.

Annual, essential energy consumption and indicators of the parent company's energy resource consumption:

	PARENT COMPANY		
	2023	2022	2021
Total energy consumption, MWh (including natural gas (for heating and technological processes), fuel and electricity)	**15,591**	**15,640**	**16,724**
of which electricity consumption, MWh	9,683	9,747	10,640
of which heat energy consumption, MWh	2,000	2,061	2,641
Transmitted energy Loss, technological consumption rate, %/year			
Share of losses and production consumption, %/year	**2.17**	**2.08**	**2.2**
Indicator = % calculation (Amount of AST losses (kWh/year)/Total electricity transmitted (kWh/year)			

ENERGY CONSUMPTION AND ENERGY EFFICIENCY GENERATED BY THE PARENT COMPANY

The main activity of the Parent Company is electricity transmission; therefore the main energy consumption is electricity. The total electricity transmitted by AST in 2023 is 9,499,914 MWh and the amount of transmission losses is 2.17%. Information on AST's total losses is obtained as the difference between the electricity received in the transmission network (according to the data of the automated electricity accounting system (AEUS)) and the electricity transferred from the network users, incl. transit.

	2023	2022	2021
Transmitted electricity, MWh	9,499,914	9,384,997	9,408,398

The total registered technological consumption for own needs in substations in 2023 was 7,422 MWh, a decrease compared to 2022 of 0.49% (7,422 MWh/7,458 MWh). The total registered economic consumption for own needs in substations in 2023 was 2,261 MWh, a decrease of 1.22% compared to 2022 (2,261 MWh/2,289 MWh).

	2023	2022	2021
Technological consumption for own needs, MWh	7,422	7,458	8,261
Operational consumption for own needs, MWh	2,261	2,289	2,378

Monitoring of energy efficiency is ensured by monthly monitoring of consumption, but the most significant improvements are realized by planning and making capital investments, which are described above in the section "Sustainable energy solutions".

Heat energy from centralised heat supply networks is used by AST in 2 facilities: at Dārzciema iela 86, Riga (where AST's administrative and technical headquarters is located) and at Jātnieku iela 95, Daugavpils.

The administrative technical headquarters in Riga, at Dārzciema iela 86, consists of 48 buildings, including premises for equipment repair and inspection laboratories, facilities for cleaning transformer oil and special service rooms for transport. Their energy efficiency class varies from C to F with a total area of 13,262 m^2. Most of the plant's buildings were built between the 1930s and 1960s, while the newest buildings were constructed in the 1990s. Due to the wear and tear of the buildings, it makes more economic sense to demolish and rebuild 50% of them, while a third of them will have to be significantly remodelled for their continued operation. For this reason, the entire administrative and technical base block of AST will be rebuilt at the same time as the need to build the main dispatch control and data centre in Latvia in accordance with European requirements.

The new office building is designed as a nearly zero-energy building; the ordinance does not specify the energy efficiency class of the building for technical rooms. A construction project is currently being developed in which the energy efficiency of buildings, the use of solar energy and other improvements are being considered. It is planned that energy savings of at least 30% will be achieved through these measures.

Natural gas is used for heating and hot water in one of AST's facilities, i. e. the Grobiņa Station of the Line service. The recorded natural gas consumption in 2023 was 42 MWh, which corresponds to savings of 23.64% compared to 2022.

	2023	2022	2021
Energy consumption, natural gas, MWh	42	55	75

AST fuel is used to run transport and machinery, as well as to run generators. The fuel consumption of transport and mechanisms is monitored within a month for each transport unit and mechanism, the consumption data being compared with the consumption norm of the relevant transport group.

The total registered mileage in 2023 compared to 2022 decreased by 1.61%, the total performance indicator in 2023 compared to 2022 increased by 11.54%.

	2023	2022	2021
Average mileage, km	115,219	117,108	110,444
Average performance indicator, l/100 km	23	26	26

Overall, AST has analysed ten vehicle classification groups (without mechanisms with working m/h, the performance of which is currently impossible to assess), the lowest performance indicator in 2023 was in the groups "light commercial transport DD" 6 l/100 km and "light commercial transport BE" 7 l/100 km, but the highest performance indicator in the groups "personnel lift BE" 40 l/100 km, "trucks over 3.5 t BE" 35 l/100 km, same as in 2022.

ENERGY CONSUMPTION AND ENERGY EFFICIENCY GENERATED BY THE SUBSIDIARY

Conexus's key energy resources in natural gas storage are natural gas and electricity, which are consumed for technological processes by pumping natural gas into the underground gas storage. On the other hand, the most essential energy resource for ensuring natural gas transmission processes is natural gas, which is consumed to ensure the technological processes of natural gas transmission. Information on consumed electricity is obtained from the electricity supplier, while information on thermal energy in terms of MWh is calculated using the monthly calorific value of natural gas.

Since natural gas is the most important energy resource consumed by Conexus for its technological processes, energy consumption indicators have been established, expressed in the form of natural gas consumption in relation to the amount of natural gas pumped into underground storage, as well as natural gas consumption in relation to the amount of natural gas pumped into the transmission system.

The indicator of energy consumption of the underground gas storage facility in 2023 has increased compared to 2022, although in 2023 the modernisation of gas pumping units in Compressor Station No. 2 was carried out, which resulted in a reduction in natural gas consumption of at least 5% during the efficient operation of the facility. Combined with the need for flexible operation according to market demand, when gas feed-in volumes fluctuated in a fairly wide range and were difficult to predict, this did not allow the plant to operate at the highest possible efficiency in terms of consumption of natural gas per volume of natural gas to be pumped.

The indicator for energy consumption in gas transportation in 2023 has decreased compared to 2022. In order to transport natural gas, it has to be heated, which is done with the help of technical systems that consume natural gas. By regulating processes or setting them to an automatic mode, less natural gas is consumed to support the process. Improvements will also be achieved through the measures taken to insulate the equipment of gas regulation stations (thermal insulation of heat exchangers and heat transfer pipes) and by replacing combustion plants with more efficient plants.

As methane is a powerful greenhouse gas, reducing its emissions can slow down climate change. Conexus is actively pursuing initiatives to manage and reduce methane emissions and is continuing to work on improving the accounting of methane emission sources and emission volumes in 2023.

GRI 305-1, 305-2, 305-3, 305-5

IMPACT ON CLIMATE AND EMISSIONS

For unified accounting of the Group's operational activities and assessment of the impact on the climate, both AST and Conexus recalculate their performance indicators in tonnes of CO_2 equivalents. The amount of calculated emissions provides an opportunity to understand and compare the proportion and impacts of each activity.

The main greenhouse gas (GHG) emissions that arise and are related to the operations of the Subsidiary are methane (CH_4) and carbon dioxide (CO_2) emissions. The Subsidiary's GHG emission sources are direct methane emissions that occur during the repair work and daily operation of natural gas transmission and storage systems, carbon dioxide and incomplete combustion emissions from combustion equipment in gas regulation stations, combustion equipment, including compressors, for ensuring underground gas storage processes, as well as combustion plants for heating purposes. Greenhouse gas emissions occur as a result of planned activities.

In the process of natural gas transmission, methane emissions arise from the release of natural gas from various technological equipment intended for repair work, the operation of natural gas pneumatic taps, the testing of pneumoregulators, the blowing of natural gas purification devices, natural gas leaks, the needs of gas quality determination points and the elimination of hydrate formations. When natural gas is burned for technological needs and space heating, carbon dioxide emissions are generated in the natural gas transmission process.

In the process of natural gas storage, methane emissions occur when gas motor compressors are started, pipelines are blown with natural gas, various technological equipment is released from condensate, gas pressure is partially reduced in gas pipelines and equipment, gas purification equipment (systems) are released from the air-gas mixture and shut-off valves are opened. Emissions also occur as leaks in compressor seals, parts of gas pipelines in closing devices, leaks in fountain fittings, inter-column gas leaks, degassing motor compressors and gas-to-air cooling equipment. When natural gas is burned for technological needs and space heating, carbon dioxide emissions are generated in the natural gas storage process.

The largest annual source of methane emissions is the natural gas emitted during the repair works of the natural gas transmission system. However, in 2023, there were more methane emissions in the operation of Inčukalns UGS facility, i. e. direct emissions, leaks, and incomplete combustion. The largest source of carbon dioxide emissions is the operation of gas pumping units, pumping natural gas into storage.

See a summary of the total generated CO_2 eq. t emissions or ecological footprint of AST and Conexus for the year 2023 in the table below.

	SCOPE 1	SCOPE 2	SCOPE 3
Total emissions in the Group, t CO_2 eq.			
2023	87,120.13	1,095.71	-111.81
2022	37,304.62	1,157.09	-339.73
2021	45,876.82	1,315.51	-358.92
Emissions generated in the parent company, t CO_2 eq.			
2023	224.9	1,052.29	-145.22
2022	120.62	1,157.09	-339.73
2021	398.82	1,315.51	-358.92
Emissions generated in the subsidiary, t CO_2 eq.			
2023	86,895.22	43,42	33.41
2022	37,184.00	NA	NA
2021	45,478.00	NA	NA

This increase in emissions was caused by leaks of the sulphur hexafluoride gas SF6 and its mixtures (0.97 kg SF6 leaked in 2022, 5.46 kg in 2023) and a significant reduction in the transfer of used insulating oils to recycling in Scope 1 and Scope 3 (55% less oil will be returned to the economy in 2023 than in 2022). In the subsidiary, greenhouse gas emissions have increased compared to previous years, both directly and indirectly due to the increased activities requiring the pumping of natural gas into underground gas storage facility. In 2023, a larger amount of natural gas was pumped into the UGS facility compared to previous years. As a result, the technical facilities were operated more frequently, and more emissions were generated

EMISSIONS GENERATED BY THE PARENT COMPANY

The largest GHG emissions in the operation of the Parent Company are marked as Scope 2 emissions, which consist of transmission losses (electricity) and heat supply, as well as unexpected gas leaks, which are marked as Scope 1. In 2023, AST transmission losses were within the permitted standard and amounted to 2.2%, while the energy consumed for thermal supply decreased by 3.0%.

The Parent Company's Scope 1 calculations include emissions from sulphur hexafluoride SF6 gas leaks, natural gas, transportation, diesel generators, and refrigerants. In the calculations of Scope 1, in 2023 compared to 2022, emissions have increased (+) by 86.45%. The increase was caused by an unexpected failure, as a result of which 5.46 kg of SF6 gas leaked (0.97 kg leaked in 2022, 13 kg in 2021), which had a critical impact, because there is a positive reduction trend in the other positions (diesel generators were used and natural gas consumption decreased).

The calculations of Scope 2 of the Parent Company include emissions shown by transmission losses and emissions caused by heat supply (from centralized networks). The methodology available on the website of the Ministry of Environmental Protection and Regional Affairs is used for the calculation of emissions in Scopes 1 and 2.

The Parent Company's Scope 3 calculations include the amount of waste generated during operations in categories such as household waste, segregated waste, construction waste, hazardous waste and scrap, and insulating oil management.

The emissions caused by domestic waste, construction waste and hazardous waste are marked with a plus sign in the calculations. In the case of oil management, a large proportion of the used insulating oil is disposed of for further processing and returned to the economic cycle. Scrap and grit (sorted) are also returned for further processing. For these reasons, these categories are shown with a minus sign in the calculations. The calculations use emission factors from the greenhouse gas emission factors published by the UK government.

In regard to changes in the emissions generated by AST during the last years, it can be observed that the general trend is a decrease in the emissions generated. Comparing the amount of emissions created in 2023 with the amount of emissions created in 2022, it can be concluded that the total amount of emissions, which consists of the sum of the calculated sum of all three scopes, is 1,131.97 t CO_2 eq. has increased by 20.68%, compared to the sum total of the three scopes of the previous period, 937.73 t CO_2 eq. Such an increase can be observed mainly due to the high volume of emissions in the 2023 Scope 1 (emissions from greenhouse gas emissions, emissions from heating equipment, and emissions from diesel generators), which can be explained by the consequences of gas (sulphur hexafluoride gas SF6 and its mixtures) leakage (0.97 kg leaked in 2022, and 5.46 kg in 2023). The rest of the positions have a positive decreasing trend (in the calculations of Scope 2 in 2023 compared to 2022, emissions decreased (–) by 9.06%, and in Scope 3 in 2023 compared to 2022, emissions maintain a positive trend, i. e. emissions are strongly negative).

EMISSIONS GENERATED BY THE SUBSIDIARY

The main greenhouse gas emissions resulting from and associated with the operation of Conexus are methane and carbon dioxide emissions. Both direct methane emissions from repairs and daily operation of natural gas transmission and storage systems and carbon dioxide emissions from combustion equipment in gas regulating stations and incinerators – compressors – and turbines for underground gas storage processes are the main sources of greenhouse gas emissions from Conexus. The emissions arise from planned activities.

In the gas transmission process, emissions arise from the operation of pneumatic natural gas tapping, testing of pneumoregulators, pressure reduction in gas regulating stations, release of natural gas from equipment, blowing out of natural gas purification equipment, natural gas leaks, natural gas blown out of gas pipelines in connection with repairs, repair and replacement of fittings, elimination of accidents and hydrate formation, as well as in the performance of economic activities – combustion of natural gas for technical needs and space heating.

Greenhouse gas emissions occur during gas storage, for instance, while performing a loop, blowing gas out of the pipelines, draining condensate from various devices, starting compressors for gas engines, partially reducing the gas pressure in gas pipelines and devices, draining the air-gas mixture from the connecting pipes of the gas treatment plant (system), opening and closing the shut-off valve, and when conducting geophysical surveys. Emissions also occur in the form of leaks in the closing devices of parts of the gas pipelines, leaks as a result of compressor leaks, leaks in well fittings, leaks between gas columns, releases from gas engine compressors and gas-air cooling devices, as well as from devices that burn natural gas for technical needs and space heating.

The most significant source of greenhouse gas – methane – emissions in the Subsidiary is the natural gas emitted during the repair works of the natural gas transmission system. In 2023, more methane emissions were from processes at Inčukalns UGS facility: direct emissions, leaks, incomplete combustion. On the other hand, the most important source of carbon dioxide emissions is the use of technological equipment – compressors and turbines – for processes in the underground gas storage, pumping in natural gas.

Compared to previous years, the volume of greenhouse gas emissions has increased, which is both directly and indirectly related to the increase in the volume of activities that depend on the demand for pumping natural gas into the underground gas storage. In 2023, compared to previous years, a larger amount of natural gas was pumped into the Inčukalns UGS facility, technological equipment was operated accordingly, and more emissions were emitted.

GRI 301-1, 301-2, 303-1, 306-1, 306-2, 306-3, 306-4

RESPONSIBLE USE OF RESOURCES AND WASTE MANAGEMENT

Water extraction and use

To ensure the Group's business, water resources are also consumed, both from underground sources and from water management companies. The Group's water consumption depends on the scope and profile of the work. As part of water management, the Group monitors water consumption and measures to reduce water consumption. Water is only used for business operating needs.

In the Parent Company, the volumes of water extraction and drinking water treatment for the provision of electricity transmission are low and do not require authorisation(s) from environmental institutions. Nevertheless, the Parent Company monitors the drinking water by regularly reviewing the water criteria and ensuring that they are appropriate. In accordance with the principle of cooperation, the Parent Company provides drinking water for the neighbouring residential infrastructure in some locations.

In the underground gas storage facilities, water is drawn from five boreholes for operational processes and own consumption. The maximum possible water withdrawal for production processes and own consumption is set at 43,000 m^3/year. The water used in the underground gas storage tanks is purified properly and returned to the environment.

In the facilities of the electricity and natural gas transmission system, the water is purchased from utility companies. The drinking water in the facilities of the electricity and natural gas transmission system is purchased from an external supplier.

The amount of groundwater withdrawn is registered using metres, while information on the amount of water purchased from external water suppliers is provided by the respective supplier.

Both the Parent Company and the Subsidiary have established procedures for waste disposal, including contracts for the collection of hazardous waste, separately collected waste and unsorted waste, and various co-operation partners are used to ensure appropriate waste disposal. Every month, the waste managers receive information on the amount of non-hazardous household waste (m3) handed over to them, which is used to determine the amount of waste (tonnes), as well as information on the amount of sorted waste. The amount of hazardous waste (tonnes) is reported by the waste managers who have delivered hazardous waste for further proper disposal, which they report in the State Information System of Waste Transport Accounting.

In the table below, the water consumption of the Group and the Parent Company both from service providers and from local sources and the managed amount of wastewater is presented for the year 2023.

	GROUP		
	2023	2022	2021
Total water extraction, m^3	**15,432**	**15,949**	**15,652**
of which groundwater extraction	7,706	7,611	7,197
of which the extraction of domestic water from an external supplier	7,726	8,338	8,455

	PARENT COMPANY		
	2023	2022	2021
Total water extraction, m^3	**6,893**	**6,810**	**7,400**
of which groundwater extraction	907	501	626
of which the extraction of domestic water from an external supplier	5,986	6,309	6,774

Parent Company – water extraction and consumption

Data on AST water consumption, sewerage and rainwater is collected from all substations and administration centres. To ensure the operation of AST, water supply is mainly provided by centralised water suppliers with whom contracts have been signed to receive the service, but in addition to the three AST substations, water supply is provided by local water extraction sources (wells, deep drill, drill). The water consumption is used for economic needs as well as for the operation of the transmission facilities and the maintenance of the facilities. On the other hand, the maintenance of technical and technological facilities depends on the work to be carried out and the scope of work of these facilities, as well as the periodicity. This has an impact on the dynamics of water consumption.

The water extraction and treatment facilities are maintained and serviced in accordance with the annual environmental monitoring and protection plan for 2023. The planning of this work is organised by AST in accordance with the contracts concluded for the relevant period.

In accordance with the environmental monitoring plan for 2023, drinking water analyses from the "Tume", "Rēzekne", "Viļaka" and "Gulbene" substations were carried out to monitor the quality of drinking water at the water intake points, and maintenance work was carried out on the water intake and supply system, which includes disinfecting and flushing the water supply system, checking the operation of the water extraction and supply systems and replenishing reagents at the "Gulbene", "Rēzekne" and "Viļaka" substations, as well as installing water treatment systems at the "Tume" substation. By 2022, improvements can be observed in the iron indicators, as the filling of the philtre column was replaced, and the salt tank was replaced with a larger one at the two substations "Gulbene" and "Viļaka".

AST's water consumption accounting data shows a constant trend towards a reduction in water consumption, which can be explained by the change in work organisation, such as working from home. The increase in consumption can be observed in the extraction of groundwater, which was caused by the damage to the water pipeline.

Subsidiary's water extraction and consumption

Water consumption by Conexus in the Inčukalns UGS facility has been fluctuating, and it is expected that this trend will remain in the coming years, as various projects have been initiated and are ongoing in the storage, which include technological improvements and are aimed at making processes more efficient and reducing resource consumption.

Conexus uses water both in its production processes and in its administrative offices. All operations with wastewater at the Inčukalns UGS facility are carried out according to the permit, which specifies the permitted amount of wastewater and the level of pollution, as well as with strict requirements to reduce the impact of extraction on the environment. The Subsidiary did not violate the specified quantities of domestic, industrial and rainwater and pollutants in the course of its operations in 2022 and 2023.

Waste water management

Wastewater is generated by the business activity of the Group and the Parent Company. According to the technological processes, ensuring safe natural gas storage, electricity and natural gas transmission processes, production and domestic wastewater is generated. Rainwater generated in the territory is also purified in the underground gas storage. Industrial (production) wastewater is produced by extracting gas from an underground gas storage: water is separated from gas, and for the prevention of hydrates it is necessary to use certain chemicals, which are a source of water pollution. The risk of subsurface contamination is offset by testing industrial wastewater, then returning it to the subsurface (by pumping it back into wells).

Regarding wastewater treatment in AST's biological treatment facilities, due to the volume, no permits from environmental institutions are required, but AST takes care of the compliance of treated wastewater with regulations and, where possible, we try to use utility network connections. In accordance with the principle of cooperation, in some places AST provides sewerage services to the neighbouring residential infrastructure.

	GROUP		
	2023	2022	2021
Total amount of wastewater, m³	**44,510**	**43,166**	**40,360**
of which wastewater treated in local treatment plants, m³	32,699	31,409	29,839
of which was handed over to service providers for appropriate cleaning	11,811	11,757	10,521

	PARENT COMPANY		
	2023	2022	2021
Total amount of wastewater, m³	**11,155**	**11,594**	**12,127**
of which wastewater treated in local treatment plants, m³	1,001	1,049	1,167
of which was handed over to service providers for appropriate cleaning	10,154	10,545	10,960

GRI 301-2, 306-1, 306-3, 306-4

WASTE MANAGEMENT

As a result of its business activity, the Group generates waste streams, such as household waste, biological waste, recyclable materials and hazardous waste.

Hazardous waste in AST is mainly generated by maintenance work on the electricity transmission network, while household waste and segregated waste are generated by daily economic activity. The amount of waste generated by the maintenance of the transmission network may vary from time to time, because the maintenance work on the equipment depends on the technical specifications, maintenance requirements and periodicity of each piece of equipment.

In order to reduce the impact on the environment, AST provides waste separation facilities in its administrative buildings and technical centres. It should be noted that the waste management procedure in Latvia does not include an obligation to list all waste streams, disposal is carried out according to a specific schedule or on request, and the filling of containers is not always considered.

Metal scrap and various types of scrap are generated in AST operations in two ways: when checking material reserves related to economic activity and when carrying out investment projects when replacing structures or equipment. The work associated with the repair and replacement of structures or equipment varies regularly, and the amount of scrap metal and scrap generated varies accordingly.

In general, the amount of unsorted waste generated by AST activities has decreased from 155 tonnes in 2022 to 129 tonnes in 2023, which is 17% less than in 2022, while the amount of waste sent for recycling has increased from 24.04 tonnes in 2022 to 29.02 tonnes in 2023, which is 21% more than in the previous year. The general trend shows that the amount of waste generated in everyday life has decreased, which could be explained by the organisation of work, which allows employees to work partly from home.

However, this explanation cannot apply to the amount of construction and metal waste generated by AST, as its volume depends on the planned projects and renovation work to ensure AST's core activity. However, the amount of construction waste in 2023 has decreased from 29.34 tonnes in 2022 to 27.2 tonnes in 2023, which is 7% less than in 2022, while the amount of metal scrap handed over has increased from 1378 tonnes in 2022 to 1735 tonnes in 2023, which is 26% more than the metal scrap handed over in 2022.

In 2023, the amount of household waste produced by Conexus has decreased, along with the amount of separately collected waste for recycling compared to the amount produced as a whole. The amount of construction waste and the amount of scrap metal generated are also decreasing every year, which can be explained by the fact that it is a practice of the performers of planned construction and repair works to ensure the collection of waste generated during the work and its delivery to the waste manager for further processing, without using Conexus facilities.

The common categories of waste management of the Group and their volumes are presented in the table below. All classes of waste are managed in accordance with the current laws. By concluding an appropriate contract and delivering household waste and sorted waste to a management company that has been granted the right to manage household waste in the relevant area by municipal regulations. On the other hand, hazardous waste management is carried out by companies that have received a permit for activities with hazardous waste. In the case of scrap metal, it is delivered to an entrepreneur who has received an appropriate license to deal with scrap metal.

As for hazardous waste, the Group mainly manages categories such as packaging containing waste of hazardous substances; absorbents, rags, oily paper; oily water; soil containing hazardous substances, batteries and accumulators, electronics, and others.

The amount of recoverable waste, 1816 t (insulating oil and mixed metals), which is directly attributable to the operation of the parent company, is 98.4% of the total amount of sorted waste 1845 t (additional paper, cardboard, plastic and equipment packaging), which are returned for recycling.

	GROUP		
	2023	2022	2021
Total weight of produced hazardous waste, t	**282**	**310**	**319**
Total weight of non-hazardous waste, t	**297**	**326**	**349**
Percentage of non-hazardous waste sent for recycling	28%	10%	31%
Percentage of non-hazardous waste sent to landfill for disposal	72%	90%	69%

	PARENT COMPANY		
	2023	2022	2021
Total weight of produced hazardous waste, t	**161**	**124**	**147**
Total weight of non-hazardous waste, t	**185**	**208**	**237**
Percentage of non-hazardous waste sent for recycling	18%	12%	0.30%
Percentage of non-hazardous waste sent to landfill for disposal	82%	88%	99.70%

The amount of hazardous waste depends on the maintenance work on the technical facilities (frequency and scope of work); there is no direct correlation with the scope of operating activities. The amount of sorted waste is gradually increasing.

Management of used transformer oils, thus promoting the circular economy of Latvia

In addition to the aforementioned categories of hazardous waste, AST also manages used insulating oil, which is registered separately. Oil accounting includes indicators of oil spills, oil recovery and used transformer oil, which is reclassified as oil with reduced quality criteria for further sale, following the main principles of the EU Green Deal and the New Circular Economy Plan by returning resources to circulation, thus extending the life cycle of oil.

In order to save natural resources, reduce costs and promote circular economy, AST analyses the oil used in the equipment and decides on the further action according to the following principles:

- if cost-efficient, AST carries out oil recovery, as a result of which the quality characteristics of the oil are restored, and the oil can be reused for filling in equipment;
- if it is ascertained that the oil is of lower quality as a result of the tests, the oil is sold to a cooperation partner for the creation of other products (it is returned to the circular economy);
- if the oil is no longer usable, it is disposed of as hazardous waste.

Indicators of managed oil in the table below.

Year	Filled and replaced in electrical equipment, storage, t	Sale of used transformer oil, t
2023	62	81
2022	52	266
2021	53	293

Including 53 m³ of insulating oil donated in 2023 to support the Ukrainian energy system.

SOCIAL IMPACT

GRI 404-1, 404-2, 404-3

EMPLOYEE COMPETENCE, GROWTH AND QUALIFIED WORKFORCE OF THE FUTURE

In 2023, the Group continued the developmental direction taken regarding the development of employee competencies and the availability of training, in order to be able to ensure both the transfer of knowledge to new specialists and the succession process in the future, considering the goal of supporting education and science, promoting the development of innovation-oriented employees.

The Group is proud of its professional, highly qualified, competent and motivated team of employees, who contribute to the development of the company and the achievement of strategic goals. In the company, digital transformation and the improvement of digital skills of employees are in the first place.

In order to continue the work started on developing employees' digital skills, a cooperation agreement was concluded in 2023 with one of the leading software and e-course development and IT training companies in Latvia, which provides employees with systematic and long-term digital skills development using various training methods. With each lesson, an increasing trend in the number of participants was observed, which indicates a successful continuation of the project. This will improve the personal skills of employees in the future and promote digital competence in the company as a whole.

Based on the results of last year's development interviews and the fulfilment of targets, a staff training plan was developed for 2023, which included training to increase employee efficiency. They were primarily based on developing digital skills, improving general skills and competences and providing vocational training for employees. The company carefully monitors and ensures that the skills of technical staff meet the necessary qualification requirements, as well as the integration of new working methods and the acquisition of innovative technologies into modern, competitive and high-quality vocational training for adults. Vocational training development programmes were implemented in accordance with the company's strategic objectives and the individual goals and tasks of the structural units and employees. The training and qualification system is focused on the application of safe working methods in daily work, while maintaining the highest standards of professionalism.

For AST staff, considering the nature of the work and the scope of the company, the criteria for employee education, qualification and competence are determined. Electrical engineer and AST equivalent electrical system engineers are included in the list of regulated professions in the field of energy, which determine special requirements regarding the education of the person performing the professional activity, documents certifying the professional qualification or the use of the title of the professional activity. The education and qualification of personnel working in these professions must meet the educational and qualification requirements set out in the Law on Regulated Professions and Recognition of Professional Qualifications. In total, AST employs 66 individuals of regulated professions.

Having regard to the Medium-Term Operational Strategy of the Parent Company, a new manager competence matrix was developed in 2023 for certain job groups, namely senior and middle-level managers. Based on the overall results of managers' competence assessments, an individual competence development plan was developed for each manager, which in the future will ensure the acquisition of the most suitable long-term training programmes, developing leadership skills and increasing professionalism. Managers' development activities were also supplemented by the managers' education and development project launched at the end of the year – a training programme in which the latest management skills trends in Latvia and the world were outlined, which in the future will develop managers' desire to strengthen their internal resources for successful and excellent performance-oriented team management.

In 2023, work was continued on the development and integration of the company's e-learning platform "Viszinis" in the process of employee training. It helps to provide employees with the opportunity to familiarize themselves with various briefings, perform knowledge verification tests after the successful completion of the training course, and receive an evaluation, as well as participate in various company surveys. In 2023, new users were added to the e-learning environment and the learning opportunities were thus significantly expanded. The "Viszinis" platform currently contains information on risk management, IT security, a wide range of digital skills, as well as personal data processing.

According to the Parent Company's estimate, the average number of training hours in the Parent Company in 2023 was 11 hours per employee, which represents an increase of three hours compared to 2022. 277 employees (4 women and 273 men), mainly technical staff, took part in mandatory training, which is 27 employees more than in the previous reporting period. Administrative staff took part in skills and competency development training organised by the company. In addition, AST offered 125 external training courses in 2023 (61 women and 64 men). In comparison, 134 external training courses – courses, seminars/webinars, conferences – were offered in 2022, which is 7% less than in 2022.

	2023	2022
The average number of training hours in the Parent Company per employee	11	8
Number of participants in mandatory training	277	250
Number of participats in external training courses	125	134

When implementing the annual employee performance assessment for 2022, in the reporting year, 70% of employees (14%women and 86% men; 39% skilled workers, 54% specialists and 7% managers) had received career development feedback (75% in the previous reporting year).

In order to identify the necessary activities that nurture the greatest possible interest and commitment of employees, increase employee loyalty to the company, as well as determine the factors that reduce motivation to work with the highest return, 84% of the Parent Company's employees participated in the Employee Engagement Study in 2023, compared to 2022, when 77% of the Parent Company's employees participated in the Employee Engagement Study.

According to the data obtained, 54% of employees are engaged, loyal to the company and corporate citizens. Based on the results obtained, work was carried out, particularly in 2023, to maintain and increase the level of involvement of managers and to develop, plan and implement future activities. Managers at all levels were involved in order to work together to increase the participation rate and loyalty of employees.

GRI 3-3, 403-1, 403-9, AST-2

HEALTH, SAFETY AND WELL-BEING OF EMPLOYEES

The Group pays particular attention to creating a safe working environment. Through internal monitoring of the working environment, and in accordance with the laws and regulations of the Republic of Latvia and the requirements of ISO 45001, annual occupational health and safety plans are developed with the aim of maintaining a safe working environment. The Group provides employees with appropriate workplaces, personal protective equipment and technical aids and organises employee training on occupational health and safety issues and safe working practises.

The occupational health and safety system applies to all areas of activity and employees of the company. The system ensures the internal monitoring of the working environment, the sensitisation of employees to hazards and risks in their daily work and a high level of responsiveness in emergency situations. The employee or eyewitnesses to the accident report immediately to their direct supervisor, and the victim receives first aid and medical care immediately. The line manager is obliged to inform the company management and the health and safety officer. Once a quarter, the Management Board is informed about accidents, incidents and near misses. After an accident, the risks of the working environment are reassessed, having regard to the causes of the accident.

The Group's activities in the area of safety have been appreciated by third parties. In the Group and in the Parent Company, the management system for occupational health and safety fulfils the requirements of ISO 45001 and makes it possible to reduce the company's risks in the area of occupational health and safety in a targeted manner.

Accidents and occupational illnesses suffered by employees in the workplace can only be fully prevented if a safe working environment is provided, which is why every employee must comply with all occupational safety requirements. In 2023, as in 2022, there were no work-related serious accidents or fatalities in the Group. In the parent company, accidents are registered and investigated in accordance with the laws and regulations of the Republic of Latvia and the "Investigation, recording and reporting of accidents and work environment incidents" procedure established for the company. The frequency of reportable work-related injuries in the Parent Company is 1.1 (per 1 million hours worked).

	GROUP			PARENT COMPANY		
Number of accidents	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**
Number of accidents (risk of infections)	8	1	1	7	1	1
Number of accidents (not serious)	1	2	1	1	1	–
Number of accidents (fatal)	–	–	–	–	–	–

The risks of the working environment are regularly assessed in the Parent Company in accordance with the methodology. Considering the accidents that have occurred, measures are taken to reduce the risks posed by the working environment and to continuously improve the safety of employees at the workplace and in the working environment. The assessment of the working environment is carried out by health and safety experts with the involvement of the heads of the structural units and the responsible employees, persons of trust and employees who work in the respective premises/workplaces or carry out the corresponding work. The assessment of the risks of the working environment in remote working mode is carried out in co-operation with the remote working operators. All workplaces and all types of work are identified in the risk assessment of the working environment. Once a year, the results of the work environment risk assessment are collected, and a plan is drawn up with health and safety measures to prevent or reduce the risks of the working environment.

In accordance with the scope provided for in the work environment risk assessment, the parent company's employees are regularly trained, instructions are given, and regular knowledge tests are held for employees who carry out work on electrical devices. The need for training, the scope of instruction and the necessity of knowledge tests are determined by assessing the risks of the respective employee's working environment. Training is usually provided by educational institutions that fulfil the requirements of legal regulations and offer the necessary training. The training courses are offered free of charge, usually during working hours.

Employees regularly undergo the prescribed health checks and immunisations in accordance with the requirements of statutory regulations. In conformity with the risk assessment of the working environment, employees are provided with the necessary personal protective equipment and the equipment required for safe performance of work.

The Subsidiary has developed the necessary regulations for the management of occupational health and safety processes and organises regular employee training. Employees are trained in occupational health and safety, fire prevention, civil defence, first aid, hazardous work, technical maintenance of gas transport and storage systems, electrical safety and welfare.

In 2023, AST paid particular attention to employee well-being. Several lecture series were organised on physical health (the importance of a proper and balanced diet and physical exercise) and emotional health (how to react in stressful situations, how to maintain emotional health, how to recognise and protect against burnout syndrome).

To promote the physical health of employees, the company organised the “Active Days Challenge” in spring 2023, during which employees were encouraged to exercise for at least 30 minutes a day. The campaign lasted two months and the employees appreciated this activity organised by the company with great joy and openness.

Employees have the opportunity to visit the gym independently, where everyone has the chance to take part in team sports, as well as improve their physical health and fitness in the gym.

As the company cares about the well-being of the employees, it has taken out health insurance for each employee. As part of this insurance, employees receive a wide range of outpatient and inpatient benefits, the opportunity to undergo rehabilitation, as well as reimbursement for medication and dental services. As part of their health insurance, each employee can also use an individual open policy to cover the costs of services that are not included in the health insurance or that exceed the policy’s cover amount.

In 2023, the company approved the occupational regulations that allow employees to work remotely and work flexible hours. Every employee whose workplace allows the possibility of remote working has the opportunity to individually plan their working hours remotely or in the office, as well as to organise their working hours flexibly, thus ensuring a balance between private and professional life. Although AST cannot apply such motivation to all employees in the same way, it is important to respond to employees’ initiative and needs. Evaluate the possibilities and limitations that would allow employees to organise their working hours more flexibly.

The Parent Company invested EUR 1,284 thousand in the improvement of the working environment in 2023 (in 2022: EUR 129.7 thousand).

GRI 2-7, 2-8, 405-1

AN INCLUSIVE WORK CULTURE AND GENDER EQUALITY IN EMPLOYMENT RELATIONS

Employee diversity

The generations of the workforce are changing, so financial incentives cannot be the only tools to motivate employees. The employer's reputation, well-being, remote work, flexible work schedule are some of the aspects that are becoming increasingly important to the employees of the Group.

The energy sector is characterized by a high number of people employed in technical professions, so the proportion of men in the structure of the employees of the Group and the Parent Company is relatively high. This indicator has not changed significantly in recent years.

Data are offered for comparison in the Group and the Parent Company as at 31 December 2023 and 31 December 2022.

Employee diversity (including Management Board and Supervisory Board)	GROUP		PARENT COMPANY	
	2023	2022	2023	2022
Proportion of women	17%	17%	16%	16%
Proportion of men	83%	83%	84%	84%
Proportion of women in management and support structural units	37%	35%	51%	52%
Proportion of men in management and support structural units	63%	65%	49%	48%
Employees in the age group over 50	36%	37%	36%	38%
Employees in the age group of 30–50	55%	55%	55%	54%
Employees in the age group up to 30	9%	8%	9%	7%

	GROUP					
	2023			2022		
Age	Women	Men	Employees	Women	Men	Employees
Under 30	1%	8%	9%	1%	8%	9%
31–40	5%	21%	26%	5%	21%	26%
41–50	4%	25%	29%	4%	25%	29%
51–60	4%	18%	22%	4%	18%	22%
Above 60	3%	11%	14%	3%	11%	14%
In total	**17%**	**83%**	**100%**	**17%**	**83%**	**100%**

	PARENT COMPANY					
	2023			2022		
Age	Women	Men	Employees	Women	Men	Employees
Under 30	1%	8%	9%	1%	8%	9%
31–40	5%	22%	27%	5%	22%	27%
41–50	3%	25%	28%	3%	25%	28%
51–60	4%	18%	22%	4%	19%	23%
Above 60	3%	11%	14%	3%	10%	13%
In total	**16%**	**84%**	**100%**	**16%**	**84%**	**100%**

Management Board and Supervisory Board Diversity	GROUP		PARENT COMPANY	
	2023	2022	2023	2022
Employees in the age group over 50	39%	44%	38%	50%
Employees in the age group of 30–50	61%	56%	62%	50%
Employees in the age group up to 30	0%	0%	0%	0%
Proportion of women	11%	22%	12%	25%
Proportion of men	89%	78%	88%	75%

Work system	GROUP		PARENT COMPANY	
	2023	2022	2023	2022
Half time	0.2%	0.3%	0%	0%
Part-time work	0.8%	0.3%	0.4%	0.2%
Cumulative work time	21%	19%	24.6%	24%
Full normal working hours	76%	78%	73%	74%
Supervisory Board, Management Board, Audit Committee	2%	2%	2%	2%
In total	**100%**	**100%**	**100%**	**100%**
Contract employees	3	2	0	0

Work system	GROUP					
	2023			2022		
	Number of contracts, as at 31.12.2023	Women, %	Men, %	Number of contracts, as at 31.12.2022	Women, %	Men, %
Half time	1	100%	–	3	33%	67%
Part-time work	7	29%	71%	2	–	100%
Cumulative working time	190	3%	97%	171	2%	98%
Full normal working hours	678	21%	79%	682	21%	79%
Supervisory Board, Management Board, Audit Committee	20	10%	90%	20	20%	80%
In total	**896**	**17%**	**83%**	**878**	**17%**	**83%**

Work system	PARENT COMPANY					
	2023			2022		
	Number of contracts, as at 31.12.2023	Women, %	Men, %	Number of contracts, as at 31.12.2022	Women, %	Men, %
Half time	–	–	–	–	–	–
Part-time work	2	100%	–	–	–	–
Cumulative working time	133	2%	98%	123	1%	99%
Full normal working hours	397	21%	79%	389	21%	79%
Supervisory Board, Management Board, Audit Committee	10	10%	90%	10	20%	80%
In total	**542**	**16%**	**84%**	**522**	**16%**	**84%**

The Parent Company had no contract employees as at 31 December 2023 and as at 31 December 2022. In the Subsidiary, a contract for services is concluded with contract employees for the performance of certain works. Contract employees are employees, who have a fixed-term contract for the performance of specific tasks, and the contract is valid on the reporting date. The Subsidiary does not record working hours for these employees. Contract employees are not included in the number of employees. The contract defines specific works to be performed and the result to be achieved – delivery. At the end of 2023, the Subsidiary had three active contracts for services, which worked on the development of data parameters for entering the information system, the development of information systems and the development of the technical specification for the reconstruction of the operational technology (taps, extinguishing units) of Inčukalns UGS facility.

In total, 22 contracts for services were concluded with the Subsidiary in 2023. Six of them were concluded with individuals for whom the Subsidiary made tax payments, while 16 contractors were self-employed persons and made tax payments on their own.

In the Group, compliance with occupational safety requirements applies not only to the employees of the company, but also to the employees of service providers. All contractor employees are briefed and given general information about occupational safety in the company before starting work on electrical devices and their protective areas. Work organization procedures have been determined, as well as information about labour protection requirements in the company, which is publicly available on the AST website: www.ast.lv.

Contractors manage their human resources, and the Group monitors their activities at the company's facilities, performing occupational safety compliance inspections at workplaces according to a certain scope and schedule. Inspections are carried out both by the person responsible for the site and by the company's engineering staff. In 2023, inspections of 96 contractor crews carrying out construction and assembly work were carried out at our facilities. In general, occupational safety requirements are met, detected non-conformities are mostly eliminated immediately before continuing the works. An inspection report is prepared for the inspection and the contractor is informed. For detected significant deviations, the contractor's work may be terminated, and fines may be imposed.

	GROUP					
	2023			2022		
Professional groups	**Women**	**Men**	**Employees**	**Women**	**Men**	**Employees**
Managers	18%	82%	100%	17%	83%	100%
Specialists	22%	78%	100%	22%	78%	100%
Skilled workers	0%	100%	100%	0%	100%	100%
Others	37%	63%	100%	40%	60%	100%
In total	**17%**	**83%**	**100%**	**17%**	**83%**	**100%**

	PARENT COMPANY					
	2023			2022		
Professional groups	**Women**	**Men**	**Employees**	**Women**	**Men**	**Employees**
Managers	18%	82%	100%	16%	84%	100%
Specialists	21%	79%	100%	20%	80%	100%
Skilled workers	0%	100%	100%	0%	100%	100%
Others	19%	81%	100%	24%	76%	100%
In total	**16%**	**84%**	**100%**	**16%**	**84%**	**100%**

The Group had 896 employees as at 31 December 2023 (878 employees as at 31 December 2022).

In both 2022 and 2023, 83% of men and 17% of women were employed in the Group. 84% of men and 16% of women are employed in the parent company's structural units. As already mentioned above, the high proportion of men is related to the specifics of the field of activity – a higher proportion in technical professions.

In 2023, in the Parent Company, 97% of employment contracts were concluded for full-time work and for an indefinite period. Of them, 16% were women and 84% were men. In 2023, 3% of all employees are employed full-time and for an indefinite term in the Parent Company. Of them, 27% were women and 73% were men.
Two employees (a man and a woman) have been employed part-time and for an indefinite period in 2023.

As at 31 December 2022, 328 employees in the Parent Company had more than 10 years of service in the company. At the end of 2023, the indicator had slightly increased, and 331 employees had a total length of service of more than 10 years.

As the average age of employees at the Parent Company was 46 years in 2023, the Parent Company pays particular attention to timely planning of the know-how transfer process and raising the professional skills and competence of its employees.

EMPLOYEES OF THE PARENT COMPANY, BY DEPARTMENT

DIRECTION	PARENT COMPANY		
	2023	2022	2021
System management	66	59	54
Development	64	60	49
Support	43	40	43
Operation	324	318	336
Management	33	33	33
Management Board, Supervisory Board and Audit Committee, Internal Audit Department	12	12	14
In total	**542**	**522**	**529**

DIRECTION	PARENT COMPANY		
	2023	of which men	of which women
System management	66	56	10
Development	64	55	9
Support	43	26	17
Operation	324	297	27
Management	33	11	22
Management Board and Supervisory Board	4+4	4+3	0+1
Audit Committee	2	2	0
Internal Audit Unit	2	1	1
In total	**542**	**455**	**87**

Professional groups in the Parent Company	Retirement over the next 5 years (2023-2027)*		Retirement over the next 10 years (2023-2032)*	
	Women	Men	Women	Men
Managers	0%	10%	0%	13%
Specialists	23%	13%	34%	21%
Skilled workers	0%	18%	0%	24%
Other professions	100%	77%	100%	85%

** Against the total number of employees of the relevant occupational group by gender*

DISTRIBUTION OF EMPLOYEES IN THE NATURAL GAS SEGMENT AS AT 31 DECEMBER 2023 AND 31 DECEMBER 2022:

	2023		2022	
	Women	Men	Women	Men
Transmission	4%	96%	4%	96%
Storage	3%	97%	7%	93%
Support function	39%	61%	38%	62%

ECONOMIC IMPACT

GRI 3-3, 416-1, 416-2, AST-3

INFRASTRUCTURE SECURITY, SUSTAINABLE MANAGEMENT AND DIGITIZATION OF PROCESSES

The infrastructure supporting the Group's activity can be divided into two groups: physical objects and data networks. The infrastructure ensures the transmission of electricity and natural gas, the storage of natural gas, which is vital for society and provides widely used services in energy supply on a daily basis. The interruption of these services would have an extremely significant impact on public safety, because energy resources are involved in almost all daily processes. All (100%) services provided by the Group have a significant impact on customers and society as a whole. Health and safety impacts have been assessed for these services.

Secure energy supply

The Group's main task is to ensure a secure and continuous supply of energy and equal access to the transmission grids for all stakeholders. The services provided by the Group are vital for every inhabitant of Latvia, so special attention is paid to security of supply.

As the sole operator of the electricity transmission network in Latvia, AST must ensure long-term, reliable, high-quality and continuous availability of electricity and therefore take care of the adequacy of the transmission infrastructure by implementing sustainable and well-designed investment projects. Recognising the public importance of the service provided by the Parent Company, the priority of the Parent Company is to provide high quality and safe electricity transmission service at the lowest possible tariffs.

In order to ensure the highest possible efficiency, AST actively raises EU co-financing for the financing of investment projects and uses the funds available to AST – revenues from congestion management – in a targeted manner to ensure the lowest possible impact of realised investment projects on transmission tariffs. Thanks to AST's activities, 85% of the funds required for the implementation of development projects under the European Decade Development Plan are covered by EU co-financing and congestion management revenues, thereby minimising the impact on electricity transmission tariffs.

In light of the services provided by the Subsidiary, i. e. the storage, and transmission of natural gas, the strategic task of the Subsidiary is also to guarantee a safe and continuous energy supply, devoting significant investments to this purpose. The Subsidiary provides transparent, equal, and stable access to transmission and storage services.

Measures for safe energy supply already completed and initiated in the Subsidiary:

- Maintenance and modernisation of appropriate technical, information technology and cyber security infrastructure;
- Implementation of a digital asset management system and projects of common interest of the European Union;
- Independent diagnostics of the internal system and reduction of detected incidents, trying to completely prevent incidents;
- Optimized scheduling of maintenance work to mitigate capacity constraints;
- Establishment of a common balancing zone with Estonia;
- Regular monitoring and evaluation of supply and demand trends to ensure against a drop in the period of higher consumption (winter);
- Integration of the action plan for emergency situations in wells into the civil protection plan;
- Coordination of repair work plan and coordinated publication of UMM (Urgent Market Messaging) on a single website with neighbouring transmission system operators;
- Compliance with third party access (TPA) rules – capacity reservation, nomination, balancing, invoicing, timely and correct market information;
- Open communication with market participants;
- In-depth cooperation with regional operators to ensure security of supply.

The security of physical objects such as substations, overhead lines and their supports, gas storage facilities and gas transport pipelines is ensured by means of security systems and regular inspections and patrols. Unauthorised persons are prohibited from accessing infrastructure objects. Power lines and substations under the control of AST are sources of electromagnetic radiation (EMR). According to the measurements carried out, the EMF radiation in all protective belts of the power lines was always many times below the permitted values, while work plans have been developed for work in the areas of the substations within the permissible limits, compliance with which is strictly monitored. Magnetic field radiation near high-voltage power lines is also usually in the range of 25 to 30 microtesla (μT), but at the edge of the protection zone of high-voltage power lines, it approaches zero, while the permitted value in Latvia and worldwide is 100 microtesla (μT), i.e. 3 to 4 times higher than the AST value most frequently detected in the lines. In its recommendations, the European Union points out that to protect the population from potentially harmful biological effects associated with EMFs generated by high-voltage overhead power lines, the level of the emitted fields must be monitored and assessed, as it is not sufficient to simply maintain safe distances. This requirement applies in particular to magnetic fields, as their strength depends not only on the line voltage but to a greater extent on the current flow in the lines, the type of carriers, the number of systems, the spacing of the low-voltage lines, the number of phase lines, etc. It is therefore necessary, first and foremost, to comply with the limits set out in the European Union Recommendation, which have been established based on the best scientific research currently available, and to ensure the protection of the public from all effects of EMF exposure.

In 2023, in accordance with the Memorandum of Understanding signed by AST, Conexus and the IT security incident prevention institution CERT.LV on the creation and management of the Cybersecurity Centre for Energy Infrastructure Operators with the aim of strengthening the cyber security of Latvian energy infrastructure and developing mutual cooperation between all institutions, an exchange of information between the parties was implemented.

The establishment of a Cybersecurity Centre for Energy Infrastructure Operators is the first step towards building cybersecurity capabilities specifically focused on the energy sector. This is important given the increasing number of cyber security incidents across the country, particularly in the wake of the Russian invasion of Ukraine. The Memorandum provides for the development of certain procedures for the exchange of information between the parties involved in the event of cyber security incidents and their prevention in order to be able to respond promptly to these types of incidents. The parties that have signed the memorandum do not rule out the possibility that this initiative may be extended to other participants in Latvia or the region in the future.

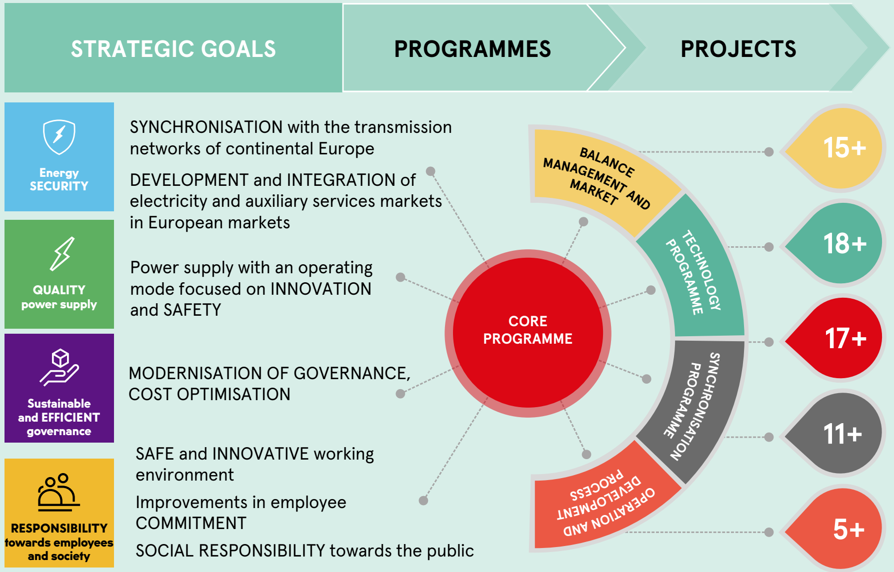
As in 2022, no incidents related to customer safety and public safety (including non-compliance with the requirements of legal acts) occurred during the reporting period.

In the second quarter of 2023, 84,372 incidents were identified in AST, of which 3,268 required manual processing and in-depth investigation by security analysts; in the third quarter of 2023, 136,801 incidents were identified, of which 3,851 required manual processing and investigation; while in the fourth quarter of 2023, the number of incidents already reached 157,469, with 3,647 cases analysed in depth.

As one can see, attacks in the cyber environment tend to increase rapidly. AST is therefore working on various security solutions to prevent the vulnerability of the country's critical infrastructure.

The Group's Medium-Term Operational Strategy 2021–2025 provides for the implementation of the Digital transformation programme. Digital transformation is about improving or redesigning existing processes in the company, making them more efficient, digitalising and automating them. Several new processes are also expected to be introduced during this period in connection with the planned launch of synchronised operations with continental Europe and further permanent frequency regulation.

To achieve the goals set, the digital transformation will be managed with the help of five programmes:

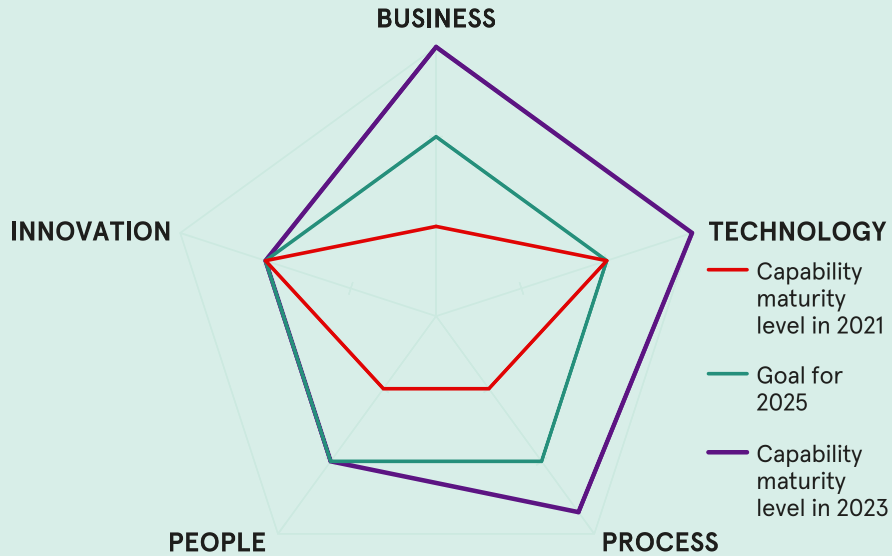


Each project is implemented by a working group that reports regularly to the Programme Steering Committee, which monitors the progress of the project, makes decisions and identifies contact points with other related projects. Work is progressing according to the approved roadmap and, in 2023, almost 100% of the activities planned for this year have been completed. The results achieved make the company more efficient, and make processes clearer, more controllable and safer.

At the end of 2023, PricewaterhouseCoopers (PwC) carried out an assessment of AST's Digital Transformation (DT) maturity – an audit that uses an internationally recognised methodology to calculate the organisation's ability to continuously evolve. As part of the maturity assessment, the DT programme materials and associated documentation were reviewed, interviews were conducted with all DT programme managers and feedback was obtained from employees.

According to the methodology used by PwC, the digital transformation maturity level is assessed in five dimensions (business, innovation, people, processes, technology) and four stages (initial, managed, optimised, transformed).

When assessing AST's performance, the PwC experts concluded that the company was already able to achieve and exceed the targets set for 2025 in 2023.



	EMERGING	MANAGED	OPTIMISED	TRANSFORMED
BUSINESS	The development of digital capabilities is not central to the organization's strategy/goals	A digital vision and strategy is known, the organization's priorities/goals are not changing	The digital vision is implemented through leadership, processes, communication takes place at all levels, strategy is adaptive and iterative	The company is continously improving. Improvement is ensured at all involved levels . Synergies between goals, processes and technologies are integrated and operate autonomously.
INNOVATION	New solutions are analysed	New solutions are being introduced in certain areas of core operations	New solutions are strategically implemented by changing the existing ones, the implementation of new solutions is promoted	
PEOPLE	Limited knowledge, incomplete training, lack of cooperation	People are knowledgeable and able to ensure core operations in an appropriate capacity	Strong knowledge that is being shared, innovative culture	
PROCESS	Processes are established and enable core operations	Processes are adaptable, regularly renewed depending on the need	Processes are being transformed and integrated into technologies	
TECHNOLOGY	Technologies are provided and are used	Technologies are adapted regularly and changes are implemented according to requirements	Technologies enable business and processes, are easily integrated within digital transformation	
	FOUNDATION	INTERMEDIATE	PROGRESSIVE	DIGITAL EXCELLENCE AND MATURITY

Some of the implemented projects in 2023:

- The Balance management information system has been launched;
- The concepts of the Baltic Balancing Power Market and Switch Management System have been developed;
- The requirements specification for the implementation of the IT solution for the equipment condition index (AHI) has been developed;
- The CAS tool for review and coordination of construction projects improved;
- In order to streamline the monitoring and maintenance of power lines, a specially adapted module has been developed in the LVM GEO mobile app, which makes it possible to obtain more accurate data, plan power line works more easily, as well as ensuring faster data exchange with transmission network information systems.

The performance of the Parent Company in the field of digital transformation, the execution of innovative solutions in the implementation of the synchronization project and network management to ensure the connection of a large amount of RES to the network was also appreciated by the jury of the competition "Export and Innovation Award 2023".

GRI 204-1

SUSTAINABLE PROCUREMENT PRACTICES AND SELECTION OF PARTNERS

In accordance with Section 3 and Section 13, Paragraph Four of the Law on Procurement of Public Service Providers, the Law on Procurement of Public Service Providers is applied in the procurement procedures organised by the Group if the expected contract price is equal to or higher than the contract price limits set by the Cabinet of Ministers. The internal ground rules of the Parent Company and the Subsidiary for the procurement procedures have been drawn up pursuant to normative public procurement regulations, including the procurement guidelines of the Office of Procurement Supervision for Public Service Providers and explanatory notes. At the same time, the Group procures works, goods and services through centralised procurement, for example through the e-orders subsystem of the electronic procurement system, where procurement procedures are carried out by the State Agency for Regional Development. In certain cases, the Group conducts centralised procurements in which the Parent Company and Subsidiary, or several public service providers from different member states of the European Union jointly award procurement rights. In general, the Group conducts procurement procedures in accordance with the laws of the European Union and the Republic of Latvia in order to ensure the openness of the procurement process, free competition among suppliers and their equal and fair treatment, effective use of funds and sustainable business operations.

To provide the service, the Group uses the infrastructure it owns, and for its maintenance and improvement, the companies within the Group enter into construction, supply, and service contracts. In 2023, the Group concluded 438 procurement contracts, i. e. 55 construction contracts (96% of them with companies registered in Latvia; in 2022 – 100%), 250 service contracts (88% of them with companies registered in Latvia; in 2022 – 90%) and 133 supply contracts (of which 83% with companies registered in Latvia; in 2022 – 87%). Out of all the contracts concluded in 2023, AST concluded 52 contracts with 42 suppliers registered outside of Latvia.

Public procurement is a process for the purchase of services, goods, construction works, and at the same time a tool with which the Group can achieve other goals, not only purchasing what is required. Strategic public procurement means such public procurement, with the help of which one of the goals in the social, environmental, or innovation fields can be achieved. The Group carries out green public procurement (GPP), in which the requirements for the selection of applicants, the technical specifications, or the rules for the execution of the contract include a condition that promotes environmental protection. In accordance with Cabinet Regulation No. 353 "Requirements for green public procurement and the procedure for their application" of 20 June 2017, the Group must necessarily apply the requirements and criteria of GPP in the following procurements: office paper, printing equipment, computer equipment and information and communication technology (ICT) infrastructure, cleaning products and services, indoor lighting, new building of the third group construction, reconstruction, design and demolition, purchase of light passenger cars and light commercial vehicles. Notices published in the Publications Management System of the Procurement Monitoring Office note if the procurement includes the GPP requirements.

The life cycle costs of a product, service or building are assessed as part of the GPP: acquisition-related costs, utilisation costs (e.g. consumption of electricity and other resources), maintenance costs, costs at the end of the life cycle (e.g. return and recovery costs), and costs at the end of the life cycle. End-of-life costs (e.g. take-back and recovery costs), product, service or construction cycle costs and costs associated with environmental impacts (e.g. the cost of greenhouse gas and other pollutant emissions, the cost of climate change mitigation and adaptation measures), provided that they can be expressed and verified in monetary terms. For certain procurements, candidates that have developed an environmental management system that complies with certain international, European or national standards (ISO 14001:2015 or equivalent) are qualified or favoured.

The Group conducts socially responsible public procurement with terms and conditions that ensure decent working conditions (e.g., occupational safety) and better remuneration (e.g., the requirement that the average hourly rate of employees of the contractor or its subcontractors is not less than 80% of the average hourly rate of employees in the relevant occupational category or reaches at least the defined national minimum hourly rate), etc. The Group carries out innovation procurements to ensure the implementation and development of information and communication technology systems when a need is known but there is no information on the solution available on the market. This promotes the more efficient use of resources and supports investment in research, development, and innovation. The Group, therefore, pursues sustainable procurement whereby the goods, services, and works procured have the greatest possible positive impact on the environment, society, and economy during their life cycle while endeavouring to reduce any potential negative impact.

To ensure the principle of openness and prevent the risk of corruption, all procurements announced by the Group are published in the electronic tendering subsystem of the electronic procurement system (www.eis.gov.lv) in the buyer profile of the parent company and the subsidiary, in the publication management system of the Procurement Supervision Office, on the website of the parent company www.ast.lv and the website of the Subsidiary www.conexus.lv, in accordance with Section 1, Paragraph 24 of the Law on Public Services Procurement. The Group thus offers free and direct electronic access to its procurement documents, as well as the receipt of electronic tenders in the electronic tendering subsystem of the electronic procurement system.

A candidate or applicant is excluded from participation in the procurement procedure if the reasons for exclusion referred to in Section 48 of the Law on Procurement of Public Service Providers have been established concerning the candidate or applicant, or any of the persons referred to in the Law, or international or national sanctions, or significant European Union sanctions affecting financial market interests have been established, or sanctions by a member of the North Atlantic Treaty Organization that will impede the implementation of the agreement. In procurement contracts, the Group provides for the right to unilaterally withdraw from the performance of the contract if the contract cannot be performed because international or national sanctions have been imposed on the counterparty or sanctions imposed by a member state of the European Union or the North Atlantic Treaty Organization affecting significant financial market interests. Thus, the fundamental principles of the Group's ethics are observed in all procurement procedures organised by the Group, when concluding contracts with cooperation partners, as well as during the entire period of cooperation.

GRI 201-1

DIRECT ECONOMIC IMPACT

The Group is one of the largest state capital companies. The balance sheet value of the group as at 31 December 2023 was EUR 1,347 million, while that of the Parent Company was EUR 1,023 million. The Group provides jobs for more than 890 Latvian residents (as at 31 December 2023, the Group had 896 employees, and the Parent Company had 542 employees). The Group, as the only operator of the electricity and natural gas transmission system in Latvia, as well as the manager and owner of the natural gas storage facility, is an important driver of the development of the industry and driver of the national economy of Latvia, creating both direct and indirect influence.

The economic value created by the Group and the Parent Company is supported by its financial indicators. In 2023, the Group's turnover was EUR 234 million, with a profit of EUR 10 million, and that of the Parent Company was EUR 158 million and with a profit of EUR 11 million, respectively.

Moreover, by promoting employee motivation and loyalty to the company, the Parent Company increased employee wages as of 1 January 2023 to match the previous year's national inflation. In 2023, the economic value created by the Parent Company was EUR 174 million, distributed economic value — EUR 131 million (see table). Compared to 2022, there is a significant change in both the economic value generated and the economic value distributed in 2023, which is due to the change in electricity prices.

	PARENT COMPANY		
	2023	2022	2021
	Thousand EUR	Thousand EUR	Thousand EUR
Economic value created	**173,956**	**309,784**	**189,083**
Revenue and other income	165,710	303,192	130,790
Finance income	2,526	55	7
Investment income	5,720	6,537	58,286
Distributed economic value	**131,034**	**322,673**	**126,477**
Raw materials, materials, etc. operating costs	104,721	244,251	78,751
For remuneration of employees	21,647	18,622	16,461
Compensation for the use of state capital	3,661	4,184	29,143
Finance costs	682	617	2,121
Payments determined by the state, including:			
UIN	–	–	–
PUC fee	*152*	*147*	*146*
Donations	–	55,000	1
Undistributed economic value	42,922	42,110	62,607

The undistributed value corresponds to the part of the profit of the reporting period, for which a decision was made to direct it to reserves, depreciation, and deferred tax.

GRI 203-1, 203-2

INDIRECT ECONOMIC IMPACT

Indirect impact of infrastructure development projects on the economy

The electricity transmission network is being developed in accordance with the Latvian electricity transmission system development plan and the ten-year development plan of the European transmission system. The European ten-year development plan includes those Latvian development projects that are strategically important not only nationally, but also in the Baltic Sea region as a whole, and inclusion in the European ten-year development plan is one of the prerequisites for the projects to be eligible for European co-financing. The European ten-year development plan includes projects closely related to strengthening Latvia's energy security by integrating into the EU electricity market. At the same time, the development of interstate connections is essential for preventing overloading of the transmission network on the Estonian-Latvian border, thus contributing to the reduction of the wholesale price of electricity in the Latvian trading area, and fostering the development of Latvia's national economy and the increase in competitiveness. The implementation of the projects included in the European ten-year development plan, as well as the other projects included in the Latvian electricity transmission system development plan, not only improves the quality and continuity of the electricity transmission system service, but also provides an opportunity to develop renewable energy resources, as well as fostering the development of the national economy and Latvia's regions, creating additional jobs.

Received EU funding support and its importance

In order to implement capital investment projects important for strategic goals and the development of the electricity transmission network as efficiently as possible, while at the same time minimizing their impact on electricity transmission system service tariffs, the Parent Company actively attracts EU co-financing from the Connecting Europe Facility for financing capital investment projects ("CEF"), EU funding from the Recovery and Resilience Mechanism ("RRM"), as well as additionally redirects congestion charge revenues (see table). According to the methodology for calculating tariffs for services of the Electricity Transmission System, the part of the value of fixed assets financed from the financial support of the European Union, as well as received overload management revenues, is not included in the calculation of transmission tariffs. Thus, redirecting EU funding and congestion fee revenues to finance capital investment projects reduces electricity transmission tariffs and successively contributes to maintaining the competitiveness of Latvian companies.

Within the framework of the energy sector of the instrument for connecting European infrastructure, financing agreements have been concluded for five capital investment projects from 2014 to the end of 2023 – Kurzemes loks, the 3rd interconnection between Estonia and Latvia, the 330 kV EPL Riga TEC-2 – Riga HEP, synchronisation of the Baltic States with continental Europe, Phase 1, synchronisation of the Baltic States with continental Europe, Phase 2 – financing, envisioning total CEF co-financing up to EUR 247 million (see table).

In addition to the above, at the end of 2023, support from the European Commission was received for the financing of the projects presented by the Company under reform 7.1.1 "Transformation of the Energy Sector" of the European Union Recovery and Resilience Mechanism Plan, investments 7.1.1.1.i. "Synchronization of the electricity transmission system", 7.1.1.2.i. investments within the framework of "Modernization of electricity transmission and distribution networks". The total allocated funding is EUR 73 million, including for the synchronization of the Baltic States with continental Europe, for the 2nd phase of EUR 54 million.

In addition to CEF co-financing, part of the capital investment projects are also planned to attract ANM financing, under the regulations of the Cabinet Regulation No. 726 of 15 November 2022 of the Republic of Latvia, based on which, on 27 March 2023, AS "Augstsprieguma tīkls" signed a financing agreement with the Ministry of Economics, as the manager of the ANM fund, for the implementation of its projects in the amount of EUR 38.1 million.

In addition to the financing of the aforementioned projects, it is planned to earmark EUR 92 million of the congestion fee revenues received by AST. As a result of the Parent Company's activities, 85% of the funding required for the implementation of development projects included in the European Decade Development Plan is covered by EU co-financing and congestion fee revenues, thus reducing the impact on electricity transmission system service tariffs. AS "Augstsprieguma tīkls" has not received any other type of financial support to fund its principal operations.

Table

	Kurzemes loks	Riga TEC-2 – Riga HPP	Estonian-Latvian interconnection	Synchronisation, Phase 1	Synchronisation, Phase 2	Total
Year of implementation	2019	2020	2021	2025	2025	
Total costs, incl.	**128**	**15**	**84**	**74**	**165**	**465**
EU co-financing, CEF	55	7	51	55	78	247
EU co-financing, RePower	-	-	-	-	54	54
Congestion fee revenue	11	7	31	18	25	92

Renewable electricity production – connections

In light of the European Green Deal, there is also huge interest in the production of electricity using renewable energy resources in Latvia. The total installed capacity of wind parks and solar power plants of different capacities, if all projects are implemented, already exceeds the maximum load of Latvian electricity several times over.

AS "Augstsprieguma tīkls" is not only working on the installation of new electricity transmission system connections for these projects, but is also taking the first steps for further interconnection of the electricity transmission system with neighbouring electricity transmission systems – preliminary assessments are being made for increasing the capacity of interconnections with Lithuania, as well as the new interconnection with Sweden and for the establishment of Germany.

The development of renewable energy power plants in Latvia is an important step towards solving the current energy, security and climate challenges in the Baltic region.

Innovation and research

In order to ensure the development of the Parent Company, understanding the essential role of innovations in ensuring successful operation, the representatives of the Parent Company actively participate in the work of the Research, Development and Innovation Committee of the European Electricity Transmission System Operators Organization ENTSO-E.

Within the framework of the ENTSO-E Research, Development and Innovation Committee, activities aimed at changes in existing electricity systems are carried out in order to achieve the goals set by the European Union.

Innovation and research activities are focused in six directions:

- Modernization;
- Safety and stability;
- Flexibility;
- Economy and efficiency;
- Digitization;
- Green transformation.

In 2023, as part of the development of long-term development scenarios to ensure sufficient capacity, the Parent Company, in cooperation with internationally recognized experts, launched three studies on 1) Development trends of possible electricity consumption in Latvia, 2) Application of innovative measures for the integration of renewable energy resources in the Latvian electricity transmission network, developing a methodology for determining optimal solutions and 3) A feasibility study of the Latvian-Swedish electricity interconnection, following technical and economic analysis. The first two studies will be carried out with the support of the European Union's RePowerEU financing.

The study "Development trends of electricity consumption of the Latvian electricity system in Latvian economic sectors" was launched in December 2023, with a view to examining several consumption and peak load development scenarios and consumption development technologies. Based on the research, the Parent Company will be able to plan the development scenarios of the Latvian electricity system, the amount of renewable energy resources, and the development projects of the electricity transmission network more precisely. The study should provide an overview of innovative solutions that could help increase electricity consumption and maximum load in the Latvian electricity system, as well as identify the development trends of electromobility and hydrogen technologies in Latvia with the possible impact of increased consumption on the daytime peak and night-time minimum electricity load regimes.

The results of the study "Application of innovative measures for the integration of renewable energy resources in the Latvian power transmission network and methodology for determining optimal solutions" will make it possible to conclude how much production capacity can be connected to the power transmission network in various development scenarios, as well as to explore the possibilities of connecting solar and wind power plants. The research should provide proposals regarding which innovative measures should be most effectively applied in order to connect the maximum possible amount of producers' capacity to the existing 110 kV and 330 kV power transmission network.

Conversely, as part of Study No. 3, according to the Parent Company's estimates, if the total capacity of solar, onshore or offshore wind farms exceeds 1000 MW, the construction of additional power transmission interconnections with neighbouring countries will be necessary, including the construction of the Latvia-Sweden (LaSGo link – Latvia-Sweden-Gotland) interconnection. In the study "Latvia-Sweden interconnection feasibility study", it is planned to investigate the impact of the potential interconnection "LaSGo link" on the safety and stability of the energy system in the Baltic Sea region, considering the development of offshore and onshore wind farms in the region. In addition, the study will analyse the possible implementation solutions of the "LaSGo link" project from a technical-economic point of view, it is planned to ascertain the costs of the construction of the possible interconnection and its connection, as well as to perform a cost-benefit analysis.

Transformation of the gas supply system for the use of renewable resources

The production of renewable gases in Latvia is an important aspect of promoting energy independence and security. The subsidiary promotes **the growth of biomethane, hydrogen, and other gaseous energy carrier markets and provides affordable and safe gas transmission and storage infrastructure. The most important processes and events in 2023 are as follows:**

- An important achievement of 2023 is the full implementation of the gas origin certification system. To certify that biomethane is obtained from renewable energy resources, under Section 117.1 of the Energy Law, the producer can request certificates of origin for the produced biomethane. Since 1 July 2023, the Subsidiary is the issuing institution of certificates of origin, and it ensures the operation of the register of gas certificates of origin. In addition, the Company has developed and approved the Latvian domain protocol for gas in an appropriate international administrative procedure, which functions as a detailed procedure for proof of origin and explains how the international standard of the European Energy Certificate System has been adopted at the national level. The Subsidiary ensures the availability of comprehensive information on gas origin certification issues on its website and regularly advises all future market participants in Latvia, as well as other European Union countries, on certification of origin and other issues. The Subsidiary is ready to issue certificates of gas origin and is currently waiting for the first users of this system – biomethane producers.

- Implementation of smart integrated solutions for the introduction of renewable gases into the transmission system: the project envisages the construction of biomethane injection points, which would provide an opportunity for off-grid biomethane producers (producers who do not have a direct connection to the gas infrastructure) to introduce the produced biomethane into the transmission network, without building connecting pipelines from the biomethane production plant to the transmission system. Initially, by the middle of 2025, it is planned to create the first point in Džūkste Parish as a pilot project and, according to the resultant experience, to decide on the further development of other biomethane input points.

- Adaptation of the cross-border gas transmission system for hydrogen transportation: a study of the transmission system has been completed in cooperation with gas transmission system operators from Finland, Estonia, Latvia, and Lithuania. The study determined the set of necessary measures and the assessment of the necessary investments to safely inject hydrogen into the existing gas transmission system. In 2024, the operators involved in the project will continue their work to agree on the next steps.

- The feasibility study on hydrogen storage at the Inčukalns UGS facility is an important project that the Subsidiary has initiated to prepare for the upcoming development of the hydrogen market in the region. In cooperation with a consulting company, the Company has developed a research project plan to assess the readiness of the existing engineering assets of Inčukalns UGS facility for hydrogen injection, storage, and withdrawal, as well as to determine the amount of necessary investments related to it.

- The North-Baltic Hydrogen Corridor is a joint project of transmission system operators of six countries (Finland, Estonia, Latvia, Lithuania, Poland and Germany) – Gasgrid Finland Oy, Elering AS, Conexus, Amber Grid AB, GAZ SYSTEM SA and ONTRAS Gastransport GmbH – to create a cross-border hydrogen gas transmission infrastructure from Finland to Germany via the Baltic States and Poland. The North-Baltic Hydrogen Corridor project aims to facilitate progress towards the achievement of national and European Union (EU) climate goals. In December 2022, the project partners signed a cooperation agreement on the joint advancement of the project, while in November 2023, the European Commission granted the status of a European project of common interest to the North-Baltic Hydrogen Corridor. Feasibility studies are currently underway to explore the potential of green and low-carbon hydrogen production and consumption in the region. Specialists will advise on project scope, pipeline routing, capacities, financing and risk management. It is believed that the hydrogen corridor will provide significant opportunities for the development of energy and related ecosystems. This will promote the development of renewable electricity production, the use of renewable energy sources, accelerate the development of the hydrogen economy and contribute to the achievement of European climate goals. In addition, the project will create investment opportunities in industrial and technological innovations along the pipeline route, reduce energy transportation costs, create new jobs and provide additional income to the countries.

GRI 3-3, 205-1, 205-2, 205-3

FAIR AND ETHICAL GOVERNANCE, PREVENTION OF CORRUPTION

The Group has clearly defined mechanisms of the internal control system aimed at managing the risks of corruption and conflicts of interest. Risk management in the Group generally takes place following the basic principles laid down in the Risk Management Policy of the Parent Company. At the level of policy documents, both the Parent Company and the Subsidiary have implemented a Code of Ethics, which stipulates the prevention of conflict of interest situations and zero tolerance for corrupt activities. The Parent Company has defined more detailed measures and mechanisms aimed at the management of corruption and conflicts of interest in the Risk Management Concept, the Rules for the Management of Risks of Fraud, Corruption and Conflicts of Interest, and the Basic Rules for Procurement Procedures.

The year 2023 (and 2022) statistics in the Group:

- Total number of incidents related to corruption – 0;
- Number of incidents as a result of which the employee was dismissed or received disciplinary punishment – 0;
- The number of cases when relations with business partners have been terminated or not renewed due to corruption incidents – 0;
- Legal proceedings related to corruption cases against the Group – 0;
- Number of fines or non-monetary sanctions for non-compliance with laws and/or regulations – 0.

Significant corruption-related risks are related to procurement and contract monitoring. Mechanisms that reduce the risks of corruption have been incorporated into procurement procedures in the Group – the Parent Company has developed the Basic Rules for Procurement Procedures, and the Subsidiary has developed the Procurement policy. Active action and preventive measures in risk management allow this essential risk position not to grow to a high-risk level.

In the Group, employees whose job duties are related to making decisions in which situations of conflict of interest could theoretically arise are obliged to submit a declaration confirming the absence of a conflict of interest once a year. The form of the declaration differs between the Parent Company and the Subsidiary. In the Parent Company, the requirements to fill in these declarations are defined in the Fraud, corruption and conflict of interest management regulation, in the Subsidiary – in the Code of Ethics. In addition to checking the declarations, the Parent Company monitors the data of its employees in the "Lursoft" database, making sure that the employees who are registered in the "Lursoft" database as management board and/or Supervisory Board members, company shareholders and/or beneficial owners, and signatories in other companies, have provided correct information in their declarations and fulfilled the requirements to coordinate side work outside the Parent Company.

The Group conducts regular training in the field of prevention of corruption and conflicts of interest.

Data on the awareness of employees of the Parent Company on issues of corruption and conflicts of interest:

- The number of managers (departments, parts and services) who are familiar with the rules of fraud, corruption and conflicts of interest – 40 (100%) in 2023, 41 (100%) in 2022;
- The number of employees who have familiarized themselves with the fraud, corruption and conflicts of interest regulation – 333 (61%) in 2023, 322 (62%) in 2022;
- The number of managers (departments, parts and services) who have undergone training on corruption prevention issues and successfully passed the knowledge test – 40 (100%) in 2023, 41 (100%) in 2022;
- The number of employees who in 2023 have undergone training on corruption prevention issues and successfully passed the knowledge test – 176 (32% of the total number of AST employees). In 2022, 135 employees (26% of the total number of AST employees) participated in training on corruption prevention issues and successfully passed the knowledge test. In the Parent Company, new employees who are included in the group of employees who must be trained are sent a link to the training material on the "Viszinis" platform when starting employment. The content and form of training for new employees do not differ from the content and form of annual employee training.

Employee trainings on ethics, corruption, and conflict of interest issues are organised in the Subsidiary. New employees of the Subsidiary have mandatory ethics training when starting their employment relationship, which is part of the Moodle training course "New Employee's Guide".

For detailed information on corruption risks, see also the chapter "Conflicts of interest".

Information on the Parent Company's management of corruption and conflicts of interest is available on its website –

https://www.ast.lv/en/content/management-risks-fraud-corruption-and-conflicts-interest

INDEPENDENT LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT

Independent Limited Assurance Report

To the Management of AS “Augstsprieguma tīkls”:

Introduction

We have been engaged by the Management of AS “Augstsprieguma tīkls” (the “Company”) on the basis of our contract dated 20 February 2024 to provide limited assurance on the Selected information described below and included in the *Augstprieguma tīkls Group Consolidated and AS “Augstsprieguma tīkls” Sustainability and Annual report 2023* of the Company for the year ended 31 December 2023 on pages 5 to 107 (“the Sustainability report 2023”). The Sustainability report 2023 represents information related to the Company and its subsidiary (together the “Group”) .

Selected Information and Reporting Criteria

We assessed the qualitative and quantitative information, that is disclosed in the Sustainability report 2023 and referred to and included in the GRI Content Index (hereinafter – the “Selected Information”). The Selected Information has been prepared in accordance with GRI Sustainability Reporting Standards (hereinafter – the “GRI Standards”), published by the Global Reporting Initiative (GRI).

The scope of our limited assurance procedures was limited to the Selected Information for the year ended 31 December 2023. We have not performed any procedures with respect to earlier periods or any other items included in the Sustainability report 2023 and, therefore, do not express any conclusion thereon.

We assessed the Selected Information using relevant criteria, including reporting principles and requirements, in the GRI Standards (hereinafter – the “Reporting Criteria”). We believe that the Reporting Criteria are appropriate given the purpose of our limited assurance engagement.

Responsibilities of the Management of the Company

The Management of the Company is responsible for:

- designing, implementing and maintaining internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing internal methodology and guidelines for preparing and reporting the Selected Information in accordance with the Reporting Criteria;
- preparing, measuring and reporting of the Selected Information in accordance with the Reporting Criteria; and

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- the accuracy, completeness and presentation of the Selected Information.

Our Responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Company's Management.

We performed the limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements, and plan and perform procedures to obtain limited assurance on whether the measures taken by the Company in respect of Selected information comply in all material respects, with the Reporting criteria.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We have fulfilled our other ethical responsibilities in accordance with IESBA Code.

Our firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of the Work Performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the Sustainability report 2023 in accordance with the GRI Standards.

Our work consisted of:

- interviewing the top management to evaluate the application of the GRI Standards and to obtain an understanding of the control environment related to sustainability reporting;
- obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the Sustainability report 2023;
- comparing data from Selected information to internal documentation and corroborating statements of top management in the interviews;
- comparing the financial data included in the Sustainability report 2023 to the financial statements 2023 of the Group and the Company; and
- evaluating the overall format and content of the Sustainability report 2023, taking into account the compliance of the disclosed information with the Reporting Criteria.

Reporting and Measurement Methodologies

Under the Reporting criteria there is a range of different, but acceptable, measurement and reporting techniques. The techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Selected Information should therefore be read in conjunction with the methodology used by the Management as described in the Sustainability report 2023, and for which the Company is solely responsible.

Our Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2023 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

Restriction of Use and Distribution

This report, including our conclusion, has been prepared solely for the Company's Management in accordance with the agreement between us, to assist the Management in reporting on the Group sustainability performance and activities. We permit this report to be disclosed in the Sustainability report 2023, which will be published on the Company's website[1], to assist the Management in responding to their governance responsibilities by obtaining an independent limited assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company for our work or this report except where the respective terms are expressly agreed in writing and our prior consent in writing is obtained.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

Ilandra Lejiņa
Member of the Board
Certified auditor in charge
Certificate No. 168

Riga, Latvia
26 April 2024

INDEPENDENT LIMITED ASSURANCE REPORT IS SIGNED ELECTRONICALLY WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

[1] *The maintenance and integrity of the Company's website is the responsibility of management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on the Company's website.*

COMPLIANCE WITH THE EU TAXONOMY REQUIREMENTS

Indicators on the proportion of capital expenditure, operating expenses and turnover in the 2023 reporting year that meet the requirements laid down in the EU Taxonomy Regulation

The European Green Deal is Europe's new strategy for sustainable and efficient growth. In order to achieve the set EU climate and energy goals, it is very important that investments are directed towards sustainable projects and activities.

The EU Taxonomy is one of the cornerstones of the European Green Deal, which aims to facilitate the redirection of capital flows towards more sustainable activities. The taxonomy is a unified system of classification of sustainable economic activities, which defines the set of economic activities for each sector that are considered sustainable and make a significant contribution to one or more of the six environmental protection goals – mitigation of climate change, adaptation to climate change, sustainable use of water and marine resources and protection, transition to a circular economy, prevention and control of pollution, restoration and protection of biological diversity and ecosystems.

In accordance with Section 10, Paragraph 2 of EU Delegated Regulation 2021/2178, AS "Augstsprieguma tīkls" discloses quantitative information on the proportion of business activities that comply with the Taxonomy and those that do not comply with the Taxonomy in each of the three set indicators (KPI) – turnover, capital expenditure (CapEx), operating expenses (OpEx).

As part of sustainability reporting, including Taxonomy, AST includes information about the Parent Company, excluding the subsidiary AS "Conexus Baltic Grid".

To identify whether the economic activity of AST in 2023 was in line with the Taxonomy, an evaluation of the business activity was carried out to determine whether it is related to the activities published in Delegated Regulation 2021/2139 and should be identified as economic activities belonging to the Taxonomy. The proportion of activities belonging to the Taxonomy and corresponding to it is determined based on the division of activity segments (see detailed information in Note 3 of the financial report). The Parent Company AS "Augstsprieguma tīkls" of the Augstsprieguma tīkls Group defines its activity in one main operating segment – electricity transmission. Compliance of the aforementioned type of activity with the requirements of the Taxonomy was carried out based on the EU delegated Regulation 2021/2178, the criteria specified in Article 4.9. Because the type of operation of the Parent Company – electricity transmission, is carried out using a single electricity transmission network, which is an interconnected European system, it is considered an activity in accordance with the Taxonomy.

The calculations were made in accordance with the indications of the Taxonomy Regulation (EU) 2020/852, its delegated regulations and related documents. Given the current lack of common understanding and specific methodological guidelines, the calculations are based on a series of assumptions described below. Assumptions and calculation methodology may be adjusted after the publication of the official guidelines of the European Commission. For a detailed transcription of proportions, see in the Note "EU Taxonomy Tables".

In 2023			
Quantitative information	Compliance with the Taxonomy*		Not applicable
	Compliance with the Taxonomy	Incompliance with the Taxonomy	
Turnover, thousand EUR**	158,012	-	0
	100%	-	0%
Capital expenditure (CapEx), thousand EUR	52,188	-	938
	98%	-	2%
Operating expenses (OpEx), thousand EUR***	126,692	-	0
	100%	-	0%

In 2022			
Quantitative information	Compliance with the Taxonomy*		Not applicable
	Compliance with the Taxonomy	Incompliance with the Taxonomy	
Turnover, thousand EUR**	296,000	-	0
	100%	-	0%
Capital expenditure (CapEx), thousand EUR	28,406	-	3,082
	90%	-	10%
Operating expenses (OpEx), thousand EUR***	262,873	-	0
	100%	-	0%

** Compliance confirmed by AST according to the current Taxonomy regulation and information collected by the company on the relevant indicators. The full implementation and evaluation of the Taxonomy requirements in AST is still in process and will be re-reviewed in line with the upcoming delegated acts of the EU Taxonomy Regulation in the next reporting period.*
*** According to the requirements of EU Taxonomy Regulation (2021/2139), Article 4.9.*
**** Expenses related to the maintenance of capital expenditure of previous years.*

Turnover

Under the issued licence, AS “Augstsprieguma tīkls” is Latvia’s only electricity transmission system operator. Electricity transmission is a regulated public service, respectively, AST’s revenues and profits form according to the “Methodology for calculating electricity transmission system service tariffs” (Methodology). According to the Methodology, the transmission system operator uses a cost allocation model agreed with the Public Service Regulatory Commission (“PSRC”), the company’s profit is made up of the allowed revenues that cover the economically justified costs related to transmission services. According to the cost attribution model agreed with the PSRC, all (except capacity overload management) cost and revenue items of the Parent Company are included in the electricity transmission tariff. Respectively, all revenues and operating costs of the Parent Company are attributable to electricity transmission services. Although the revenues and costs of capacity overload prevention are not included in the calculation of electricity transmission tariffs, the aforementioned activities are inextricably linked with the management of the electricity transmission network and are therefore attributable to electricity transmission as a type of activity. Electricity transmission (NACE code 35.12) is included in the Taxonomy and technical inspection criteria have been developed for it (e.g. an interconnected system), thus the economic activity of AS “Augstsprieguma tīkls” is an activity belonging to the Taxonomy (100%) under Regulation 2021/2139 (Article 4.9). The turnover belonging to the taxonomy is determined according to the amount of revenue in the Parent Company’s 2023 financial report. The Parent Company has no other income than the income from electricity transmission, therefore the entire turnover of the company is considered to meet the criteria of the Taxonomy. Detailed information on the Parent Company’s accounting policies for revenue accounting in accordance with International Financial Reporting Standards is provided in the Company’s 2023 financial statements, Note 2.11.

Capital expenditure

The Parent Company makes capital expenditure in the assets of the electricity transmission system in accordance with the development plan approved by the Public Services Regulatory Commission for a period of 10 years. In 2023, investments in the transmission system were made in accordance with the “Electricity Transmission System Development Plan 2023–2032”, which was approved by the decision of the Public Services Regulatory Supervisory Board of 20 October 2022, the annual capital expenditure plan approved by the Parent Company’s Management Board and Supervisory Board. Detailed information on the investments realized by the Parent Company is available in the management report of the Parent Company’s 2023 financial statements, as well as on the website: https://www.ast.lv/lv/content/ elektroenergijas-parvades-sistemas-attistibas-plans.

The amount of capital expenditure applicable to the Taxonomy is determined according to the expenditure amount specified in Notes 10.1 and 1.2 of the Parent Company’s 2023 financial statements. Capital expenditure includes capitalized borrowing and project management costs. Detailed information on the Parent Company’s accounting policy for capital expenditure accounting in accordance with International Financial Reporting Standards is provided in the Parent Company’s 2023 financial statements, Note 2.3.

The Group is currently implementing the requirements of the Taxonomy in detail. Therefore, in the next reporting periods it is also planned to implement the evaluation of “do no significant harm” and assess the minimum social protection measures to ensure the full evaluation of capital expenditure concerning the requirements of the Taxonomy.

Information about the projects implemented in 2023, with appropriate capital expenditure, is presented in detail in the table below:

Project	Expenditure in 2023, in thousand EUR	Expenditure in 2022, in thousand EUR
Taxonomy-compliant projects	**52,188**	**28,403**
Synchronisation of the Baltic States with continental Europe	34,188	11,436
Restoration of 330/110 kV overhead power transmission lines	5,850	1,830
New construction, renovation and reconstruction of 110 kV substations	7,171	10,077
Replacement of 330/110 transformers	13	4,436
The other projects	4,966	621
Not applicable	**938**	**3,082**
Total expenditure	**53,126**	**31,485**

Operating expenses

Operating expenses represent our costs required to provide the functions of an electricity transmission system operator. Operating expenses cover non-capitalised expenditure related to the maintenance and servicing of the company's assets and are necessary for the efficient and sustainable provision of the transmission service.

The operating expenses attributable to the Taxonomy are determined according to the 2023 financial statements of the Parent Company and include the cost of materials and repairs necessary for the maintenance of the assets belonging to Taxonomy, the personnel costs necessary for their service, as well as the other costs of business activity attributable to the Taxonomy, which are not capitalised. Detailed information on the Parent Company's policy for accounting for operating expenses in accordance with International Financial Reporting Standards is provided in the parent company's 2023 financial statements, Note 2.

TURNOVER – PROPORTION FROM PRODUCTS OR SERVICES ASSOCIATED WITH TAXONOMY-ALIGNED ECONOMIC ACTIVITIES, DISCLOSURE COVERING YEAR 2023

				Substantial contribution criteria						Does Not Significantly Harm (DNSH criteria)										
Economic activities	Taxonomy Code	Absolute turnover	Proportion of turnover	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of turnover 2023	Taxonomy-aligned proportion of turnover, year N-1	Category (enabling activity)	Category (transitional activity)
		EUR, thous.	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. Taxonomy- eligible activities			100%																	
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Transmission of electricity	4.9.	158 012	100%	100%	0%	0%	0%	0%	0%	Y	Y	N/A	Y	Y	Y	Y	100%		E	
A.2. Taxonomy-eligible-but-not-aligned activities		**0**	**0%**																	
Total (A.1. + A.2)	**4.9.**	**158 012**	**100%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities		**0**	**0%**																	
TOTAL (A+B)		**158,012**	**100%**																	

CAPITAL EXPENDITURE – PROPORTION FROM PRODUCTS OR SERVICES ASSOCIATED WITH TAXONOMY-ALIGNED ECONOMIC ACTIVITIES, DISCLOSURE COVERING YEAR 2023

				Substantial contribution criteria						Does Not Significantly Harm (DNSH criteria)										
Economic activities	Taxonomy Code	Absolute turnover	Proportion of turnover	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of CapEx 2023	Taxonomy-aligned proportion of CapEx, year N-1	Category (enabling activity)	Category (transitional activity)
		EUR, thous.	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. Taxonomy- eligible activities			100%																	
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Transmission of electricity	4.9.	53 126	100%	100%	0%	0%	0%	0%	0%	Y	Y	N/A	Y	Y	Y	Y	100%		E	
A.2. Taxonomy-eligible-but-not-aligned activities	**4.9.**	**0**	**0%**																	
Total (A.1. + A.2)	**4.9.**	**53 126**	**100%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities		**0**	**0%**																	
TOTAL (A+B)		**53,126**	**100%**																	

OPERATING EXPENSES – PROPORTION FROM PRODUCTS OR SERVICES ASSOCIATED WITH TAXONOMY-ALIGNED ECONOMIC ACTIVITIES, DISCLOSURE COVERING YEAR 2023

Economic activities	Taxonomy Code	Absolute turnover	Proportion of turnover	Substantial contribution criteria						Does Not Significantly Harm (DNSH criteria)										
				Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of Opex 2023	Taxonomy-aligned proportion of Opex, year N-1	Category (enabling activity)	Category (transitional activity)
		EUR, thous.	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. Taxonomy- eligible activities			100%																	
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Transmission of electricity	4.9.	126 692	100%	100%	0%	0%	0%	0%	0%	Y	Y	N/A	Y	Y	Y	Y	100%		E	
A.2. Taxonomy-eligible-but-not-aligned activities	**4.9.**	**0**	**0%**																	
Total (A.1. + A.2)	**4.9.**	**126 692**	**100%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities		**0**	**0%**																	
TOTAL (A+B)		**126,692**	**100%**																	

GREEN BOND REPORT

GREEN BOND REPORT

The Parent Company is the first electricity transmission system operator in the Baltics to issue green bonds. The first issue of green bonds in 2021 was an important step in the development of AST, implementing ambitious capital expenditure projects and ensuring progress towards the synchronisation of Latvian and Baltic electricity transmission networks with European networks.

The bond issuance programme was launched in October 2021, with the issuance of EUR 100 million worth of green bonds. AS "Augstsprieguma tīkls" bonds are on the list of Baltic debt securities and are listed on AS "Nasdaq Riga". Further bond issues have not been carried out within the programme. At the end of the reporting period, the amount of unpaid bonds is 100 million. EUR, which constitutes 100% of the Parent Company's total borrowings.

Day of issue	Payback day	Coupon rate	Yield	ISIN	Purpose of use	Process organizer
20.10.2021	20.01.2027	0.5%	0.527%	LV0000802528	In line with the Green Bonds framework	Bank: Luminor Consults: Cobalt

In accordance with the goal of the Parent Company – to ensure continuous, safe and sustainably efficient electricity transmission throughout Latvia, AST developed a framework for green bonds, which provides for the use of raised funds in environmentally friendly projects, as well as their management procedures and supervision.

The Green Bond Framework sets guidelines for the use of proceeds from bond issuance for sustainable development, the selection and selection process of green projects, and the management and reporting of proceeds from bond issuance.

In evaluating the AST green bond framework, an independent expert's Standard & Poor's Financial Services LLC opinion was obtained on its compliance with the International Capital Markets Association's 2021 Green Bond Principles.

According to the Green Bonds framework, projects can be divided into three groups:

- renewable energy;
- energy efficiency;
- quality, safety and resilience of electricity transmission infrastructure.

Funds raised within the bond issue amounted to EUR 100 million, which were fully absorbed by 31 December 2022. See detailed information in AST's 2022 Sustainability Report: https://www.ast.lv/sites/default/files/editor/Ilgtsp%C4%93jas%20parskats%202022_APSTIPRINATS.pdf .

When determining eligible projects, the Parent Company was guided by the Green Bonds Framework. In addition, in light of the fact that the EU Taxonomy and Delegated Regulations define a certain set of criteria (Source: Commission Delegated Regulation (EU) 2021/2139, Article 4.9 "Electricity transmission and distribution") to determine which activities make a significant contribution to the achievement of climate goals, capital expenditure projects implemented by the Parent Company were evaluated according to the aforementioned criteria. By ensuring a unified approach, the aforementioned criteria and principles are also applicable to green projects.

Evaluating compliance with the criteria of the Taxonomy and the Delegated Regulation, it can be concluded that the transformer replacement projects implemented by AST comply with the c) criterion of Article 4.9 "Electricity transmission and distribution" of the Delegated Regulation (EU) 2021/2139".

"Transformer replacement" projects are implemented in compliance with the "eco-design" requirements of power transformers (under European Parliament and Supervisory Board Directive 2009/125/EC) and life cycle cost calculation. In this way, a balance is achieved between the price of the transformer, the level of losses in the life cycle, and the cost of losses (transformers are efficient and not overcapitalized).

As part of the substation modernisation projects carried out by AST, the obsolete equipment installed in the substations – circuit breakers, disconnectors, metres, etc. – will be replaced completely, along with the equipment used to protect the grid elements by installing digital and high-speed devices with much greater functionality in place of the existing electromechanical relays. In addition, the modernisation of the communication solutions ensures that the converted substation can be remotely controlled not only from the workplace in the substation itself, but also from the central control centre. In addition, the dispatcher immediately receives all the necessary information for decisions and measures both in the normal operating mode of the system and in various emergencies.

In addition to the aforementioned activities, as a result of the reconstruction of the substation, a new energy-efficient control building is being built, where the new relay protection and dispatch control systems are located, as well as updated object security and fire protection solutions.

Having evaluated compliance with the criteria of the Taxonomy and the Delegated Regulation, it can be concluded that the substation reconstruction and renovation projects comply with e) criterion of Article 4.9 "Electricity transmission and distribution" of the Delegated Regulation (EU) 2021/2139, such equipment is being installed, the purpose of which is to increase the controllability and observability of the electrical system and to open up opportunities to develop and integrate renewable energy resources. In addition to the above, it can be concluded that reconstruction and renovation of substations during the life cycle reduces CO_2 emissions. By replacing outdated power switches, disconnectors, relay protection and automation, and dispatch control equipment, it is achieved that the maintenance and restoration repairs of these equipment need to be performed less often, i.e. the emissions of CO_2 eq.t released during the repair are smaller.

Funds raised within the bond issue amounted to EUR 100 million and were fully absorbed by 31 December 2022 (see the table below), detailed information is provided in AST's 2022 Sustainability Report: https://www.ast.lv/sites/default/files/editor/Ilgtsp%C4%93jas% 20parskats%202022_APPROVED.pdf.

ELIGIBLE PROJECTS UNDER THE GREEN BOND PROGRAMME:

Eligible green projects	Project category according to the Green Bonds Framework	Objectives and benefits	Allocated costs, thousands of EUR	Benefits from project implementation	Project execution status
330 kV EPL "Kurzemes loks"	RENEWABLE ENERGY	The infrastructure created as a result of the implementation of the project provides opportunities to accept electricity produced from renewable energy sources in the transmission network	60,493.8	Available capacity for green energy in 2021, 95.5% of EL's total capacity	Project completed
	CONTINUOUS, SAFE AND SUSTAINABLE EFFICIENT ELECTRICITY TRANSMISSION	Reduction of power outage time, security and continuity of energy supply by synchronising with the continental European grid		Average power outage duration to substation, CAIDI (h)	
Estonian – Latvia's third 330 kV interconnection	RENEWABLE ENERGY	The infrastructure created as a result of the implementation of the project provides opportunities to accept electricity produced from renewable energy sources in the transmission network	3,137.3	Available capacity for green energy, 77.1% of EL total capacities	Project completed
	CONTINUOUS, SECURE AND SUSTAININGLY EFFECTIVE ELECTRICITY TRANSMISSION	Reduction of power outage time, security and continuity of energy supply by synchronising with the continental European grid		Average power outage duration to substation, CAIDI (h)	
330 kV power line "Riga TEC-2 – Riga HPP"	RENEWABLE ENERGY	The infrastructure created as a result of the implementation of the project provides opportunities to accept electricity produced from renewable energy sources in the transmission network	96.4	Available capacity for green energy, 95.3% of EL total capacities	Project completed
	CONTINUOUS, SAFE AND SUSTAINABLE EFFICIENT ELECTRICITY TRANSMISSION	Reduction of power outage time, security and continuity of energy supply by synchronising with the continental European grid		Average power outage duration to substation, CAIDI (h)	
Replacement of transformers	ENERGY EFFICIENCY	Reduction of technical losses	12,022.8	Energy savings, MWh. The saved CO_2 (see table)	The transformer replacement projects included in the list of green projects have been fully completed
Reconstruction and renovation of substations*	RENEWABLE ENERGY	Capacity available for green energy	24,249.6	Available capacity for green energy	Of the 13 projects included in the list of green projects, 8 have been fully completed, 1 project has completed the 1st stage, 4 projects are in implementation
	CONTINUOUS, SAFE, AND SUSTAINABLE EFFICIENT ELECTRICITY TRANSMISSION	The average duration of electricity supply interruption to the substation, CAIDI (h)		Average power outage duration to substation, CAIDI (h)	
		IN TOTAL	**100,000.0**		

**In * 2022, projects worth EUR 28,907.6 thousand were implemented in accordance with the aforementioned criteria. EUR 24,249.7 thousand were allocated to the issued green bonds.*

	2017	2018	2019	2020	2021	2022	2023
One-year energy savings in MWh for the transformers replaced in the given year	–	3,217	2,451	1,978	2,464	3,610	744
Energy saving in MWh during the life cycle of the transformers replaced in the given year	–	38,600	122,636	198,333	83,093	201,583	22,295
CO_2 equivalent tonnes of emissions saved over the life cycle of the replaced transformers	–	3,539	2,696	2,176	2,710	221,741	24,524

When evaluating the CAIDI indicator, it should be taken into account that weather conditions have a material impact. The increase in the indicator in 2023 is attributable to stronger storms than in previous years, which resulted in an increase in the number of fallen trees on power lines. Investments in substations and power lines by the parent company improve the quality of the service, and these improvements also help to prevent the effects of external influences and consumer shutdowns in such conditions.

	2017	2018	2019	2020	2021	2022	2023
CAIDI, h	0.83	0.74	0.47	0.54	0.22	0.39	**0.78**
ASAI, %	**99.76**	**99.85**	**99.94**	**99.74**	**100.00**	**99.99**	**99.99**

CAIDI – average duration of electricity supply interruption to the substation; ASAI – average transmission service availability index

"AUGSTSPRIEGUMA TĪKLS" GROUP'S CONSOLIDATED AND AS "AUGSTSPRIEGUMA TĪKLS" SEPARATE

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

Prepared in accordance with IFRS Accounting standards as adopted in the European Union

INFORMATION ON THE GROUP AND THE COMPANY

INFORMATION ON THE GROUP AND THE COMPANY

NAME OF THE PARENT COMPANY	AS "Augstsprieguma tīkls"
LEGAL STATUS OF THE PARENT COMPANY	Joint stock company
NUMBER, PLACE AND DATE OF REGISTRATION OF THE PARENT COMPANY	000357556 Riga, 28 December 2001 Re-registered in the Commercial Register on 13 November 2004 under the single registration number 40003575567
REGISTERED OFFICE	Dārzciema iela 86, Riga, LV-1073, Latvia
THE PARENT COMPANY'S OPERATING ACTIVITY	Electricity supply, NACE code 35.12
THE GROUP'S OPERATING ACTIVITY	Electricity supply, NACE code 35.12; Pipeline transport, NACE code 49.50
THE PARENT COMPANY'S SHAREHOLDER	Republic of Latvia, represented by the Ministry of Climate and Energy (100%)
MEMBERS OF THE BOARD AND THEIR POSITIONS	Gunta Jēkabsone – Chairwoman of the Board (until 01.08.2023) Rolands Irklis – Chairman of the Board (from 07.12.2023) Imants Zviedris – Member of the Board Gatis Junghāns – Member of the Board Arnis Daugulis – Member of the Board Ilze Znotiņa – Member of the Board (from 01.02.2024)
MEMBERS OF THE COUNCIL AND THE POSITIONS THEY HOLD	Kaspars Āboliņš – Chairman of the Supervisory Board Olga Bogdanova – Deputy Chairwoman of the Supervisory Board Armands Eberhards – Member of the Supervisory Board Aigars Ģērmanis – Member of the Supervisory Board
SHAREHOLDINGS IN OTHER COMPANIES	AS "Conexus Baltic Grid'" (68.46%)
REPORTING PERIOD	1 January 2023 – 31 December 2023
NAME AND ADRESS OF THE AUDITOR	SIA "PricewaterhouseCoopers" Commercial Company Licence No. 5 Krišjāņa Valdemāra iela 21, LV-1010
SWORN AUDITOR IN CHARGE	Ilandra Lejiņa, Certificate No.168

Translation note: This version of Augstsprieguma tīkls group's consolidated and AS "Augstsprieguma tīkls" separate Financial Statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of Augstsprieguma tīkls group's consolidated and AS "Augstsprieguma tīkls" separate Financial Statements takes precedence over this translation. This is a translation in pdf format without the European Single Electronics Format (ESEF) markups of the digitally signed original which was prepared in Latvian and submitted in machine-readable xhtml format to the Nasdaq Riga exchange.

KEY FINANCIAL AND OPERATIONAL INDICATORS

KEY FINANCIAL AND OPERATIONAL INDICATORS

	GROUP*			PARENT COMPANY				
	2023	2022	2021	2023	2022	2021	2020	2019
FINANCIAL INDICATORS								
Revenue, thous. EUR	234,480	351,132	182,699	158,012	296,000	125,787	146,849	184,742
EBITDA, thous. EUR	88,972	72,534	69,143	39,018	40,319	35,578	42,351	40,515
Profit, thous. EUR	10,235	16 ,160	10,097	11,222	10,990	54,846	9,999	7,067
	31.12.2023	**31.12.2022**	**31.12.2021**	**31.12.2023**	**31.12.2022**	**31.12.2021**	**31.12.2020**	**31.12.2019**
Total assets, thous. EUR	1,346,940	1,276,497	1,232,245	1,022,759	957,791	909,279	905,527	221,934
Equity, thous. EUR	632,193	631,287	647,812	452,018	447,520	465,343	384,809	69,956
Borrowings, thous. EUR	179,937	182,797	198,060	100,393	100,367	99,966	203,284	-
Net cash flow from operating activity, thous. EUR	81,620	69,688	60,387	41,083	38,055	32,745	48,181	20,423
Cash and short-term deposits, thous. EUR	44,900	103,010	63,190	31,947	92,043	48,514	57,225	48,216
FINANCIAL RATIOS								
Total liquidity ratio (≥1.2)**	1.3	1.7	1.0	1.6	2.5	1.7	4.8	1.1
EBITDA margin	38%	21%	38%	25%	14%	28%	29%	22%
Equity ratio (≥35%)**	47%	49%	53%	44%	47%	51%	42%	32%
Net borrowings to EBITDA (≤5.0)**	1.5	1.1	1.9	1.8	0.2	1.4	3.4	-
PERFORMANCE INDICATORS								
Electricity transmitted to Latvian consumers, GWh	6,024	6,193	6,312	6,024	6,193	6,312	5,961	6,012
Natural gas transmitted, TWh	29.1	31.4	39.3	–	–	–	–	-
Natural gas transmitted to consumers in Latvia, TWh	8.2	8.8	12.5	–	–	–	–	-
Average number of employees	891	878	868	530	522	534	546	552

EBITDA – earnings before depreciation, amortisation, and impairment of intangible assets and property, plant and equipment, dividends received from the Subsidiary, finance income, finance costs, and corporate income tax

Total liquidity ratio = current assets/current liabilities (excluding the refinanceable portion of current borrowings)

EBITDA margin = EBITDA/revenue

Equity ratio = equity/total assets

Net borrowings = borrowings – cash – short-term deposits with maturity of up to 3 months

** The financial and performance indicators of the Group are indicated for the financial years after the acquisition of the decisive influence in AS "Conexus Baltic Grid".*
***The Parent company's target indicators are indicated in brackets next to the financial indicator.*

MANAGEMENT REPORT

IMPORTANT FACTS AND DEVELOPMENTS

S&P Global Ratings maintains the high credit ratings of AS “Augstsprieguma tīkls” and AS “Conexus Baltic Grid”

In 2023, the credit rating of the companies forming AS “Augstsprieguma tīkls Group” (hereinafter also – “the Group”), i.e. AS “Augstsprieguma tīkls” as the Parent Company and AS “Conexus Baltic Grid” as a subsidiary, remained consistently high. To confirm the stability and financial reliability of AS “Augstsprieguma tīkls” (hereinafter also – “AST” or “Parent Company”), the international rating agency S&P Global Ratings (hereinafter also – “S&P”) announced in December 2023 that the credit rating of AS “Augstsprieguma tīkls” was maintained at a consistently high level of A-, while the future outlook was raised from stable to positive. The credit rating of AS “Conexus Baltic Grid”, the subsidiary of AS “Augstsprieguma tīkls” (hereinafter also – “Conexus” or “the Subsidiary”) was also maintained at the BBB+ level with a stable future outlook.

Latvia – Estonia 330 kV interconnection Valmiera – Tartu rebuilt as part of implementing Latvia’s energy security and independence policy

Strengthening the transmission grid with Estonia is one of the prerequisites for the successful synchronisation of the Baltic electricity grids with continental Europe. The reconstruction of the Latvian-Estonian interconnector not only improves the reliability of electricity supply, but also provides additional opportunities for the electricity market to import electricity from Scandinavia and export Latvian energy generated from renewable energy sources.

The project was co-financed by the Connecting Europe Facility (“CEF”); 75% of the eligible costs of the project are covered by CEF co-financing.

Foundation stone laid for the first synchronous compensator station for the stability of the Latvian power grid

In December 2023, the message to future generations was laid in Grobiņa and concrete foundation work began on a strategically important infrastructure object for the stability of the Latvian electricity system – the first high-performance synchronous machine or compensator station. As part of one of the most important phases of the project to synchronise the Baltic electricity grids with Europe, a total of three synchronous compensator stations will be built in Latvia and connected to the transmission grid – in Grobiņa, Ventspils and Līksna.

As part of the Baltic Power Synchronisation Project, such compensators are also being installed in Lithuania and Estonia – three in each country. These systems will provide the necessary system inertia in the event of a failure of a major generation source or interconnected grid until other reserves are brought online to replace the failed power source and return the overall system to normal operation. In addition to frequency regulation, synchronous compensators will also help to ensure sufficient compensation of short-circuit capacities in the transmission grid for the proper operation of system protection and automation.

The synchronous compensator projects are co-financed by the Connecting Europe Facility – 75% of the eligible project costs are covered by co-financing from the CEF.

Latvian and Estonian electricity transmission system operators sign memorandum on establishing a new maritime interconnector

The electricity transmission system operators AS “Augstsprieguma tīkls” and AS “Elering” have signed a memorandum to start work on a fourth Estonian-Latvian electricity transmission grid connection, which is planned as a submarine cable between the island of Saaremaa and the Kurzeme shore. The new interconnector will increase the transmission capacity between Estonia and Latvia and at the same time promote the development of renewable energy in Latvia, Estonia and the entire Baltic Sea region.

Baltic and German electricity transmission system operators sign a letter of intent for the development of a Baltic Sea offshore wind electricity transmission network

In May 2023, the electricity transmission system operators of the Baltic States and Germany signed a Memorandum of Understanding to establish electricity transmission interconnection *Baltic WindConnector* in the Baltic Sea, providing for laying a 750km electricity transmission cable in the Baltic Sea between Germany and Estonia.

Baltic WindConnector will enable the future connection of high-capacity offshore wind farms and the Baltic States to become exporters of green electricity to the European electricity market. With the signing of this Memorandum, Latvia has started on the path to achieving its long-term goal of becoming a green energy exporter.

36% increase in the number of green energy certificates issued in Latvia

As the demand for renewable energy produced (RES) electricity increases in Europe, the volume of green (electricity produced from renewable energy sources or high-efficiency cogeneration) certificates of origin issued by AS "Augstsprieguma tīkls" to Latvian electricity producers has increased by 36% in 2023 compared to 2022. In total, AST has issued certificates for 5.3 million megawatt hours (MWh) of electricity in 2023, or 88% of the electricity volume generated and transferred to the grid in Latvia.

AS "Augstsprieguma tīkls" performance acknowledged at the ''Export and Innovation Award 2023"

The jury of the 2023 Export and Innovation Award recognised AST's performance:

- The synchronisation project which will ensure the synchronisation of the Baltic electricity grids with Europe as early as 2025 through the implementation of a number of innovative solutions;
- Promoting the transformation of the energy sector by connecting large amounts of renewable energy to the grid and working on innovative solutions to adapt to the future challenges of grid management;
- Achieving digital transformation in the company, integrating modern technological advances into AST's operations and ensuring an environment of continuous development.

Overview of the business model

The Augstsprieguma tīkls Group is one of the largest energy utilities group in the Baltics, the Group's core business is the provision of electricity transmission system operator functions, efficient management of energy supply system assets, natural gas transmission and storage.

As at 31 December 2023, the Augstsprieguma tīkls Group structure consisted of commercial companies where the Parent Company AS "Augstsprieguma tīkls" has a decisive influence and which includes the subsidiary AS "Conexus Baltic Grid". The Group operates geographically in Latvia. For information on the shareholding in the Subsidiary and its location, see Note 11.

Together with the Estonian and Lithuanian electricity transmission system operators, AS "Augstsprieguma tīkls" has established the Baltic Regional Coordination Centre for Electricity Systems OÜ "Baltic RCC", registered in Estonia. For information on the shareholding in the associate and its location, see Note 11.

All (100%) shares of AS "Augstsprieguma tīkls" are owned by the State and from 14 February 2023 are held by the Ministry of Climate and Energy of the Republic of Latvia (until 14 February 2023 – by the Ministry of Finance of the Republic of Latvia). This facilitated the participation of the Ministry of Climate and Energy – the energy policy maker – in the development of the transmission system operators AS "Augstsprieguma tīkls" and AS "Conexus Baltic Grid". This involvement is of crucial importance for energy security. AST's shareholder structure has not changed as a result of the change in share ownership; 100% of AST shares are still held by the State.

The Augstsprieguma tīkls Group is divided into three operating segments – electricity transmission, natural gas transmission and natural gas storage. The division is based on the Group's internal organisational structure, which forms the basis for monitoring and managing segment performance. Further information on the operating segments and the Parent Company can be found under "Operating segments".

The overall strategic objective of the Augstsprieguma tīkls Group is to ensure the security of Latvian energy supply, provide uninterrupted, high quality and affordable energy transmission services, implement sustainable management of the country's strategic energy assets and facilitate their integration into the European Union's internal energy market.

Our mission is to ensure an uninterrupted, secure and sustainably efficient energy supply throughout Latvia.

Our core values

TRUST	DEVELOPMENT	SAFETY	TEAM
HONESTLY	**WISDOM**	**RESPONSIBILITY**	**TOGETHER**
Independent, ethical and transparent action towards anyone and everyone	Effectively. Looking forward. Long-term thinking	Deliberate action. With high responsibility, towards people, work and nature	We join forces to achieve more. Strong team that encourages and challenges

Electricity supply

After a year of fluctuating and record-breaking electricity prices in 2022, 2023 saw a stabilisation and decline in electricity prices both in Latvia and in Europe: as early as January 2023, the average monthly price in Latvia slipped below EUR 100/MWh for the first time since August 2021. The decline in electricity prices in 2023 compared to 2022 is mainly due to lower prices for gas and other fossil fuels, which had reached a record high in 2022, as well as the increased expansion of wind and solar power plants.

In 2023, the average electricity price in Latvia fell to 93.89 EUR/MWh, 59% lower than in 2022. The lowest monthly electricity price level in 2023 was reached in April, when the electricity price fell to EUR 65.89/MWh, while the highest value was reached in September, when the electricity price reached EUR 117.25/MWh.

Electricity prices fell across Europe over the course of the year, with the Nordic countries remaining at a lower level. The lower electricity prices in the Nordic countries are due to higher electricity production from renewable energy sources – hydropower plants and wind farms – which is cheaper, as well as insufficient capacity, which prevented cheaper electricity from the Nordic countries from flowing to Latvia in sufficient quantities to offset electricity prices.

The development of renewable electricity generation has led to a number of hours of below-freezing electricity prices across Europe, fuelled by high renewable electricity generation at a time when demand was falling significantly.

In Latvia, the amount of electricity generated from renewable energy sources also increased significantly in 2023 (by 77.6%), reaching the highest share of renewable energy in the last 13 years. In 2023, hydropower plants (HPPs) produced 38% more electricity compared to 2022, wind power plants 42% more. The amount of electricity generated by solar power plants increased significantly (by 329%), although their overall contribution to Latvia's total electricity mix is still low at 2.1%.

In 2023, hydropower plants generated 3,778 GWh, which accounted for 62% of Latvia's total electricity generation. The increase in hydropower generation was made possible by the floods that started in January 2023 and continued until April, as well as the increase in water inflows in the last two months of the year, which contributed to high hydropower generation.

Wind power generation has increased by about 2 times over the last two years, including a historic high of 37 GWh per month in October 2023 due to autumn storms. The increase in wind power generation is due to the Targale wind farm's first full year of production as well as windy weather conditions.

Overall, Latvia's ability to cover its consumption in 2023 through domestic generation is stable and with the potential to grow. 88.3% of consumption will be covered by domestic generation in 2023, the highest level since 2017. Dependence on fossil resources has decreased – 77.6% of electricity generated was from renewable energy sources, including the highest recorded share of green electricity in May, when 99.9% of electricity generated in Latvia came from renewable energy sources.

Considering the decision of the Baltic States to completely cut off Russian and Belarusian electricity from May 2022 due to Russian war in Ukraine, no electricity was imported from these countries in 2023. Imports from third countries to the Baltic States were replaced by imports from the interconnectors in Finland, Sweden and Poland – a total of 13,053 GWh of electricity was imported to the Baltics, which is 2.6% more than in 2022.

The 3% decrease in Latvian electricity consumption in 2023 compared to 2022 is due to the installation of solar systems for self-consumption by households and businesses, meaning that the amount of electricity actually generated and consumed in Latvia is higher, as some of the electricity generated is not put into the grid but used for immediate self-consumption.

Natural gas supply

In 2023, Conexus provided uninterrupted natural gas supply to consumers in Latvia as well as natural gas transmission and storage services to Lithuania, Estonia and Finland. Natural gas was supplied via the Klaipeda LNG terminal, the Inkoo LNG terminal and the Inčukalns underground gas storage facility (hereinafter – Inčukalns UGS, storage facility). No natural gas was supplied to Latvian consumers from the Russian Federation.

In the reporting year, the volume of natural gas procured from Lithuania totalled 17.7 TWh, the volume of natural gas procured from Finland was 4.1 TWh and 7.3 TWh was fed into the transmission system from Inčukalns UGS. The total volume of natural gas transported in Latvia totalled 29.1 TWh in the reporting year, which is 7% less than in the previous year. In 2023, natural gas consumption by Latvian consumers totalled 8.2 TWh, a decrease of 7% compared to the previous year.

The decrease in natural gas consumption is due to both the weather conditions, which were milder in the winter months than in 2022, resulting in lower demand for heating natural gas than in the previous year, and the high natural gas prices, which caused consumers to reduce their natural gas consumption.

At the end of the reporting year, 17.9 TWh of natural gas (including energy security reserves) was stored at Inčukalns UGS facility, which is 58% more than at the same time in the previous year and the highest amount of natural gas stored at the storage facility in the last five years.

OPERATING SEGMENTS

Electricity transmission segment

According to the issued licence No. E12001 and Section 11 (1) of the Electricity Market Law, the joint-stock company Augstsprieguma tīkls is the only electricity transmission system operator in Latvia and its licence area covers the entire Latvian territory. AS Augstsprieguma tīkls ensures uninterrupted, dependable and sustainably efficient transmission of electricity throughout Latvia. According to Section 5 of the Energy Law, electricity transmission is a regulated sector.

AST manages the backbone of the Latvian electricity system – the transmission network, which comprises interconnected networks and equipment, including interconnectors, with a voltage of 110 kilovolts or more, used for transmission to the respective distribution network or consumers. The Parent Company operates, maintains and repairs high-voltage lines, substations and distribution points and develops the transmission grid.

The Parent Company divides its activities into one main business segment – electricity transmission.

During the reporting period, the obligations imposed on the transmission system operator were implemented via the following transmission grid (31.12.2023):

Highest volta ge (kV)	Number of substations	Number of autotransformers and transformers	Installed power (MVA)	Overhead and cable PPAs (km)
330 kV	17	26	3,725	1,742
110 kV	124	242	5,100	3,813
TOTAL	**141**	**268**	**8,825**	**5,555**

Natural Gas Transmission and Natural Gas Storage segments

Given the Parent Company's investment in its Subsidiary, the Latvian natural gas transmission and storage system operator AS "Conexus Baltic Grid", the sustainable management of energy assets of strategic importance to the country and their integration into the European Union's internal energy market is an important focus of the Group's activities.

AS "Conexus Baltic Grid" is the sole operator of natural gas transmission and storage in Latvia. The company manages one of the most modern natural gas storage facilities in Europe – the Inčukalns UGS facility – and the long-distance gas pipeline network that connects the Latvian natural gas market directly with Lithuania and Estonia.

Conexus provides natural gas transmission and storage services to its customers in accordance with the tariffs set by the Public Utilities Commission ("PUC").

Conexus is committed to sustainable and safe infrastructure, high quality service that promotes market development and brings economic benefits to customers and society as a whole.

Conexus is a socially responsible company that ensures the overall development of the sector, the growth of its employees and sustainable employment by creating economic value, while ensuring that its technological processes have the least possible impact on the environment.

Based on the energy policy planning documents, the overall strategic objective of the Group, the following development directions of Conexus have been identified:

- Market development – to promote the development and further integration of the gas market, facilitating the market development of hydrogen and other gaseous energy carriers;
- Infrastructure and security of supply – to ensure an accessible and safe transmission and storage infrastructure, while studying and promoting adjustment options for the input of other gaseous energy carriers;
- Sustainability – focus on aspects of climate and environmental sustainability aspects.

Natural gas transmission segment

AS “Conexus Baltic Grid” is the only natural gas transmission and storage operator in Latvia that ensures the maintenance of the natural gas transmission system, its safe and uninterrupted operation and connections with the transmission systems of other countries and enables traders to use the natural gas transmission system for trading natural gas.

The 1,190 km long natural gas transmission network is directly connected to the natural gas transmission networks of Lithuania and Estonia and enables both the transmission of natural gas through regional pipelines within Latvia and the connection to the natural gas transmission networks of neighbouring countries:

- international pipelines have a diameter of 720 mm and operating pressures ranging from 28 to 40 bar;
- regional gas pipelines have a diameter of 400 mm to 530 mm and a working pressure of up to 30 bar;
- 40 gas regulating stations are used to transport natural gas to the local distribution system in Latvia. For the purpose of supplying natural gas to Latvian consumers, all outlets for consumption in the territory of Latvia are combined at a single exit point.

Natural gas storage segment

The Natural Gas Storage segment provides natural gas storage in the Inčukalns underground gas storage facility for the heating season and other needs of network users.

The Subsidiary manages the only operating natural gas storage facility in the Baltic States – the Inčukalns UGS facility – thus ensuring the stability of regional gas supply and the region’s energy security. The Subsidiary offers certified traders the opportunity to store natural gas for trading in Latvia or other markets. The Inčukalns UGS facility can store up to 2.3 billion cubic metres of active natural gas, which fully covers the region’s needs in view of the increasing demand for energy during the heating season.

in the reporting period, the Augstsprieguma tīkls Group's net revenue totalled EUR 234,480 thousand and net profit was EUR 10,235 thousand. In 2023, the Group's result was positively influenced by the PUC's authorisation to use the cumulative proceeds from the auctions for interstate transmission capacities ("congestion fee revenues") amounting to EUR 14,128 thousand to cover the costs associated with the provision of electricity transmission grid services.

Electricity transmission segment

When assessing the segment's financial performance and operating result, it should be noted that electricity transmission is a regulated sector under Section 5 of the Energy Act and that the PUC determines the permitted profit by setting the return on investment when approving tariffs for electricity transmission network services.

The segment's net turnover for reporting period was EUR 158,012 thousand, including revenue from electricity transmission network services of EUR 85 562 thousand. The substantial decrease in revenue of EUR 137,988 thousand or 47% compared to 2022 is due to a decrease in revenue from the balancing and regulating energy and a decrease in revenue from interconnection auctions. The decrease in revenue in these categories corresponds to a decrease in costs, meaning that impact on profit is neutral. The decrease in the revenues and costs is related to the decrease of electricity prices in 2023, compared to 2022.

In the first six months of 2023, the electricity price for transmission losses and technological consumption was significantly (2.9 times) higher than the electricity price provided for in the electricity transmission tariff in force until 1 July 2023, which was approved on 26 November 2020, which had a negative impact on the financial result of the Electricity Transmission segment. In order to ensure the stability and predictability of electricity transmission tariffs and reduce the negative impact of electricity price fluctuations, the procurement process led to the conclusion of a contract on 10 March 2023 for the purchase of electricity for transmission losses, technological process support at a fixed price, with a contract term until 31 December 2024. In order to ensure the profitability of the transmission system operator, new tariffs for electricity transmission grid services were approved by a resolution of the PUC Supervisory Board on 22 May 2023 with effect from 1 July 2023. At the same time, the decision authorises the use of the cumulative revenue from the auctions for transmission capacities between the countries to cover losses (see Note 4 for further details). In 2023, the income from the auctions for transmission capacities between the countries was used to cover losses. As a result, EBITDA in the Electricity Transmission segment totalled EUR 39,018 thousand. Earnings before interest and taxes (EBIT) totalled EUR 3,658 thousand.

Natural gas transmission segment

Revenue in the Natural Gas Transport segment totalled EUR 26,226 thousand in the reporting period and EBITDA amounted to EUR 12,489 thousand. EBITDA for the year totalled to EUR 1.6 billion, which corresponds to 25% of Conexus' total EBITDA. Profit before taxes for the Transmission segment amounted to EUR 1,173 thousand in 2023 (54% less than a year earlier).

Conexus is a regulated company with regulatory periods that differ from the financial reporting year. In accordance with the Methodology for calculating tariffs for the natural gas transmission network service, deviations in revenues and costs from the permitted volumes may occur during the tariff period, which affect the tariff values in subsequent tariff cycles. In the Transmission segment, such deviations may arise due to differences in actual natural gas consumption compared to the tariffs, which leads to an adjustment of revenue. The actual revenue of the Transmission segment in the gas years from 1 January 2020 to 30 November 2023 were down by EUR 16.7 million compared with the permitted revenue for the same period. The amount of ungained revenue was used to increase the permitted revenue for the regulatory period from 1 December 2023 to 30 September 2026. On 26 October 2023, the PUC Supervisory Board passed a resolution on the tariffs for transmission grid services, which came into force on 1 December 2023.

Natural gas storage segment

Revenue in the Natural Gas Storage segment totalled EUR 50,242 thousand in the reporting period and EBITDA amounted to EUR 38,013 thousand. The Natural Gas Storage segment generated a pre-tax profit of EUR 17,088 thousand, which corresponds to 94% of Conexus' total pre-tax profit.

In the 2023/2024 storage cycle, the volume of capacity reservation products at Inčukalns PUC facility totalled 24.4 TWh (including 1.8 TWh of energy security reserve), while in the 2022/2023 storage cycle it amounted to 24.1 TWh. Revenue from capacity products increased by EUR 14,018 thousand in the reporting period compared to the previous year. The increase in revenue is due to the auctioning of storage capacities, which resulted in an effective premium rate of EUR 1.62/MWh (total premium applied divided by the reserved capacity).

The regulatory (tariff) for the natural gas storage service differ from both the financial reporting year and the regulatory periods for natural gas transport. In accordance with the methodology for calculating the tariffs for the natural gas storage service, deviations in revenues and costs from the permitted quantities may occur during the tariff period, which will affect the values of the tariffs for the storage service in the following tariff cycles. In the storage segment, such deviations are cumulated in the regulatory calculation. In 2023, the carrying amount of the storage assets was written down (see Note 10.2 for details).

INVESTMENTS

Electricity transmission segment

The investments in the electric transmission system are made in accordance with the PUC-approved Electric Transmission System Development Plan, which implements projects necessary to provide reliable, high-quality electric transmission services. In order to minimise the impact of planned investments on the electricity transmission tariff, investments in the refurbishment and renewal of existing assets are planned at a depreciation level, while EU co-financing and accumulated congestion charge revenues are actively used to finance grid development projects.

The assets of the Electricity Transmission segment totalled EUR 888 million at the end of the reporting period. In 2023, investments totalling EUR 53,126 thousand were made in electricity transmission assets, including:

- Synchronisation with the European electricity transmission network (Phase 1 and Phase 2) EUR 33,964 thousand; EUR 241,654 thousand is planned to be invested in the Baltic countries' synchronisation with continental Europe projects in Phase 1 and Phase 2. In 2023, the reconstruction of the 330kV transmission line Valmiera – Tartu and the reconstruction of the 330kV transmission line Valmiera – Tsirguliina will be completed, and the reconstruction of the 330kV substations Ventspils, Grobiņa and Līksna will be started The extension of the 330kV substation to connect synchronous compensators and the construction of the first synchronous compensator station in Grobiņa, as well as the installation of active reservation equipment for the dispatching system (DAS) at the Aizkraukle, Ķegums-1 and Ventspils substations have been completed. The project aims to strengthen Latvia's energy security by synchronising Latvia's electricity transmission network with the continental European network, while respecting the principles of reliability and cost-efficiency.

- EUR 8,676 thousand has been invested in the reconstruction and rehabilitation of substations: in 2023 completion of the reconstruction of the 110kV substation "Vangaži" and replacement of the 110kV transformer, reconstruction of the 110kV substation "Ugāle", construction of a new 110kV substation "Gaujas koks" to connect a new electricity transmission system user, continuation of the reconstruction of the substation "Krustpils" 110kV substation, extension of the 110kV substation "Valdemārpils" and installation of a second 110kV transformer, as well as construction planning of several 110kV substation rebuilds has started. The substation's reconstruction and renovation projects include the complete replacement of the old equipment installed in the substation, as well as the replacement of the network element protection equipment with digital and high-speed equipment with a wide range of functionalities. In addition, the upgraded communication solutions ensure that the rebuilt substation can be controlled not only from a workstation in the substation, but also remotely from the central control centre, with the controller receiving all the necessary information for decision-making and action both in the normal operation of the system and in various emergency situations. These projects increase the controllability and observability of the electricity system and open up opportunities to develop and integrate renewable energy sources.

Natural gas transmission segment

The assets of the natural gas transmission segment at the end of the reporting period amounted to EUR 252 million. Investments of EUR 10,964 thousand was made during the reporting period. Key of them:

- Within the framework of the PCI 8.2.1 "Improving the Latvia-Lithuania Interconnection" (ELLI) project, Conexus invested a total of EUR 1 079 thousand in several sub-projects in the reporting year. EUR. The major activities have been in the reconstruction of the Zaķumuiža, Daugmale and Vangaži gas regulation stations. The ELLI project has now ended;
- investments in replacement of gas pipeline insulation in the section Izborsk – Inčukalns PUC facility of EUR 6,160 thousand;
- repairs to sections of transmission gas pipelines and their corrosion insulation of 2,030 thousand.

Natural gas storage segment

Segment assets at the end of the reporting period amounted to EUR 217 million. Investments of EUR 22,604 thousand during the reporting period, which is by EUR 13,116 thousand more than the previous year. The major investments in the storage system service segment in the reporting year were the modernisation of the gas pumping units of compressor workshop No 2, the reconstruction of gas collection point No 3 and the installation of a new gas pumping unit, totalling EUR 18,653 thousand. The project is part of the ambitious PCI 8.2.4 project of common European interest "Improvement of the Inčukalns Underground Gas Storage Facility". At the end of 2023, the Subsidiary completed the modernization of the existing gas pumping units.

FUNDING AND LIQUIDITY

the Group finances capital projects from its own funds and long-term debt, which it raises regularly and in good time on the financial and capital markets. Timely borrowing is essential for optimising risk management when refinancing loans and for repaying capital within the agreed terms.

As at 31 December 2023, the Parent Company's borrowings totalled EUR 100,393 thousand (as at 31 December 2022: EUR 100,367 thousand), consisting of long-term borrowings from the green bonds issued in 2021 (see also Note 20). To finance the working capital, AS "Augstsprieguma tīkls" and Swedbank AS have signed an overdraft agreement of up to EUR 10,000 thousand with maturity until 9 December 2025. During the reporting period, AS "Augstsprieguma tīkls" did not receive any borrowings under the overdraft agreements. At the end of the reporting period, 100% of the parent Company's total non-current borrowings were at fixed interest rates (as at 31 December 2022: 100%).

The Group's total borrowings at 31 December 2023 amounted to EUR 179,937 thousand, including bonds issued in the amount of EUR 100,393 thousand and borrowings from banks in the amount of EUR 79,544 thousand. The natural gas operator AS "Conexus Baltic Grid" raises external financing by its own resources. The Subsidiary has a total of EUR 65,000 thousand of available bank credit lines. At the end of the reporting period, these credit lines totalled EUR 65,000 thousand and were unused, which represents a considerable liquidity buffer. The credit line agreements have terms of less than 1 year. At the end of the reporting period, 71% of the Group's total non-current borrowings were at fixed interest rates (31 December 2022: 71%), meaning that the rise in interest rates on the financial market has no significant impact on the Group.

As a confirmation of the stability and financial soundness of the Augstsprieguma tīkls Group, the international credit rating agency S&P Global Ratings (S&P) announced on 12 December 2023 that the Parent Company's credit rating was revised from A- with a stable outlook to A- with a positive outlook. In 2022, S&P for the first time assessed and assigned the Group's Subsidiary a long-term credit rating of BBB+ with a stable outlook. The credit rating of the Subsidiary remains unchanged at high in 2023.

REGULATORY ACTIVITIES – TARIFF FOR TRANSMISSION AND STORAGE SERVICES

Electricity transmission

Decision of the PUC Supervisory Board No. 64 of 22 May 2023 "On the Tariffs for Electricity Transmission Network Services of the Joint Stock Company Augstsprieguma tīkls" approved differentiated tariffs for electricity transmission network services and determined their entry into force from 1 July 2023 and the regulatory period until 31 December 2025. According to the above-mentioned decision of the PUC Supervisory Board, AST may use the cumulative revenues from interstate auctions for transmission capacities in the amount of EUR 62,070.1 thousand to cover the costs of electricity transmission network services within the regulatory period until 31 December 2025. Details of the cumulative proceeds from intergovernmental auctions of transmission capacity used to cover the costs of electricity transmission grid services in 2023 can be found in Note 4.

On 29 November 2023, the Parent Company of the PUC submitted for approval the revised differentiated tariffs for electricity transmission grid services to take effect on 1 January 2024. The proposed tariff changes were driven by the changes to the electricity transmission tariff calculation methodology proposed by the parent Company and approved by the SPRK, which allowed the current inflation forecast for 2024 to be included in the tariff calculation as well as additional revenue from interstate transmission capacity auctions to be redirected to AST to reduce tariff, resulting in a EUR 2.4 million reduction in costs included in the tariff calculation.

At its meeting on 19 December 2023, the PUC recognised that the differentiated tariffs for electricity transmission network services determined by the joint stock company Augstsprieguma tīkls and published in Latvijas Vēstnesis on 29 November 2023 (No. 232) comply with the applicable tariff calculation methodology for electricity transmission network services and may enter into force from 1 January 2024.

The Parent Company has set as one of its priority objectives the implementation of measures to reduce the increase in tariffs for electricity transmission services. In order to achieve its objective, the Parent Company is actively seeking co-financing from the European Union to finance capital investments. The activities carried out have enabled EU co-financing of more than EUR 300 million. To minimise the impact on transmission tariffs, the Parent Company also uses the cumulative income from congestion charges to finance capital investments. Investments in the electricity transmission grid that are financed from EU co-financing and the income from the congestion charge are not taken into account when calculating the tariffs for electricity transmission grid services.

Natural gas transmission and storage

On 26 October 2023, the PUC Supervisory Board passed a decision on the tariffs for the service of the natural gas transmission network, which came into force on 1 December 2023. According to the decision, the tariff for the use of the exit point for the supply of Latvian users will increase by 37% from EUR 0.0019296946/kWh to EUR 0.0026488301/kWh, while the tariffs for the annual standard capacity products, short-term standard capacity products, interruptible capacity products and interruptible counterflow virtual capacity products of the natural gas transmission system will remain unchanged and maintain their current values. Although the overall cost of providing natural gas transmission has not increased, the decline in natural gas consumption in Latvia in recent years has led to an increase in tariffs for this service.

New tariffs for the natural gas storage service came into force on 1 May 2023. Due to a decrease in projected revenue attributable to the tariff period, the tariff values of the most common storage products have fallen by 14%.

On 18 January 2024, the PUC made a decision on the tariffs for the natural gas storage service, which will come into force on 1 May 2024. For the base products, i.e. the one-year bundled capacity product and the two-year bundled capacity product, the tariffs will remain unchanged for the next storage cycle. The tariff for the storage transfer product will be increased from 1.3581 EUR/MWh/storage cycle to 3.2260 EUR/MWh/storage cycle. The tariff for the storage transfer product is determined by the results of the previous season's biennial auctions for the bundled capacity product, which in turn are determined by market demand.

CORPORATE GOVERNANCE

the Corporate Governance Report 2023 of AS " Augstsprieguma tīkls" was published along with the financial performance of the "Augstsprieguma tīkls" Group. The Corporate Governance Report is based on the Corporate Governance Code published in 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice. Having assessed both the corporate governance system and compliance with the principles in 2023, the Board of Directors is of the opinion that AS "Augstsprieguma tīkls" has complied in all material respects with all the principles set out in the Code, with the exception of the criterion of gender representation on the Company's Supervisory Board.

Detailed information is available in the Corporate Governance Report 2023 of AS "Augstsprieguma tīkls", published on the Parent Company's website: https://www.ast.lv/lv/content/korporativas-parvaldibas-modelis.

NON-FINANCIAL STATEMENTS

the Augstsprieguma tīkls Group Non-Financial Statement (Sustainability Report) has been prepared in compliance with the requirements of Article 56^4 of the Financial Instruments Market Law.

The Augstsprieguma tīkls Group's consolidated and separate Non-Financial Statement (Sustainability Report) has been prepared in accordance with the Global Reporting Initiative Standards (GRI Standards) and is published together with the management report as part of the consolidated financial statements.

The said report is publicly available on the Parent Company's website: https: //www.ast.lv/lv/content/ilgtspejas-parskati.

FUTURE DEVELOPMENT OF THE GROUP

Electricity transmission

Synchronisation of the Baltic States with continental Europe

In the forthcoming years, the most important challenges are related to the synchronisation of the Baltic States with continental Europe.

On 22 May 2019, AST signed the *Agreement on the conditions of the future interconnection of power system of Baltic States and power system of continental Europe ("Agreement")*. The explanations to the concluded Agreement set out the technical requirements to be met by the Baltic TSOs before and after the start of the synchronisation process. These requirements relate to both changes to settings in the transmission system, investments in infrastructure development and the obligations of TSOs to maintain a certain amount of frequency holding, frequency restoration reserves and system inertia.

The Baltic countries are scheduled to synchronise with continental Europe in 2025, or earlier if necessary. As a result of synchronisation, Baltic electricity transmission system will become a part of the European system, which means independence from the combined (IPS/UPS) Russian system and a more reliable electricity supply.

Development of the electricity transmission system

In order to ensure efficient development of the transmission system, reliable electricity transmission system service, in compliance with the "Regulations on the Development Plan of the Electricity Transmission System", approved by the SPRK Decision No 1/28 of 23 November 2011, AST shall develop and submit to the PUC for approval by 30 June each year an Electricity Transmission System Development Plan for the next 10 years (hereinafter also referred to as the Development Plan).

On 19 October 2023, the PUC Supervisory Board approved the Development Plan for the Electricity Transmission System for the period from 2024 to 2033 (PUC Supervisory Board Decision of 19 October 2023 "On the Development Plan for the Electricity Transmission System").

The Development Plan was developed in line with AST's strategic goal of strengthening Latvia's energy security by synchronising the Latvian electricity transmission grid with the continental European grid, while respecting the principles of reliability and cost efficiency.

The approved Development Plan defines the development of the transmission system and the necessary financial investments in the transmission infrastructure for the next 10 years, providing for an investment of EUR 509 million in the development of the electricity transmission system. The details of the approved Development Plan can be found at: https://www.ast.lv/sites/default/files/editor/AST_10GAP_2024_2033_15.09.pdf

In order to ensure that planned capital investments have the least possible impact on electricity transmission tariffs, AST has successfully attracted EU co-financing for projects of common European interest included in the Development Plan, and is also redirecting accumulated congestion fee revenues to finance them, including:

- Project "Synchronisation of the Baltic electricity transmission system with the European grid, Phase 1" – planned investment of EUR 74 million is to be financed by the CEF structural funds, which will cover 75% of the eligible costs, while 24% is to be covered by the accumulated congestion charge revenues;

- Project "Synchronisation of the Baltic electricity transmission system with the European grid, Phase 2" – planned investment of EUR 165 million. Up to 80% of the total planned investment is to be covered by the EU co-financing under the CEF and RePower Structural Funds, while 15% of the total planned investment is to be covered by the accumulated congestion charge revenues.

In addition to the above, under the Recovery and Resilience Mechanism Plan investment ''Modernisation of electricity transmission and distribution networks", the Parent Company has been allocated EUR 38.1 million. With the support, AST plans to build a control and secure data centre, implement the necessary information technology infrastructure to improve the cybersecurity of the information system, and develop the digitalisation of grid management, ensuring the planning and management of the operating modes of renewable energy producers.

Investments in the electricity transmission system financed from EU co-financing and congestion charge revenues are not included in the calculation of electricity transmission system services tariffs.

Renewable electricity generation – Connections to the transmission system

In the context of the European Green Deal, there is also a huge interest in Latvia in the production of electricity using renewable energy sources. The total installed capacity of wind farms and solar power plants of different capacities, if all projects are implemented, already exceeds Latvia's peak electricity load multiple times over.

AS "Augstsprieguma tīkls" is not only working on the installation of new electricity transmission system connections for these projects but is also taking the first steps to further interconnect the electricity transmission system with neighbouring electricity transmission systems – preliminary assessments are being carried out to increase the interconnection capacity with Lithuania and to install a new interconnection with Sweden.

The development of renewable energy power plants in Latvia is an important step towards addressing the current energy, security and climate challenges in the Baltic region.

System management and electricity market development

In pursuit of the European Union's policy towards an internal electricity market, the strategic orientation of the AS "Augstsprieguma tīkls" is focused on the development and integration of the electricity and ancillary services markets into the European markets.

In the upcoming years, further work is planned to develop and improve the EU internal market for day-ahead and intraday electricity. This will include new opportunities for players in the EU internal electricity market, including Latvian and Baltic players.

Projects are currently underway that will allow market participants to participate in the day-ahead and intraday markets with a 15-minute time resolution and to operate energy and capacity products on the intraday market, similar to the current day-ahead market. Work is underway to develop and harmonise the timetable for the implementation of the 15-minute resolution at the Baltic Sea region level. The task of supplementing the balance management system to be developed by AST with a solution for the intraday auction and the preparations for the tests with the European Central Intraday Auction System are in preparation.

In addition, it is planned to continue work on the creation of a single European mFRR trading platform and the accession of the Baltic TSOs to this platform, which will enable the Baltic balancing service providers to participate in the common European reserve market.

Joining this platform requires changes to the functioning of the common Baltic balancing model – the most important of which is ensuring the transition to a 15-minute balancing market period, which will allow electricity market participants to plan their activities more accurately and control system imbalances more efficiently.

Innovation and research

To ensure the development of the Parent Company, understanding the key role of innovation in the success of its operations, the representatives of the Parent Company actively participate in the work of the Research, Development and Innovation Committee of ENTSO-E, the European Organisation of Transmission System Operators for Electricity.

The ENTSO-E Research, Development and Innovation Committee is working to transform existing electricity systems to meet the objectives set by the European Union.

Innovation and research activities are focused along 6 axes:

- Modernisation;
- Safety and stability;
- Flexibility;
- Economy and efficiency;
- Digitisation;
- Green transformation.

The Parent Company participates in the European Union's Horizon 2020 research and innovation support programme OneNet. OneNet addresses the challenges of the future of the energy system arising from the objectives set by the European Union under the European Green Deal and the Clean Energy Package by developing innovative solutions to help electricity system operators maintain stable system operation with a high share of renewable energy.

In order to ensure successful synchronisation with continental Europe, the Parent Company, in cooperation with the transmission system operators of Poland and the Baltic States, carried out in 2023:

- A study on the technical and dynamic capability of the electricity systems and electricity networks of the Baltic States and Poland to start synchronous operation with continental Europe in February 2025;
- A capacity adequacy assessment study, assessing the risks to Baltic operators after the start of synchronisation in February 2025.

Based on these studies, in August 2023 the Latvian Government and AS "Augstsprieguma tīkls" took a decision to start synchronisation of the Baltic States in February 2025.

In addition to the above, in 2023, as part of the development of long-term scenarios for capacity adequacy, the Parent Company, in cooperation with internationally renowned experts, launched studies on:

- Electricity consumption trends in Latvia – the study will analyse different consumption and peak load scenarios as well as consumption technologies. Based on the study, the Parent Company will be able to more accurately plan the development scenarios of the Latvian electricity system, the volumes of renewable energy and the transmission grid expansion projects. The study will provide an overview of innovative solutions that could help increase electricity consumption and peak load in the Latvian electricity system, as well as identify trends in electromobility and hydrogen technologies in

Latvia, with the potential impact of the increase in consumption on peak and minimum electricity load at night. The study is supported by RePowerEU funding from the European Union.

- Innovative measures for the integration of renewable energy sources into the Latvian electricity grid, development of a methodology for identifying optimal solutions – the study will be launched in December 2023 with the participation of the French energy sector consultancy Artelys. The study will propose which innovative measures would be most effective to connect the maximum amount of generation capacity to the existing 110 kV and 330 kV grid. The study is being carried out with the support of RePowerEU funding from the European Union.

Feasibility study for the development of a Latvian-Swedish electricity interconnection, taking into account technical and economic analysis – study launched in December 2023, with the involvement of Italian energy consultant CESI. The feasibility study for the Latvia-Sweden interconnection will investigate the potential impact of the LaSGo link on the reliability and stability of the power system in the Baltic Sea region, taking into account the development of offshore and onshore wind farms in the region. The study will also analyse the possible options for the LaSGo link project from a technical-economic point of view and will identify the costs of the possible interconnection and its connection, as well as carry out a cost-benefit analysis.

Natural gas transmission and storage

The subsidiary will actively continue work on the Inčukalns UGS facility modernisation project, which, to be completed by 2025, will significantly improve the technical infrastructure and operational reliability of the equipment, so that the storage facility can maintain its functionality after the pressure increase in the Baltic transmission system.

In order to promote the production and free circulation of biomethane as a promising renewable energy resource in Latvia, the Company has developed a unique solution in the Baltics, which enables biomethane producers to transport biomethane using special mobile gas containers to a centralised biomethane entry point to be fed into the common gas transmission system.

The European Union and the European Commission's Energy Union transformation and decarbonisation pathway commits Member States to significantly reduce their GHG emissions and promote the transition to renewable energy in the long term. The transformation strategy is based on the development of a hydrogen economy, in which hydrogen will be used as a renewable energy carrier and storage medium with future deployment potential. In the reporting year, Conexus, together with the transmission system operators Gasgrid Finland (Finland), Elering (Estonia), Amber Grid (Lithuania), Gaz System Poland (Poland) and Ontras (Germany) have launched the North-Baltic Hydrogen Corridor project, which envisages a cross-border hydrogen transmission corridor from Finland through Estonia, Latvia, Lithuania and Poland to Germany by 2030.

Implementing climate-friendly and sustainable energy solutions is one of the strategic directions of the Company. The subsidiary plans to install solar panels on more than 16,000 s. m. of the Inčukalns UGS facility site with a total capacity of up to 1 MW. The construction of the solar park is projected to provide 25% of the total electricity consumption of the storage facility. In the reporting year, Conexus concluded a contract for the construction of a solar park, including the purchase of equipment, at the Inčukalns PGK site following an open procurement procedure.

financial risks at the Augstsprieguma tīkls Group are managed in accordance with the Financial Risk Management Policy, and the subordinate Financial Risk Management Rules.

The Subsidiaries of the Group develop and approve their own Financial Risk Management Policies, which are aligned with the guiding principles of the Group's policies.

Financial resources management aims to ensure the financing and financial stability of economic activities through conservative financial risk management. As part of financial risk management, the Group and the Parent Company apply financial risk controls and hedging measures to reduce the risk on open positions.

a) Liquidity risk

Liquidity risk relates to the ability of the Group and the Parent Company to meet their obligations as they fall due. To hedge operational risk, unforeseeable cash flow fluctuations and short-term liquidity risk, the Group and the Parent Company maintain a reserve in the form of cash or committed and irrevocably available credit facilities for the next 24 months.

The Group and the Parent Company operate a prudent liquidity risk management policy to ensure that they have sufficient financial resources to meet their liabilities as they fall due.

Management believes that AS "Augstsprieguma tīkls" will not have liquidity issues and will be able to pay its creditors within the terms. Management believes that AS "Augstsprieguma tīkls" will provide the Group with sufficient cash resources to ensure that the liquidity is not threatened.

b) Interest rate risk

The interest rate risk arises mainly from the floating-rate interest rates, whereby there is a risk of a significant increase in financing costs due to rising interest rates. In order to limit the risk, the financial risk management policy of the Group and the Parent Company stipulates that the proportion of fixed or capped interest rates in the loan portfolio may not be less than 35%. At the same time, the financial risk management rules stipulate that deviations from this indicator are permitted in the restructuring of liabilities assumed as part of the reorganisation of ownership of transmission assets.

c) Credit risk

The financial assets that potentially expose the Group and the Parent Company to a certain degree of risk concentration are mainly cash and receivables from contracts with customers. Credit risk can relate to financial counterparty risk and counterparty risk.

As part of their business activities, the Group and the Parent Company work with domestic and foreign financial institutions. This results in a counterparty risk – the Group and the Parent Company may suffer losses in the event of the insolvency or suspension of business activities of counterparties. In the case of external financing, the risk remains until the borrowing is utilised and transferred to one of the Group's partner banks or the Parent Company.

The credit risk arising from the Group's and Parent Company's current account balances is managed in accordance with the Group's financial risk management policy and financial risk management rules, balancing the allocation of financial resources.

In accordance with the financial risk management policy, counterparties with a minimum credit rating of at least investment grade, either their own or that of the parent company, as determined by an international rating agency, are accepted when working with banks and financial institutions.

The Group and the Parent Company work with local and foreign companies as part of their business activities. This results in a counterparty or debtor risk – the Group or the Parent Company may suffer losses in the event of the insolvency or cessation of business activities of counterparties. The Law on International and National Sanctions of the Republic of Latvia imposes financial and civil law restrictions on companies included in the sanctions list, including the freezing of financial assets. In view of this, cooperation with a sanctioned company harbours contractual, legal and reputational risks for the Group or the Parent Company. The Parent company has developed internal procedures that threaten risk management, including the monitoring of business partners, as well as the right provided for in procurement contracts to unilaterally withdraw from the performance of the contract, if the contract cannot be fulfilled, due to the international or national sanctions applied to the business partner, or significant financial markets interests. affecting sanctions imposed by the European Union or the North Atlantic Treaty Organization.

Although the Group and the Parent Company have a significant concentration of receivables risk in relation to a single counterparty or a group of similar counterparties, this risk is considered to be limited as the main counterparty is a state-owned trading company, the joint stock company "Latvenergo" and its group companies, with a high credit rating of Baa2 (investment grade) and a stable future outlook assigned to the Latvenergo Group by Moody's. The credit risk associated with receivables is considered to be limited.

The credit risk associated with receivables is managed in accordance with the risk management measures defined in the Financial Risk Management Framework by analysing receivables on a monthly and at least quarterly basis.

d) Capital risk management

The Parent Company is a company wholly owned by the Republic of Latvia (100%). The objective of capital risk management is to ensure the sustainable operation and development of the Group and the Parent Company, the financing required for the implementation of the development plan in the transmission facilities and the fulfilment of the restrictive covenants stipulated in the borrowing agreements. The restrictive covenants in the borrowing agreements were not breached. To ensure that the restrictive covenants in the loan agreements are complied with, the equity ratio is analysed regularly.

CIRCUMSTANCES AND EVENTS AFTER THE END OF THE REPORTING PERIOD

To strengthen the management team of the Parent Company, on 26 January 2024 the Supervisory Board of AS "Augstsprieguma tīkls" elected Ilze Znotiņa as a Board member for legal and compliance matters; she joined AST on 1 February 2024.

The Parent Company's shareholders at the extraordinary general meeting on 15 December 2023, decided to increase the share capital of the company by EUR 3 956 516, in accordance with the shareholder approved regulations for the increase of the share capital. Invested funds will be used for the planned investments, including, synchronization with the continental Europe network. As a result, the paid-in capital of the Parent Company increased from EUR 391 598 534 to EUR 395 555 050. The decision of the Enterprise Register on the registration of changes came into effect on 4 January 2024.

No other significant events occurred between the last day of the reporting period and the date of signing these financial statements that would have a material impact on the financial statements of the Group and AS "Augstsprieguma tīkls". Although uncertainty about the future impact of events on the Group's and the Parent Company's operations has increased, no circumstances have been identified that would jeopardise the continuity of operations and the fulfilment of legal obligations.

PROPOSAL FOR THE DISTRIBUTION OF PROFITS

annual shareholders' meeting of AS "Augstsprieguma tīkls" will decide how to distribute the profit for 2023. AS "Augstsprieguma tīkls" profit for 2023 is EUR 11,222 thousand.

ROLANDS IRKLIS,	**ARNIS DAUGULIS,**	**IMANTS ZVIEDRIS,**	**GATIS JUNGHĀNS,**	**ILZE ZNOTIŅA,**
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board

Riga, 26 April 2024
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STATEMENT OF THE BOARD'S RESPONSIBILITIES

STATEMENT OF THE BOARD'S RESPONSIBILITIES

the Board of AS "Augstsprieguma tīkls" is responsible for the preparation of the financial statements of the Augstsprieguma tīkls Group and AS "Augstsprieguma tīkls".

On the basis of the information available to the Board of AS "Augstsprieguma tīkls", the consolidated financial statements of the Augstsprieguma tīkls Group and the separate financial statements of AS "Augstsprieguma tīkls" for the year 2023, which were prepared in accordance with IFRS Accounting standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, and profit or loss and cash flows of the Augstsprieguma tīkls Group and AS "Augstsprieguma tīkls" in all material respects. The information contained in the management report is true.

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CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS

	Note	PARENT COMPANY		GROUP	
		2023 12 months EUR	2022 12 months EUR	2023 12 months EUR	2022 12 months EUR
Revenue	4	158,012,093	296,000,232	234,479,972	351,131,631
Other revenue	5	7,697,696	7,191,743	8,746,743	8,073,037
Raw materials and consumables used	6	(75,454,444)	(147,049,033)	(82,251,524)	(153,347,478)
Personnel costs	7	(21,970,852)	(18,622,046)	(37,956,505)	(32,456,251)
Other operating expenses	8	(29,266,278)	(97,201,639)	(34,046,785)	(100,867,144)
EBITDA*		**39,018,215**	**40,319,257**	**88,971,901**	**72,533,795**
Depreciation, amortisation and impairment of property, plant and equipment	10.4	(35,359,819)	(35,303,616)	(77,040,697)	(53,162,148)
Operating profit		**3,658,396**	**5,015,641**	**11,931,204**	**19,371,647**
Income from investments in the capital of associated undertakings		8,333	–	8,333	–
Dividends received from the Subsidiary		5,719,677	6,536,774	–	–
Finance income	9a	2,518,116	54,910	2,604,691	61,559
Finance costs	9b	(682,206)	(617,004)	(3,072,095)	(1,227,749)
Profit before tax		**11,222,316**	**10,990,321**	**11,472,133**	**18,205,457**
Corporate income tax	15	–	–	(1,237,036)	(2,045,654)
Profit for the year		**11,222,316**	**10,990,321**	**10,235,097**	**16,159,803**
Attributable to:					
Parent Company's shareholder		11,222,316	10,990,321	4,865,885	12,467,649
Non-controlling interests		–	–	5,369,212	3,692,154

** See Note 2 for an explanation of the addition of a non-FSAP indicator*

The Notes on pages 157 to 223 form an integral part of these financial statements.

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STATEMENT OF COMPREHENSIVE INCOME

	Note	PARENT COMPANY		GROUP	
		2023 12 months EUR	2022 12 months EUR	2023 12 months EUR	2022 12 months EUR
PROFIT FOR THE YEAR		**11,222,316**	**10,990,321**	**10,235,097**	**16,159,803**
Other comprehensive income / (loss) not reclassified to profit or loss in subsequent periods					
Decrease from revaluation of property, plant and equipment	10.2	–	–	–	(919,822)
Post-employment benefit measurement result	18	309,558	329,736	339,038	388,781
Total other comprehensive income / (loss) for the year		**309,558**	**329,736**	**339,038**	**(531,041)**
TOTAL comprehensive income for the year		**11,531,874**	**11,320,057**	**10,574,135**	**15,628,762**
Comprehensive income attributable to:					
Parent Company's shareholder		11,531,874	11,320,057	5,195,625	11,917,985
Non-controlling interests		–	–	5,378,510	3,710,777

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STATEMENT OF FINANCIAL POSITION

	Note	PARENT COMPANY		GROUP	
		31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
ASSETS					
Non-current assets					
Intangible assets	10.1	3,270,461	3,055,296	21,261,040	5,163,305
Advance payments for intangible assets		–	–	40,700	–
Property, plant and equipment	10.2	699,082,116	681,454,229	1,106,603,680	1,097,824,064
Advance payments for property, plant and equipment	10.2	–	4,250	2,483,546	5,326,259
Right-of- use assets	10.3	14,398,940	14,471,389	14,847,298	14,932,892
Long-term financial investments	11	134,449,726	134,441,393	54,755	46,422
Long-term prepayments		674,022	–	674,022	1,007,865
Total non-current assets		**851,875,265**	**833,426,557**	**1,145,965,041**	**1,124,300,807**
Current assets					
Inventories	12	385,559	425,526	5,063,168	4,116,461
Receivables from contracts with customers	13	18,858,315	22,394,781	30,413,434	32,631,516
Other short-term receivables	14	38,924,866	9,490,098	39,830,252	12,426,651
Bank deposits	14	80,767,903	–	80,767,903	–
Corporate income tax	15	–	11,512	–	11,512
Cash and cash equivalents	16	31,946,690	92,042,624	44,900,140	103,009,740
Total current assets		**170,883,333**	**124,364,541**	**200,974,897**	**152,195,880**
TOTAL ASSETS		**1,022,758,598**	**957,791,098**	**1,346,939,938**	**1,276,496,687**

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STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	PARENT COMPANY		GROUP	
		31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
EQUITY AND LIABILITIES					
Equity					
Share capital	17a	391,598,534	391,598,534	391,598,534	391,598,534
Reserves	17b	36,237,699	36,584,810	36,841,950	37,168,879
Retained earnings		24,181,804	19,336,624	100,760,898	102,272,149
Equity attributable to equity holders of the parent		**452,018,037**	**447,519,968**	**529,201,382**	**531,039,562**
Non-controlling interests	17c	–	–	**102,991,582**	**100,247,555**
Total equity		**452,018,037**	**447,519,968**	**632,192,964**	**631,287,117**
Non-current liabilities					
Employee benefits	18	3,261,894	3,294,185	4,593,371	4,645,953
Lease liabilities	20	14,036,873	14,184,247	14,487,671	14,643,605
Borrowings	20	100,393,137	100,366,699	165,962,034	169,834,882
Deferred income from contracts with customers	19a	37,477,190	38,084,750	37,477,190	38,084,750
Other deferred income	19a	321,491,137	304,906,927	347,562,011	329,864,675
Total non-current liabilities		**476,660,231**	**460,836,808**	**570,082,277**	**557,073,865**
Current liabilities					
Borrowings	20	–	–	13,974,779	12,961,766
Lease liabilities	20	843,802	681,707	871,006	706,771
Deferred income from contracts with customers	19b	4,117,311	3,658,224	4,121,786	3,658,224
Other deferred income	19b	39,115,919	8,695,336	40,090,402	9,462,671
Trade payables	21	24,772,634	28,710,448	30,554,225	36,121,302
Deferred tax liabilities	15	–	–	3,638,647	4,490,381
Other liabilities	21	25,230,664	7,688,607	51,413,852	20,734,590
Total current liabilities		**94,080,330**	**49,434,322**	**144,664,697**	**88,135,705**
TOTAL EQUITY AND LIABILITIES		**1,022,758,598**	**957,791,098**	**1,346,939,938**	**1,276,496,687**

The Notes on pages 157 to 223 form an integral part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY

	Note	PARENT COMPANY						
		Share capital EUR	Retained earnings EUR	Other reserves EUR	PPE revaluation reserve EUR	Post-employment benefit measurement reserve EUR	Reorganisation reserve EUR	TOTAL EUR
At 31 December 2021		**365,895,957**	**62,270,520**	**2,680,615**	**62,417,620**	**(584,979)**	**(27,336,704)**	**465,343,029**
Profit for the year		-	10,990,321	-	-	-	-	10,990,321
Other comprehensive income for the reporting year		-	-	-	-	329,736	-	329,736
Total comprehensive income for the year		-	**10,990,321**	-	-	**329,736**	-	**11,320,057**
Dividends paid	17a	-	(29,143,118)	-	-	-	-	(29,143,118)
Write-down of PPE revaluation reserve		-	921,478	-	(921,478)	-	-	-
Share capital increase	17a	25,702,577	(25,702,577)	-	-	-	-	-
Total transactions with shareholders and other changes in equity		**25,702,577**	**(53,924,217)**	-	**(921,478)**	-	-	**(29,143,118)**
At 31 December 2022		**391,598,534**	**19,336,624**	**2,680,615**	**61,496,142**	**(255,243)**	**(27,336,704)**	**447,519,968**
Profit for the year		-	11,222,316	-	-	-	-	11,222,316
Other comprehensive income for the reporting year		-	-	-	-	309,558	-	309,558
Total comprehensive income for the year		-	**11,222,316**	-	-	**309,558**	-	**11,531,874**
Dividends paid	17a	-	(7,033,805)	-	-	-	-	(7,033,805)
Write-down of PPE revaluation reserve		-	656,669	-	(656,669)	-	-	-
Total transactions with shareholders and other changes in equity		-	**(6,377,136)**	-	-	-	-	**(7,033,805)**
At 31 December 2023		**391,598,534**	**24,181,804**	**2,680,615**	**60,839,473**	**54,315**	**(27,336,704)**	**452,018,037**

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STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attached	GROUP								
		Attributable to the shareholder of the Parent Company							Non-con-trolling interest	Total
		Share capital	Retained earnings	Other reserves	PPE revaluation reserve	Post-employment benefit measurement reserve	Reorganisation reserve	Total		
		EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
At 31 December 2021		**365,895,957**	**143,727,293**	**2,680,615**	**62,552,003**	**(842,630)**	**(25,748,544)**	**548,264,695**	**99,547,615**	**647,812,310**
Profit for the year		–	12,467,649	–	–	–	–	12,467,649	3,692,154	16,159,803
Other comprehensive income for the reporting year		–	–	–	(919,822)	370,158	–	(549,664)	18,623	(531,041)
Total comprehensive income for the year		–	**12,467,649**	–	**(919,822)**	**370,158**	–	**11,917,985**	**3,710,777**	**15,628,762**
Dividends paid	17a	–	(29,143,118)	–	–	–	–	(29,143,118)	(3,010,837)	(32,153,955)
Write-down of PPE revaluation reserve		–	922,902	–	(922,902)	–	–	–	–	–
Share capital increase	17a	25,702,577	(25,702,577)	–	–	–	–	–	–	–
Total transactions with shareholders and other changes in equity		**25,702,577**	**(53,922,793)**	–	**(922,902)**	–	–	**(29,143,118)**	**(3,010,837)**	**(31,153,955)**
At 31 December 2022		**391,598,534**	**102,272,149**	**2,680,615**	**60,709,279**	**(472,472)**	**(25,748,543)**	**531,039,562**	**100,247,555**	**631,287,117**
Profit for the year		–	4,865,885	–	–	–	–	4,865,885	5,369,212	10,235,097
Other comprehensive income for the reporting year		–	–	–	–	329,740	–	329,740	9,298	339,038
Total comprehensive income for the year		–	**4,865,885**	–	–	**329,740**	–	**5,195,625**	**5,378,510**	**10,574,135**
Dividends paid		–	(7,033,805)	–	–	–	–	(7,033,805)	(2,634,483)	(9,668,288)
Write-down of PPE revaluation reserve		–	656,669	–	(656,669)	–	–	–	–	–
Total transactions with shareholders and other changes in equity		–	**(6,377,136)**	–	**(656,669)**	–	–	**(7,033,805)**	**(2,634,483)**	**(9,668,288)**
At 31 December 2023		**391,598,534**	**100,760,898**	**2,680,615**	**60,052,610**	**(142,732)**	**(25,748,543)**	**529,201,382**	**102,991,582**	**632,192,964**

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STATEMENT OF CASH FLOWS

	Note	PARENT COMPANY		GROUP	
		2023 12 months EUR	2022 12 months EUR	2023 12 months EUR	2022 12 months EUR
I. Cash flow from operating activities					
Profit before tax		**11,222,316**	**10,990,321**	**11,472,133**	**18,205,457**
Adjustments:					
Amortisation of intangible assets, depreciation and impairment of property, plant and equipment and impairment costs	10	34,439,412	34,383,606	76,107,145	52,215,887
Depreciation of right-of-use assets	10	920,407	920,010	933,552	946,261
Disposal of intangible assets and property, plant and equipment	10	470,465	275,350	1,171,596	241,215
Increase in provisions		277,267	197,444	256,976	175,077
Interest expense	9	859,260	757,285	3,461,552	1,367,212
Interest income	9	(2,510,429)	(47,194)	(2,596,349)	(47,194)
Dividends from the Subsidiary	11	(5,719,677)	(6,536,774)	–	–
Income from investments in associates		(8,333)	–	(8,333)	–
Operating profit before changes in the working capital		**39,950,688**	**40,940,048**	**90,798,272**	**73,103,915**
Adjustments:					
Receivables from contracts with customers, deposits, and other short-term receivables (increase)/decrease		(26,560,812)	(223,171)	(25,927,560)	859,305
Decrease / (increase) in inventories		39,967	91,801	(946,707)	(972,595)
Increase / (decrease) in trade payables and amounts due to other creditors		26,743,278	(2,396,898)	21,384,067	26,028
Gross cash flow from operating activities		**40,173,121**	**38,411,780**	**85,308,072**	**73,016,653**
Interest paid		(102,708)	–	(2,671,204)	(563,790)
Lease interest paid	20	(230,114)	(230,846)	(250,897)	(251,502)
Interest received		1,742,526	–	1,822,631	–
Expenditure on debt securities issued	20	(500,000)	(126,027)	(500,000)	(126,027)
Corporate income tax paid	15	–	–	(2,088,770)	(2,387,165)
Net cash flow from operating activities		**41,082,825**	**38,054,907**	**81,619,832**	**69,688,169**

The Notes on pages 157 to 223 form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS (CONTINUED)

	Note	PARENT COMPANY		GROUP	
		12 months 2023 EUR	12 months 2022 EUR	12 months 2023 EUR	12 months 2022 EUR
II. CASH FLOW FROM INVESTING ACTIVITIES					
Acquisition and creation of property, plant and equipment and intangible assets		(53,292,108)	(30,958,402)	(82,751,758)	(48,758,506)
Sale of property, plant and equipment	10.2	373,272	258,779	378,061	294,645
EU funding received	19	22,230,789	22,002,822	24,371,953	29,646,762
Congestion fees received	19	11,656,486	37,650,929	11,656,486	37,650,929
Bank deposits placed		(80,000,000)	–	(80,000,000)	–
Investment in shares		–	(45,000)	–	(45,000)
Dividends received from the Subsidiary	11	5,719,677	6,536,774	–	–
Net cash (used in) / generated from investing activities		**(93,311,884)**	**35,445,902**	**(126,345,258)**	**18,788,830**
III. CASH FLOW FROM FINANCING ACTIVITIES					
Lease payments	20	(833,070)	(829,010)	(839,490)	(848,571)
Borrowings from credit institutions	20	–	–	10,000,000	20,000,000
Repayment of borrowings from credit institutions	20	–	–	(12,899,286)	(35,688,383)
Dividends paid	17	(7,033,805)	(29,143,118)	(9,645,398)	(32,120,358)
Net cash flow from financing activities		**(7,866,875)**	**(29,972,128)**	**(13,384,174)**	**(48,657,312)**
Net cash (decrease)/increase during the reporting period		**(60,095,934)**	**43,528,681**	**(58,109,600)**	**39,819,687**
Cash and cash equivalents at the beginning of the reporting year		92,042,624	48,513,943	103,009,740	63,190,053
Cash and cash equivalents at the end of the reporting year		**31,946,690**	**92,042,624**	**44,900,140**	**103,009,740**

The Notes on pages 157 to 223 form an integral part of these financial statements.

ROLANDS IRKLIS,
Chairman of the Board

ARNIS DAUGULIS,
Member of the Board

IMANTS ZVIEDRIS,
Member of the Board

GATIS JUNGHĀNS,
Member of the Board

ILZE ZNOTIŅA,
Member of the Board

MĀRA GRAVA,
Head of Finance and Accounting Department

Riga, 26 April 2024
This document has been signed electronically with a secure electronic signature and contains a timestamp.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE GROUP

The principal business of the Augstsprieguma tīkls Group is the provision of electricity transmission system operator functions, efficient management of energy supply system assets, and natural gas transmission and storage.

The Augstsprieguma tīkls Group (hereinafter also – "Group") comprises the Parent Company AS "Augstsprieguma tīkls" (hereinafter also – "AST" or "Parent Company"), the subsidiary AS "Conexus Baltic Grid" (hereinafter also – "Conexus" or "Subsidiary"), and the associated company "Baltic RCC" OÜ.

All shares of AS "Augstsprieguma tīkls" are owned by the State and held by the Ministry of Climate and Energy of the Republic of Latvia (until 14 February 2023 – by the Ministry of Finance of the Republic of Latvia). The registered office of the Parent Company is at 86 Dārzciema iela, Riga, LV-1073, Latvia.

The composition of the Board and Supervisory Board of the Augstsprieguma tīkls Group:

Members of the Board and their positions
Gunta Jēkabsone – Chairwoman of the Board (until 01.08.2023)
Rolands Irklis – Chairman of the Board (from 07.12.2023)
Imants Zviedris – Member of the Board
Gatis Junghāns – Member of the Board
Arnis Daugulis – Member of the Board
Ilze Znotiņa – Member of the Board (from 01.02.2024)

Members of the Supervisory Board and their positions
Kaspars Āboliņš – Chairman of the Supervisory Board
Olga Bogdanova – Deputy Chairwoman of the Supervisory Board
Armands Eberhards – Member of the Supervisory Board
Aigars Ģērmanis – member of the Supervisory Board

AS "Augstsprieguma tīkls" is a transmission system operator which under the licence No E12001 issued by the Public Utilities Commission (PUC), ensures the operation of the transmission network and the reliability of the electricity supply of the Latvian electricity system, provides transmission services based on published transmission tariffs, and ensures the availability of transmission system services at all times. AS "Augstsprieguma tīkls" performs operational management of the transmission system and ensures safe, stable electricity transmission. AS "Conexus Baltic Grid", the subsidiary of the Group, is an independent single operator of the natural gas transmission and storage system in Latvia, managing one of the most modern natural gas storage facilities in Europe – the Inčukalns Underground Gas Storage (UGS) facility and the natural gas transmission network connecting the Latvian natural gas market with transmission systems in other countries. Conexus is committed to infrastructure sustainability and safety, high quality of service that promotes market development and delivers economic value to customers and society as a whole. Conexus' natural gas transmission and storage services are regulated by the Public Utilities Commission. The Group's associated company OÜ "Baltic RCC" is the Baltic Regional Coordination Centre in Tallinn, whose main task is to coordinate the development planning of electricity systems, as well as to coordinate the day-to-day activities of individual operators to guarantee the security of electricity supply.

The financial statements have been approved by the Board of the Parent Company on 26 April 2023 consisting of the following members: Rolands Irklis (Chairman of the Board), Imants Zviedris (Member of the Board), Gatis Junghāns (Member of the Board), Arnis Daugulis (Member of the Board), Ilze Znotiņa (Member of the Board). The Financial statements are subject to Shareholder's approval at the Shareholder's meeting.

The auditor of the Parent Company and the Group is certified audit company SIA "PricewaterhouseCoopers" and the certified auditor in charge is Ilandra Lejiņa.

2. MATERIAL ACCOUNTING POLICIES

This section sets out the material accounting policies applied in the preparation of the annual financial statements. These principles are applied consistently in the presentation of data for all periods covered by the financial statements. The accounting policies set out in this section have been applied consistently throughout the reporting period, unless otherwise stated.

The consolidated and separate financial statements have been prepared in accordance with IFRS Accounting standards as adopted by the European Union.

The consolidated and separate financial statements are prepared on a historical cost basis, except for certain classes of property, plant and equipment, which are recognised at revalued amounts (see Notes 2.3 and 10.2). The profit or loss statement is classified by type of expense. Cash flows from operating activities in the Statement of cash flows have been prepared using the indirect method. Cash flows from financing and investing activities have been prepared using direct method.

The non-IFRS indicator EBITDA is recognised in the profit or loss statement. This is standard practise in the industry and enables a better comparability with other companies operating in the same sector. For the purposes of these financial statements, EBITDA is calculated as profit before depreciation and amortisation, dividends from Subsidiary, finance income, finance costs and corporate income tax. EBITDA may be calculated differently in the financial statements of other companies.

The financial indicators in the financial statements are presented in the official currency of the Republic of Latvia, the euro (hereinafter referred to as EUR).

The financial statements take into account the comparability of the indicators. If the presentation of the financial statements changes during the year, the comparative figures are reclassified to ensure comparability.

The financial statements cover the period from 1 January to 31 December 2023.

The consolidated financial statements of the Group include the financial results of the Subsidiary AS “Conexus Baltic Grid” from the date of acquisition of the Subsidiary.

At 31 December 2023 and at 31 December 2022, the Parent Company had the following investments:

Subsidiary	Country	Type of business	Date of establishment / date of acquisition	Shareholding
AS “Conexus Baltic Grid”	Latvia	Natural gas transmission and storage Pipeline transport (NACE code 49.50)	21.07.2020	68.46%

Standards and interpretations applicable during the year

During the reporting year, the following standards, amendments or new guidance in interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU have become effective and have been applied in the preparation of these financial statements:

- Disclosure of accounting policies (IAS 1 and IFRS 2 Practice Statement),
- Definition of accounting estimates (IAS 8),
- Deferred tax relating to assets and liabilities arising from a single transaction (IAS 12),
- International tax reform – Pillar 2 model rules (IAS 12).

The application of these new standards, amendments to existing standards, and interpretations did not have a material impact on the financial statements of the Parent Company and the Group.

Standards or interpretations that are effective for the first time for annual periods beginning after 1 January 2024

At the date of approval of the financial statements, the following new standards, amendments to existing standards, and interpretations have been issued by the IASB but are not yet effective:

- Amendments to IFRS 16: Leases; Lease liabilities in sale and leaseback transactions,
- Classification of liabilities as current or non-current – Amendments to IAS 1,
- Amendments to IAS 7: Statement of Cash Flows and IFRS 7: Financial Instruments: Disclosure: Supplier financing arrangements,
- Amendments to IAS 21: Lack of exchangeability.

The Parent Company and the Group do not expect the adoption of these standards and amendments to existing standards to have a material impact on the financial statements in the period of initial application.

Consolidation

a) Subsidiaries

A subsidiary is a company controlled by the Parent Company. A Parent Company controls another company if it receives variable returns from its interest in the company, or is entitled to variable returns, and has the ability to affect the amount of those returns through its power to direct the activities of the subsidiary (IFRS 10: Consolidated financial statements).

The financial statements of the Subsidiary are consolidated from the date on which the Parent Company obtained control of the Subsidiary and consolidation is discontinued when that control ends.

All intercompany transactions, intercompany balances and unrealised gains on intercompany transactions are eliminated. Unrealised losses are also excluded but are considered an indicator of impairment of the transferred asset. Where necessary, the Group's subsidiaries' accounting and valuation methods are changed to ensure consistency with the Group's accounting and valuation methods.

Investments in equity of subsidiaries are recognised in the Parent Company's separate financial statements at historical cost less impairment losses, if any. An impairment loss is recognised for the amount by which the carrying amount of an investment in a subsidiary exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal or value in use. Previous impairments (if any) of subsidiaries are reviewed for possible reversals at each reporting date.

b) Transactions with minority shareholders and shareholders

The Group's transactions with non-controlling interests are treated as transactions with the shareholders of the entity. Changes in the Parent's ownership interest in a subsidiary that is not recognised in the Parent Company when it loses control of the subsidiary are equity transactions (i.e., transactions that are treated as transactions with shareholders). Gains or losses arising from transactions with non-controlling interests are recognised in the Group's equity.

c) Investments in associates

An investment in an associate is an investment in a company over which the Group exercises significant influence (directly or indirectly), which generally means that it holds 20 to 50 per cent of the voting rights.

Investments in associates are recognised in the Group's financial statements using the equity method.

The Group no longer applies the equity method from the date on which the investment ceases to be an associate. The Group/Parent Company no longer has significant influence when it loses the right to participate in the financial or operating activities of the company. The loss of significant influence may occur with or without a change in the absolute or relative interest in the investment.

Investments in the equity of associates are recognised in the separate financial statements of the Parent Company at historical cost less any impairment losses.

Financial instruments consist of financial assets (financial assets at amortised cost and financial assets at fair value through profit or loss) and financial liabilities (financial liabilities at amortised cost).

Financial instruments are initially recognised at fair value plus transaction costs for all instruments that are not measured at fair value through profit or loss. Purchases or sales of financial assets that require delivery of the asset within a specified period of time that is determined by specific market conditions or agreements (regular way transactions) are recognised at the time of purchase/sale, i.e. on the date on which the Group and the Parent Company commit to purchase or sell the asset.

Financial assets

The Group and the Parent Company classify their financial assets in accordance with IFRS 9 in the following measurement categories:

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

Classification of financial assets

The classification of debt instruments depends on the business model adopted by the Group and the Parent Company for the management of financial assets and whether the contractual cash flows consist solely payment of principal and interest (SPPI). If a debt instrument is held to collect cash flows, it may be carried at amortised cost if it meets the requirements of SPPI. Financial assets whose cash flows do not meet the requirements of the SPPI are measured at fair value through profit or loss (FVTPL), such as derivatives. Embedded derivatives are not separated from financial assets but are assessed for SPPI requirements when they are included in financial assets.

Equity instruments are always measured at fair value. However, management has the irrevocable election to present a change in fair value in other comprehensive income if the instrument is not held for trading. If an equity instrument is held for trading, the change in fair value shall be recognised in profit or loss.

Debt instruments

The future measurement of debt instruments depends on the Group's and the Parent company's business model and cash flow characteristics of assets. The Group and the Parent Company classify all their debt instruments (including deposits with credit institutions) at amortised cost: assets held for the contractual collection of cash flows, where those cash flows are solely payments of principal and interest, are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment is recognised as a separate line item in the profit or loss statement.

Cash

Cash and cash equivalents consist of cash balances on current accounts with banks and demand deposits with the maturities of up to three months.

Term deposits

Term deposits are financial assets with maturity of more than 3 months.

Allowances for credit losses of financial assets

Allowances for credit losses of financial assets is recognised according to the expected credit loss ("ECL") model. The model has a three-step approach based on changes in the credit quality of the financial asset compared to initial recognition. The model includes operational allowances for debt from contracts with customers. The Group and the Parent Company recognise an immediate loss equal to 12 months' ECL on initial recognition of a financial asset, even if the financial asset has no impairment indicators (lifetime ECL is recognised for receivables from contracts with customers and other debtors)). In the event of a significant increase in credit risk, ECL is measured using the asset's lifetime ECL rather than the 12-month ECL.

For individually rated financial assets, a material increase in credit risk is defined as a downgrade below investment grade or a change in the composition of the participants that may adversely affect the external credit rating. For financial assets rated at the portfolio level, a material increase in credit risk is defined as a default and insolvency of the debtor.

The Group and the Parent Company have applied IFRS 9 that allows operational simplification for the measurement of receivables from contracts with customers by grouping the receivables by credit quality and days past due, applying an expected credit loss percentage to each group. The ECL rates are estimated considering the last three years of payment history and adjusted to consider information on the present and future projections.

Related party debt as well as loans to related parties are separated into a separate group, which ECL calculates considering not only the past experience but also the credit rating of the ultimate owner, the Republic of Latvia, and projections of future developments.

Although cash and deposits with an original maturity of less than three months are also subject to the requirements for calculating ECL under IFRS 9, the amount of ECL losses determined is immaterial given that predominantly all cash and deposits with original maturities of less than three months are held with financial institutions that themselves or their parent banks have an investment grade credit rating (predominantly A level credit rating).

Expected credit losses are included in a separate credit loss account and the loss is recognised in the profit or loss statement. If, in a subsequent period after ECL is recognised, the amount of the loss decreases and the decrease can be related objectively to an event occurring after ECL was recognised (e.g., the debtor's credit rating improves), a reversal of the previously recognised ECL is recognised in profit or loss statement.

Derecognition of financial assets

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

- the contractual rights to the cash flows from the financial asset expire,
- the Group and the Parent Company transfer the contractual rights to the cash flows from the financial asset or undertake to transfer the cash received to third parties in full without material delay under the agency agreement; or (a) the Group and the Parent Company have transferred substantially all the risks and rewards of the financial asset and (b) the Group and the Parent have neither transferred nor retained substantially all the risks and rewards of the financial asset but have transferred control of the financial asset.

Financial liabilities

Financial liabilities are measured at amortised cost or fair value through profit or loss. All financial liabilities of the Group and the Parent Company are financial liabilities at amortised cost.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially recognised at fair value. In subsequent periods, financial liabilities at amortised cost are carried at amortised cost using the effective interest rate. Financial liabilities at amortised cost are classified as current if they are due in one year or less. If the maturity date exceeds one year, they are presented as non-current liabilities.

Derecognition of financial liabilities

The Group and the Parent Company derecognise a financial liability when its contractual obligations are discharged, or cancelled, or expire. The Group and the Parent Company also derecognise financial liabilities when their terms are modified and the cash flows of the modified liability are materially different, in which case a new financial liability based on the modified terms is recognised at fair value. For derecognition of a financial liability, the difference between the derecognised carrying amount and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss statement.

2.2. TRANSACTIONS IN FOREIGN CURRENCIES

Functional and presentation currency

Items in the Group's financial statements are measured in the currency of the economic environment in which the Group operates (functional currency). The financial statements are prepared, and all items are presented in euro (EUR), which is the functional and presentation currency of the Group and the Parent Company.

All transactions in foreign currencies are revalued in the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are revalued in the functional currency at the exchange rate on the last day of the reporting year. The gain or loss is included in the profit or loss account for the period. Non-monetary positions that are measured at historical cost in a foreign currency are revalued at the exchange rate on the date of the original transaction.

2.3. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets are initially recognised at cost. After initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses. Computer licences, software and implementation costs are recognised as intangible assets and amortised on a straight-line basis over the useful life. Useful life of intangible assets are determined five to twenty years.

Property, plant and equipment (PPE) of the Parent Company and the Group are recognised at cost. After initial recognition, PPE are measured at acquisition cost or revaluation model applied to certain classes of PPE, less accumulated depreciation and impairment losses. Acquisition costs include expenditures that are directly attributable to the acquisition of an asset. The land is not depreciated. The depreciation of PPE is calculated using the straight-line method to allocate the value of the asset to its estimated useful life (considering the asset's NBV).

If the PPE components have different useful lives and the purchase values of these components are significant in relation to the value of the fixed asset, then PPE is accounted by the components of the fixed asset.

PPE category	Useful life, in years
Buildings and structures:	
Buildings	40 – 150
Power station structures	50
Transport structures (squares, roads)	30 – 50
Other civil engineering structures	15 – 65
Transmission lines:	
High-voltage electricity transmission lines	50
Other transmission lines	20-30
Technological equipment:	
Transformers	30 – 40
Substation process equipment, 110 kV-330 kV	20 – 40
Other technological equipment	10 – 15
Other PPE	2 – 20

Future costs are included in the carrying amount of an asset or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group or the Parent Company and the cost of the item can be measured reliably. Such costs are amortised over the remaining useful life of the asset.

The cost of routine repairs and maintenance of PPE is charged to the income statement in the period in which it is incurred.

Assets under construction are recognised at cost and reflects PPE construction costs and costs of unfinished construction objects. Initial costs of assets under construction include PPE creation costs, that mainly consist of equipment and material costs, construction, personnel, designing and other service costs. Depreciation on asset under construction is not calculated, until asset under construction is ready for use.

Gains or losses on disposal of PPE are calculated as the difference between the carrying amount of the asset and the proceeds from disposal and included in the income statement of the period in which they arise. When the revalued PPE are sold, the amount of the revaluation reserve attributable to that PPE is transferred to retained earnings.

If the carrying amount of an intangible asset or PPE is greater than its recoverable amount, the value of the intangible asset or PPE is written down immediately to its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the intangible asset or PPE (see also Note 10).

Property, plant equipment at revalued amount

Revaluations are carried out with sufficient regularity to ensure that the carrying amount of these assets is not materially different from that which would be determined using fair value at the end of the reporting period.

The following groups of PPE are revalued regularly, at least every 5 years:

For the Parent company:

- Electricity transmission structures
- Transmission lines and technological equipment;
- Other electricity transmission equipment.

For the Group:

- Natural gas transmission buildings and structures;
- Wells;
- Transmission lines and technological equipment;
- Gas pumping and automatic control equipment;
- Electricity transmission structures;
- Other electricity transmission equipment.

The increase in value resulting from the revaluation is recognised in the Statement of comprehensive income as a change under “Long-term asset revaluation reserve”. If an impairment loss has been incurred as a result of revaluation, it is first written off against the increase in value recognised in comprehensive income in previous years; if the impairment loss exceeds the revaluation reserve, the excess is recognised in the Statement of profit or loss for the year.

At the date of revaluation, the initial carrying amount and accumulated depreciation are increased or decreased in proportion to changes in the carrying amount of the asset, so that the carrying amount of the asset after revaluation equals its revalued amount. The non-current assets revaluation reserve is decreased and transferred to retained earnings when the revalued asset is written off or disposed of.

The revaluation reserve shall not be distributed as dividends, reinvested in share capital, used to cover losses, transferred to other reserves or used for any other purpose. See also Note 2.12 and Note 10.

2.4. LEASES

At the inception of the contract, the Group and the Parent Company assess whether the contract is a lease or contains a lease. A contract is, or contains, a lease if the contract confers the right to control the use of an identifiable asset for a fixed period in exchange for consideration.

The Group and the Parent Company as a lessee

When entering into a contract, the Group and the Parent Company assess whether the contract is a lease or contains a lease. The Group and the Parent Company recognise the right to use the asset and the corresponding lease liability for all leases in which it is the lessee, with exceptions for short-term leases (where the lease term is 12 months or less) and leases of low-value assets (such as tablets, PCs, office equipment, small appliances, and telephones).

At initial recognition, the Group and the Parent Company measure the lease liability as the present value of the lease payments outstanding at that date. Lease payments are discounted using the interest rate included in the lease. If this rate cannot be readily determined, the Group and the Parent Company use their comparable borrowing rate.

Lease payments included in the lease liability include:

- Fixed lease payments (including substantially fixed lease payments), less lease incentives receivable;
- Variable lease payments that are index- or rate-dependent and were initially measured using an index or rate at the date of initial recognition;
- The amounts that the lessee would have to pay as NBV guarantees;
- The exercise price of the call option if there are reasonable grounds to believe that the lessee will exercise the option;
- Lease termination penalties if the lease term reflects the lessee exercising an option to terminate the lease.

Lease liabilities are presented as a separate line item in the Statement of financial position.

Lease liabilities are subsequently measured at amortised cost using the effective interest method, with the carrying amount reduced to reflect the lease payments made.

The Group and the Parent Company reassess the lease liability (and adjust the related right to use the asset accordingly) whenever:

- The lease term has changed or there is a material event or change in circumstances that results in a change in the valuation of the option to purchase, in which case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate;
- The lease payments change because of a change in an index or rate, or expected payments change because of a guaranteed NBV; in such cases, the lease liability is remeasured by discounting the revised lease payments using the discount rate originally applied (unless the change in lease payments is due to a change in a variable interest rate, in which case the revised discount rate is used), the lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right to use an asset comprises the initial measurement of the corresponding lease liability, lease payments made on or before the commencement date less any lease discounts received, and any initial direct costs. They are then measured at cost less accumulated depreciation and impairment losses.

The right to use the asset is amortised over the life of the contract. Right of use assets is periodically reduced for impairment losses, if any, and adjusted for any remeasurement of the lease liabilities. There was no impairment identified as at end of reporting period for the Right of use assets.

The Group and the Parent Company as a lessor

The Group and the Parent Company, as lessors, have only operating lease agreements. Lease income is recognised based on the amount of the lease payment, determined by reference to the fixed fee for each lease, and is recognised on a straight-line basis over the lease term.

2.5. INVENTORIES

Inventories are carried at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling costs. Cost is calculated using the weighted average method, except for natural gas, which is accounted for using the FIFO method. Inventories are recognised as an expense in the income statement in the reporting period in which they are used.

The cost of purchasing inventories includes the purchase price, import duties and other taxes and charges, transport and related costs, and other costs directly attributable to the supply of materials and goods. Trade discounts, rebates, and similar allowances are deducted in determining the value of inventories.

Inventories are checked at the end of the year.

2.6. DEFERRED INCOME

Deferred revenues consist of grants, congestion management revenues, and transmission connection charges.

Grants

Grants are recognised when there is reasonable assurance that the grant will be received and that all related conditions will be met. A description of the conditions is given in Note 19. Grants are recognised as income over the period necessary to match them systematically to the related costs for which they are intended to compensate. Grant advances are presented in the deferred income from the moment the advance payment is received in the bank account until the project costs related to the use of the advances received are confirmed.

Asset-related grants

Grants related to the acquisition of PPE are recognised at fair value as deferred income and credited to the statement of profit or loss using the straight-line method over the estimated useful lives of the related assets.

Grants related to expenditure items

If the grant relates to an item of expenditure and has a number of conditions attached, it is initially recognised at fair value as deferred income. The conditions attached to these grants are that the grant is to be used only for related expenditure, only for the purpose intended, the amount spent must be identifiable and separately accounted for (by providing separate accounting records). Grants are systematically charged to revenue in the periods when the related costs to be reimbursed are charged to expenditure.

A grant receivable as compensation for expenses or losses already incurred or to provide immediate financial support to an enterprise at no further cost is recognised in profit or loss in the period in which it becomes receivable.

Congestion management at borders (auctions) and decongestion of electricity capacity

Under Section13(4) and Section 13^1(6) of the Electricity Market Law, AS "Augstsprieguma tīkls" manages the congestion and overloads of the transmission system, as well as receives fees for the auction of the limited capacity of the cross-section under the mutual compensation mechanism of transmission system operators and concluded agreements.

In situations where market participants demand more cross-border electricity capacity than is technically feasible, cross-border electricity capacity rights are sold in special auctions. Under the principle used in these auctions, 50% of the auction proceeds belong to the transmission system operator of any country. Types of auctions:

1. The revenues of the intraday market auction are generated from the difference between the Latvian and the neighbouring Nord Pool electricity exchange price areas' intraday exchange prices. The electricity exchange receives the price difference and passes it on to the TSOs Grouped.

2. A long-term auction of transmission capacity aimed at reducing the inter-regional price risk resulting from a shortage of transmission capacity. Latvian and Estonian system operators AS "Augstsprieguma tīkls" and Elering AS offer transmission rights auctions (FTR) on an annual, quarterly, and monthly basis. Market participants who have purchased FTR capacity are entitled to the proceeds of the day-ahead market auction for the same amount. The auctions are organized, and the revenues distributed by the Single Allocation Platform (SAP) under the European System Operators, managed by the Joint Allocation Office (JAO).

Under Article 16 of Regulation No 714/2009 of the European Commission and the Supervisory Board of the European Union on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 (hereinafter "the Regulation"), any revenue generated by the allocation of interconnection capacity shall be used for one or more purposes:

(a) the capacity allocated to ensure actual availability and/or

(b) maintaining or improving interconnection capacity through network investments, in particular new interconnections;

(c) where the revenues cannot be effectively used for the above purposes, they may, subject to the approval of the regulatory authorities of the Member States Grouped, up to a maximum value to be decided by the regulatory authorities, be used as revenues to be considered by the national regulatory authorities when approving the methodology for calculating network tariffs and/or when setting network tariffs.

Under the terms of the Regulation, revenues from congestion management that are not used for congestion and congestion relief on the transmission network are reflected as deferred revenues in the balance sheet. Once these proceeds have been used to finance a specific long-term investment project, as determined by the Public Utilities Commission, the deferred income is amortised by recognising the proceeds in the current year's statement of profit or loss (item "Other income") over the amortisation/depreciation period of the established long-term investment.

Under the principle of matching revenues and costs, congestion management revenues used to address congestion and congestion on the transmission network are presented gross in the statement of profit or loss in the same period as the costs of addressing congestion and congestion.

Under the Methodology for Calculation of Tariffs for Electricity Transmission System Services and the authorisation granted by the Public Utility Commission ("PUC"), in 2023 the revenues from congestion charges were to be allocated to cover the costs of electricity transmission system services in the amount of EUR 14,128 thousand (EUR 36,540 thousand in 2022). This congestion charge revenue is recognised in the statement of profit or loss under "Revenue" (see also Note 4).

2.7. EMPLOYEE BENEFITS

Defined contribution plans

The Group and the Parent Company make monthly contributions on behalf of employees to a closed-defined contribution pension plan. The Plan is managed by the joint stock company AS "Pirmais slēgtais pensiju fonds", in which the Parent Company has an interest. The Group and the Parent Company do not incur any additional legal or constructive obligation to make additional contributions to a defined contribution pension plan if the plan does not have sufficient assets to pay all employee benefits for services rendered by the employee in the current or prior periods. Contributions are made at 4% (6% in 2022) of each pension plan member's salary. Pension contributions are recognised as an expense on an accrual basis and included in Personnel costs.

Defined benefit plans

In addition to the above pension plan, the Group and the Parent Company provide certain post-employment benefits (defined benefit obligations) to employees whose employment conditions meet certain criteria. The benefit obligation is calculated annually considering the current salary level and the number of employees who are due to receive payments, the historical number of terminations and actuarial assumptions. The defined benefit obligation is recalculated annually by independent actuaries.

The present value of the benefit obligation is determined by discounting the estimated future cash flows using government bond market rates. The net interest cost is calculated by applying a discount rate to the net balance of the specified liability obligation. These costs are included in employee liability expense in the profit or loss statement.

Actuarial gains or losses arising from experience-based calculations and changes in actuarial assumptions are included in the statement of comprehensive income in the reporting period in which they arise in a separate reserve called 'Post-employment benefit plan revaluation reserve'. They are included in under retained earnings in the Statement of changes in equity on the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or reductions are recognised immediately in profit or loss as an expense in respect of the past service cost.

Accrued unused annual leave

The accrued cost of untaken annual leave is calculated for each employee by multiplying the number of days of untaken leave at the end of the reporting year by the average daily wage during the last six months of the reference year, plus the employer's share of state social insurance mandatory contributions.

2.8. CORPORATE INCOME TAX

Corporate income tax

Corporate income tax included in the Income statement is the amount of tax payable on distributed profits under the Corporate Income Tax Law of the Republic of Latvia. Within the Group, the Parent Company applies the flow-through dividend exemption, which allows tax to be excluded on distributions received from a Subsidiary on which the Subsidiary has paid corporate income tax in respect of the payment of dividends.

Distributions are taxed at 20% of their gross amount or 20/80 of net expenses.

Corporate income tax on dividends is recognised as an expense in the profit or loss statement in the accounting period in which the dividend is declared.

Deferred income tax

A deferred tax liability is recognised in the consolidated financial statements for the undistributed profits of subsidiary of the Parent Company that will be taxed in the near future. Other deferred tax assets and liabilities are not recognised.

2.9. REVENUE RECOGNITION

Revenue from customers within the scope of IFRS 15 is the value of products sold and services rendered as a result of operating activities. The Group and the Parent Company account for contracts with a customer only if all of the following criteria are met:

(a) The parties to the contract have approved the contract (in writing, orally, or per other customary commercial practice) and have undertaken to perform their respective obligations;

(b) It is possible to determine the rights of each party in respect of the goods or services to be transferred;

(c) It is possible to determine down payment terms for the goods or services to be transferred;

(d) The contract is commercial in nature (i.e. the risk, timing, or amount of future cash flows is expected to change as a result of the contract);

(e) There is a likelihood that the company will collect the consideration due to it in exchange for the goods or services that will be transferred to the customer.

In assessing whether it is probable that the amount of the claim will be collected, the Group and the Parent Company consider only the customer's ability and intention to repay the amount of the receivable in a timely manner.

A performance obligation is a promise (express or implied) in contracts with customers of the Group and the Parent Company to transfer to customers either distinct goods and services or a set of distinct goods and services that are substantially the same and that have the same characteristics Grouping the transfer to the customer.

Promised goods or services are separate performance obligations if the goods or services are different. A promised good or service is considered distinct if the customer can benefit from the good or service separately or through other readily available resources (i.e. individually distinct) and the good or service is separable from other contractual promises (i.e. distinct within the contract). Both of these criteria must be met to conclude that a good or service is distinctive.

The Group and the Parent Company recognise revenue when (or as soon as) they have fulfilled its obligation to deliver the promised good or service to the customer. Revenue is recognised when the customer obtains control of the identified good or service.

The Group and the Parent Company use the results-based approach to assess the entity's progress toward full implementation of its performance obligations.

All revenue is recognised over time as the continuous delivery of these goods and services is made over the term of the respective contracts. For such contracts, revenue from completed performance obligations is recognised over time if one of the following criteria is met:

- The customer receives and consumes benefits at the same time;
- The customer controls the asset at the time the asset is constructed or improved;
- The Group's and the Parent Company's activities do not constitute an asset with an alternative use, but it is entitled to payment for timely completion of the activity.

Revenue from the exercise of performance obligations is recognised based on the agreed transaction price (net of value added tax and discounts). The transaction price reflects the amount to which the Group and the Parent Company are entitled under the current contract. It applies to different performance obligations based on the individual prices of the goods or services promised in the contract. The Group and the Parent Company allocate the transaction price to the different performance obligations in proportion to their observable individual prices and recognise revenue when the performance obligations are satisfied.

Payment terms, according to the terms of the contracts for goods or services transferred to customers, are 20 to 45 days after the provision of services or sale of goods.

c) Electricity transmission system service (IFRS 15)

Revenues for transmission system services are based on tariffs approved by the Public Utilities Regulatory Commission and are recognised in accordance with IFRS 15. The Parent Company may claim to a refund from the Client of an amount directly corresponding to the value that the Client obtains from the timely completion of the Parent Company's activities.

The Parent Company's revenue from transmission system services is recognised at the end of each month on the basis of the measurements automatically read by meters.

d) Compulsory Purchase Components (IFRS 15)

Under Decision No. 263 of the PUC Supervisory Board of 24 November 2022 ''On mandatory electricity procurement and capacity components from 1 January 2023", the mandatory procurement component from 1 January 2023 was set at EUR 0/MWh. With the amendments to the Electricity Market Law of 16 February 2023, which became effective on 1 March 2023, the Parent Company no longer collects the mandatory purchase component.

e) Revenue from electricity/power sales (sales of balancing electricity and sales of regulating electricity, IFRS 15)

According to Section 11(2) of the Electricity Market Law, the transmission system operator may participate in electricity trading if the purchase and sale of electricity or capacity is necessary for balancing the system, purchasing ancillary services, covering electricity transport losses, the transmission system operator's own consumption or in the event of a deviation from normal operation or an accident in the system.

When participating in electricity trading, the transmission system operator shall follow open, non-discriminatory, and market-based procedures, except in the event of a deviation from normal operation of the system or an accident. In the event of a deviation from normal operation or an accident, the transmission system operator shall act under the provisions of the Network Code.

Revenue from the sale of electricity/power is recognised on the basis of the acceptance and transfer notes and invoices issued each month for the electricity/power supplied during that month in accordance with the mutually agreed contracts. The Parent Company considers that it acts as a principal in the sale of electricity under the balancing service as the Parent Company is responsible for balancing the electricity transmission system.

f) Connection fee to the electricity transmission system (IFRS 15)

AS "Augstsprieguma tīkls" shall provide the necessary connections to the transmission system for system participants or increase the permitted load of existing connections in accordance with the connection rules for system participants issued by the Public Utilities Commission.

Transmission connection charges are non-refundable upfront charges paid by customers for secure connection to the transmission network, such charges are not separate operational obligations as they are intricately linked to transmission system services. The connection fee partially covers the cost of the infrastructure to be built to connect the customer to the network. The fee for connection to the transmission system is calculated in accordance with the methodology established by the Public Utilities Commission.

Transmission connection charges are recognised in the statement of financial position as current and non-current deferred income (the current component includes liabilities expected to be settled within the next year) and amortised to the income statement on a straight-line basis over the estimated commercial customer relationship period (lease period) of 20 years. Advances made for the provision of the service are shown as current liabilities in the statement of financial position.

g) Revenue from natural gas transmission (IFRS 15)

The natural gas transmission service shall be treated as a single performance obligation under IFRS 15. The sale of natural gas transmission capacity products is a regulated service provided by the Group to transmission system users at approved tariffs. Short-term (quarterly, monthly, daily, and intraday capacity) and long-term natural gas transmission capacity (annual capacity) products are offered. Revenue from transmission capacity trading products, which by the nature of the service means the provision of transmission infrastructure and, according to the product chosen, does not vary over time for each capacity unit, shall be recognised in the profit or loss account for each accounting month in proportion to the period of the relevant transmission capacity product booked by the user.

h) Revenue from natural gas storage (IFRS 15)

The natural gas storage service shall be considered as a single performance obligation under IFRS 15. The Inčukalns underground gas storage capacity trading service is provided by the Group at approved tariffs for storage users who have reserved natural gas storage capacity for the storage season. Revenue from the sale of storage capacity, which by the nature of the service means the provision of the Inčukalns underground gas storage infrastructure and does not vary over the storage season, is recognised for each reporting month at the storage tariff and pro rata over the remaining months until the end of the storage season.

i) Revenue from natural gas balancing (IFRS 15)

The Group maintains information on the amount of natural gas injected into and out of the transmission system by transmission system users and calculates imbalances. The daily imbalance is the difference between the input and the output. Balancing revenue shall be recognised for each reporting month in which a natural gas transmission system user has a negative imbalance that has resulted in a shortfall of natural gas in the transmission system. In a positive off-balance sheet situation, the Group recognises a charge in the reporting month. In the financial statements, revenue from rebalancing is shown in ‘‘Other revenue”, net (revenue less expenses for periods when the balance is positive). The net balancing result reflects the amount of administrative costs. To comply with the principle of profit neutrality, the Group calculates a neutrality fee. Neutrality fee means a fee paid by a natural gas transmission system operator to or received from transmission system users in connection with the balancing of the natural gas transmission system. This charge is the difference between the costs of the natural gas transmission system operator and the revenues from balancing activities. The cost of neutrality can be positive or negative. In case of a negative neutrality charge, the natural gas transmission system operator shall pay the neutrality charge to the transmission system users. In case of a positive neutrality charge, the natural gas transmission system operator shall collect the neutrality charge from transmission system users. The Unified Input-Output Balancing Rules for Natural Gas Transmission, issued by the PUC, state that the financial neutrality of the natural gas transmission system operator is ensured by a neutrality fee.

The Group acts as an agent in the balancing administration function. The following are indications that the Group acts as an agent: The Group has no control over the services before they are passed on to customers; the Group is obliged to invoice and charge customers for the services but has no right to the revenue; the Group has no right to set the price of the services itself, directly or indirectly. Having assessed the available information, the Group considers itself to be an agent in these transactions. Consequently, the natural gas balancing revenue is recognised in the income statement at net value, applying the agent principle of accounting.

j) Electricity cross-border perimeter charges and electricity transit revenues (IFRS 15)

From November 2020, the Parent Company receives revenue in the form of a perimeter fee for electricity trading on the third country border (Latvia-Russia border). An inter-transmission system operators’ compensation mechanism (ITC) has been established between transmission system operators (TSOs) in line with the requirements of Regulation (EU) 838/2010 of 23 September 2010, which provides for the establishment of a single TSO compensation mechanism.

The ITC mechanism provides for common principles of compensation for the provision of transit flows and the provision of infrastructure necessary for transit flows. Under the ITC mechanism, the perimeter charge is paid to the ITC Member State through which trade with the third country takes place. In addition, revenue is generated from the provision of infrastructure necessary for the transit of electricity over the Parent Company’s network.

The Parent Company receives a perimeter fee for monthly trading on the Latvian-Russian border. The total amount of the fee is linked to the monthly volume of cross-border transactions carried out by third parties and is collected monthly. Transit revenues are also collected monthly and are linked to the actual volumes of electricity in transit on the grid.

Since May 2022, no electricity trade transactions have been carried out on the Latvian-Russian border, and accordingly no perimeter charge has been received.

k) Reactive electricity revenues (IFRS 15)

In addition to transmission services, a fee is charged for reactive electricity transferred to the grid. The fee for the transfer of reactive electricity is calculated under the Cabinet Regulation of the Republic of Latvia “Regulations on the Sale and Use of Electricity”.

The amount of electricity fed into the grid is based on meter readings. The charges are billed monthly, based on the reactive electricity transferred to the grid, according to the 0.013 EUR/kVArh charge provided for in the Regulation.

l) Other services (IFRS 15)

Revenue from Other Services includes technical laboratory services, equipment maintenance services, and similar services. Services are billed monthly following mutual agreements.

Financing component

The parent company and the Group do not enter contracts, according to which the period between the agreed delivery time of goods and services and the customer's payment is longer than a year, accordingly, the financing component is not included in the transaction.

2.10. BORROWINGS AND LOANS

Borrowings and loans are classified as current liabilities unless there is an unconditional right to defer settlement for at least 12 months after the balance sheet date.

General and specific borrowing costs that relate directly to the acquisition or construction of qualifying assets, i.e. assets for which a significant period must elapse before their expected time of use or sale, are added to the cost of constructing or acquiring those assets until such time as they are actually ready for their expected use.

2.11. RELATED PARTIES

Parties are considered related if one party can control the other or exercises significant influence over the other party in financial and operational decisions. Related parties of the Group and the Parent Company are the shareholder who controls the company in making economic decisions, Members of the Board of the Group companies, Members of the Supervisory Board of the Parent Company, Members of the Supervisory body of the Parent Company – the Audit Committee and close family members of any of the above persons, as well as companies over which these persons have control or significant influence.

Since all shares of AS "Augstsprieguma tīkls" are 100% owned by the Republic of Latvia, the State-controlled capital companies are also considered to be related parties.

2.12. USE OF SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the management of the Group and the Parent Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following judgements made by the management of the Group and the Parent Company have a material impact on the financial statements:

Post-employment benefit obligations

Based on statistical and analytical information and specialist estimates, the Group and the Parent Company make estimates and assumptions about post-employment benefit obligations as described in Note 2.7.

The discount rate used to discount the post-employment benefit obligations is set at 2.67% for the reporting year (3.2381% in 2022). The discount rate is determined following IFRS Accounting standards requirements that the discount rate should be based on the market yield on high-quality government bonds at the balance sheet date; in addition, the discount rate should reflect the time value of money and not actuarial or investment risk.

Under the terms of the Collective bargaining agreement, which provides for annual indexation of employees' remuneration at the rate of inflation of the previous year, the planned indexation of remuneration in 2024 of 0.6%, in 2025 of 2.3%, in 2026 of 1.8%, and in 2027 onwards – 2% has been taken into account in the calculation of post-employment benefit accruals.

SENSITIVITY ANALYSIS OF THE TOTAL VALUE OF POST-EMPLOYMENT BENEFITS

	Increase	Decrease
AT 31 DECEMBER 2023, in EUR		
Discount rate (+/-1 percentage point)	262,437	(222,593)
	8%	-7%
Monthly salary increase (+/- 1 percentage point)	260,316	(225,051)
	8%	-7%
Staff turnover rate (+/- 1 percentage point)	284,738	(243,342)
	9%	-7%
IN 2022 31. DECEMBER, EUR		
Discount rate (+/-1 percentage point)	300,666	(254,261)
	9%	-8%
Monthly salary increase (+/- 1 percentage point)	290,439	(250,700)
	9%	-8%
Staff turnover rate (+/- 1 percentage point)	328,022	(279,156)
	10%	-8%

Revenues and expenses related to the participation of the Parent Company in the ENTSO-E mechanism for the compensation of losses caused by electricity transit flows

Based on statistical and analytical information as well as expert forecasts, the Parent Company estimates and makes assumptions regarding the revenues and expenses related to its participation in the ENTSO-E mechanism for compensation of losses caused by electricity transit flows (ITC mechanism). The ITC mechanism is a transit loss cost recovery mechanism for transmission system operators of 35 European transmission networks, with two funds: a fixed fund (*Framework fund*) and a common European Union TSO transit volume fund (WWT – *with and without transit*), which varies according to the situation on the electricity market. The most important factors influencing the estimate are the transit flows of electricity across the European electricity transmission networks, as well as the price of transit losses in the ITC Facility Member States, which affect the size of the WWT Fund. The forecast is made in each Member State based on 6 loss measurements per month and a loss price. Revenue is forecast on a prudent basis.

The accrued revenue in December 2023 amounted to EUR 2,575,865 (in December 2022: EUR 1,282,684) and the accrued expenses amount to EUR 1,045,029 (2022: EUR 960 093). Of the accrued income, EUR 1,769,865 (2022: EUR 316 684) is based on settlement notices accepted by the Parent Company which are unbilled as at 31 December 2023. Of the accrued expenses, EUR 537 029 (2022: EUR 895 093) are based on settlement notices accepted by the Parent Company for which no invoices have been received as at 31 December 2023.

Congestion management revenue to cover transmission costs

PUC with decision No. 64 of May 22, 2023 "On the service tariffs of the joint-stock company "Augstsprieguma tīkls of the electricity transmission system", JSC "Augstsprieguma tīkls" in the years 2023-2025 has allowed to use accrued congestion charge revenue, to cover the costs related to the provision of electricity transmission system services, in the amount up to EUR 62,070,100. The amount of accrued congestion charge revenue to be used in a given year is determined based on the costs approved in the valid electricity transmission system service tariff project, and permitted revenues.

Carrying amount of intangible assets and property, plant and equipment, and rights-of-use assets

Asset impairments

The Group's and the Parent Company's management assesses the carrying amounts of intangible assets and PPE, and rights-of-use assets and evaluates whether there is any indication that the recoverable amount of the assets is lower than their carrying amounts. The Group's and Parent Company's management calculates and recognises impairment losses on intangible assets and PPE, and rights-of use-assets based on estimates of their future use, disposal or sale.

In assessing impairment, management uses various estimates of cash flows arising from the use, sale, maintenance and repairs of assets, as well as inflation and interest rate increases.

The estimates are based on forecasts of the general economic environment, consumption and electricity sales prices. If future events were to change, additional impairment would be recognised or the impairment recognised could be partially or fully reversed.

Impairment loss is recognised in the respective reporting period. Impairment losses for assets that are carried at revalued amount are recognized in other comprehensive income within the revaluation reserve changes, but impairment losses for assets carried at cost less depreciation and impairment losses or for assets carried at revalued amount in the case, those losses from the impairment exceeds the previously recognized remaining revaluation reserve amount – in the statement of profit or loss, in the position Depreciation, amortization and impairment loss.

See note 10.2 for more detailed information.

Revaluation of Property, plant and equipment

The revaluation of the PPE part of the electricity transmission segments is carried out by independent, external and certified valuation experts using a depreciated replacement cost model. The valuation is carried out in accordance with international property valuation standards, based on the current use of the PPE, which is assessed as the most efficient and best use of these assets. For PPE that are scheduled for refurbishment in the near future, additional functional depreciation is determined. The remaining useful lives of PPE after revaluation are reviewed in accordance with estimated accumulated depreciation. The Group's management assesses annually whether the carrying amount of revalued PPE is materially different from its fair value at the balance sheet date.

The revaluation of the PPE of the natural gas segments is performed by independent, external, certified valuers using the depreciated replacement cost method. Under this method, the historical cost of the assets is determined according to the prices and requirements at the time of valuation and the materials used, as well as the accumulated depreciation of each asset. The main assumptions in the revaluation process relate to the cost of materials used and average construction prices at the time of revaluation. In order to determine whether the fair values of the classes of property, plant and equipment are consistent with their carrying amounts at the end of the reporting year, the Subsidiary performed an internal assessment of the fair values of the assets as of 31 December 2023 for those classes of property, plant and equipment that were measured at revalued amounts and for which there was an indication of impairment. In accordance with paragraph 62 of IFRS 13 Fair Value Measurement, the Subsidiary assessed that the income approach was the most appropriate. More details on revaluation of property, plant and equipment are presented in Note 10.2.

Depreciation and amortisation

In accordance with the Group's accounting policies, the Group companies make estimates of the useful lives and NBVs of property, plant and equipment. These estimates are based on experience as well as industry practice and are reviewed at the end of each reporting year. Past experience has shown that actual useful lives have sometimes been longer than estimates. The values of fully amortised intangible assets and property, plant and equipment are disclosed in Notes 10.1 and 10.2. Quantification of the impact of potential changes during the useful life is considered impractical, so no sensitivity analysis is disclosed.

The Group and the Parent Company do not calculate depreciation of the emergency spare parts, based on experience that the potential depreciation charge for such items would not be material for the financial statements. In addition, impairment losses are recognised for damaged goods, where appropriate, to take account of changes in the recoverable amount of spare parts.

3. OPERATING SEGMENTS

Segmentation is based on the Group's internal organisational structure, which forms the basis for the monitoring and control of segment performance by the operating segment's decision maker, i.e., the Group's management, which operates in each of the segments. The Parent Company's Board reviews the financial results of the operating segments.

Reportable segments are operating segments or clusters of segments that meet certain criteria. An operating segment is a component of the Group that engages in business activities that may generate income and expenses (including income and expenses related to transactions with other components of the Group), the results of which are reviewed regularly by the chief operating decision-maker to make decisions about the resources allocated to the segment, to assess its performance and for which discrete financial information is available.

Profit, which is monitored by the Chief Operating Decision Maker, is mainly EBITDA, but it also monitors operating profit. Operating profit excludes dividend income and interest income from subsidiaries in the separate financial statements.

The Group divides its activities into three segments: electricity transmission, natural gas storage, and natural gas transmission. The Parent Company divides its activities into one main business segment – electricity transmission. The Group operates geographically only in Latvia.

Electricity transmission

The Electricity transmission segment provides electricity transmission system services and ensures balancing and stability on the transmission network.

The electricity transmission network consists of interconnected networks and facilities, including cross-border connections of 110kV and above, used to transmit electricity from electricity generators to the relevant distribution network or end-users.

Natural gas transmission

The natural gas transmission segment transports natural gas through high-pressure pipelines to supply the Inčukalns underground gas storage facility, other countries and the distribution system.

The Group's modern trunk natural gas transmission system is 1,190 km long and is directly connected to the natural gas transmission systems of Lithuania, Estonia and Russia, providing both natural gas transmission through regional pipelines in the territory of Latvia and interconnections with the natural gas transmission systems of neighbouring countries.

Natural gas storage

The natural gas storage segment provides storage of natural gas required for the heating season and other needs of system users at Inčukalns PGK.

The purpose of a gas storage facility is to ensure a constant supply of gas to consumers, regardless of seasonal changes in consumption, by pumping natural gas in summer and withdrawing it in winter. The Inčukalns UGS facility is the only operational underground gas storage facility in the Baltic States, ensuring gas supply stability in the region since 1968.

In the table below, information on the Group's segment revenue, financial performance and profit, and the assets and liabilities of the Group's and the Parent Company's operating segments is presented. Inter-segment revenue is eliminated at the time of consolidation and is presented in the "Adjustments and eliminations" column. All inter-segment transactions are carried out based on regulated tariffs, if any, or on an arm's length basis.

Segment information is presented only for the Group, as the Parent Company is treated as a single operating segment, the electricity transmission segment.

	GROUP					
	Electricity transmission EUR	Natural gas transmission EUR	Natural gas storage EUR	Total segments EUR	Adjustments and exclusions EUR	Total Group EUR
2023						
External customers	158,012,093	26,225,544	50,242,335	234,479,972	–	234,479,972
Revenue	**158,012,093**	**26,225,544**	**50,242,335**	**234,479,972**	–	**234,479,972**
EBITDA	**39,018,215**	**12,431,861**	**37,521,825**	**88,971,901**	–	**88,971,901**
Depreciation and amortisation and impairment costs	(35,359,819)	(9,959,630)	(31,721,248)	(77,040,697)	–	(77,040,697)
Segment profit before tax	5,502,639	1,115,789	4,853,705	11,472,133	–	11,472,133
Segment assets at the end of the reporting period	888,308,872	251,881,527	217,402,947	1,357,593,346	(10,708,163)	1,346,885,183
Segment liabilities at the end of the reporting period	570,740,561	74,364,938	66,002,828	711,108,327	3,638,647	714,746,974
Capital expenditure*	53,126,201	10,964,317	22,604,137	86,694,655	–	86,694,655
2022						
External customers	296,000,232	26,259,951	28,871,448	351,131,631	–	351,131,631
Revenue	**296,000,232**	**26,259,951**	**28,871,448**	**351,131,631**	–	**351,131,631**
EBITDA	**40,319,257**	**13,044,716**	**19,169,822**	**72,533,795**	–	**72,533,795**
Depreciation and amortisation	(35,303,616)	(10,099,447)	(7,759,085)	(53,162,148)	–	(53,162,148)
Segment profit before tax	4,453,547	2,562,496	11,189,414	18,205,457	–	18,205,457
Segment assets at the end of the reporting period	823,396,127	238,760,565	225,048,730	1,287,205,422	(10,708,735)	1,276,496,687
Segment liabilities at the end of the reporting period	510,271,130	81,986,964	48,461,667	640,719,761	4,489,809	645,209,570
Capital expenditure	31,485,391	5,452,438	9,488,226	46,426,055	–	46,426,055

**Capital investment in the natural gas transmission segment excludes intangible assets of EUR 14,700,000 within the Gas Interconnection Poland – Lithuania (GIPL) project (see Note 10.1 for details).*

Adjustments and exclusions

Deferred taxes are not allocated to individual segments as the underlying instruments are managed within the Group. Taxes and certain financial assets and liabilities are not allocated to these segments as they are also managed at the Group level.

Capital expenditure consists of additions to PPE, and intangible assets.

RECONCILIATION OF PROFIT BEFORE TAX

	PARENT COMPANY		GROUP	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
EBITDA	**39,018,215**	**40,319,257**	**88,971,901**	**72,533,795**
Depreciation and amortisation and impairment costs	(35,359,819)	(35,303,616)	(77,040,697)	(53,162,148)
Segment profit before tax and finance costs	3,658,396	5,015,641	11,931,204	19,371,647
Finance income	2,518,116	54,910	2,604,691	61,559
Finance costs	(682,206)	(617,004)	(3,072,095)	(1,227,749)
Segment profit before tax	5,494,306	4,453,547	11,463,800	18,205,457
Dividends received from Subsidiary	5,719,677	6,536,774	–	–
Income from equity interests in associate	8,333	–	8,333	–
Profit before tax	**11,222,316**	**10,990,321**	**11,472,133**	**18,205,457**

RECONCILIATION OF ASSETS

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Segment assets	888,308,872	823,396,127	1,357,593,346	1,287,157,856
Long-term financial investments	134,449,726	134,394,971	54,755	46,422
Property, plant and equipment *	–	–	(10,708,163)	(10,708,163)
Receivables from contracts with customers	–	–	–	572
Total assets	**1,022,758,598**	**957,791,098**	**1,346,939,938**	**1,276,496,687**

** The property, plant and equipment value adjustment relates to the buffer gas in the gas pipelines owned by AS "Conexus Baltic Grid". The value of the buffer gas was reduced by the valuation of individual PPE of AS "Conexus Baltic Grid" at the time of purchase price allocation.*

RECONCILIATION OF LIABILITIES

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Segment liabilities	570,740,561	510,271,130	711,108,327	640,719,761
Deferred tax liability	–	–	3,638,647	4,490,381
Trade payables	–	–	–	(572)
Total liabilities	**570,740,561**	**510,271,130**	**714,746,974**	**645,209,570**

Operating revenue from major customers, each representing at least 10% of the total operating revenue of the Parent Company and the Group.

REVENUE FROM MAJOR CUSTOMERS

	PARENT COMPANY		GROUP	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Electricity transmission	118,684,785	263,796,445	118,684,785	263,796,445
Natural gas transmission	–	–	18,519,770	25,592,141
Natural gas storage	–	–	24,044,083	18,204,528
Total revenue from major customers	**118,684,785**	**263,796,445**	**161,248,638**	**307,593,114**

4. REVENUE

	Applicable IFRS	PARENT COMPANY		GROUP	
		2023 EUR	2022 EUR	2023 EUR	2022 EUR
REVENUE FROM CONTRACTS WITH CUSTOMERS, RECOGNISED OVER THE TIME					
Electricity transmission system service	IFRS 15	85,561,583	75,232,089	85,561,583	75,232,089
Balancing and regulating electricity sale	IFRS 15	40,890,977	97,509,583	40,890,977	97,509,583
Revenue from natural gas transmission	IFRS 15	–	–	25,309,428	25,740,793
Revenue from natural gas storage	IFRS 15	–	–	50,242,335	28,871,448
Connection fee revenue	IFRS 15	3,612,981	3,467,086	3,612,981	3,467,086
Electricity transit service	IFRS 15	2,709,267	1,285,850	2,709,267	1,285,850
Electricity cross-border perimeter charges	IFRS 15	–	614,675	–	614,675
Reactive electricity revenues	IFRS 15	581,570	697,545	581,570	697,545
Revenue from natural gas balancing, net*	IFRS 15	–	–	916,116	519,158
Other services	IFRS 15	737,990	828,531	737,990	828,531
TOTAL revenue from contracts with customers, recognised over the time		**134,094,368**	**179,635,359**	**210,562,247**	**234,766,758**
Other income					
Congestion management revenues to cover costs of transmission losses***	IAS 20	14,127,667	36,539,596	14,127,667	36,539,596
Electric power congestion elimination**	IAS 20	8,071,615	78,057,043	8,071,615	78,057,043
Asset lease	IFRS 16	1,718,443	1,768,234	1,718,443	1,768,234
TOTAL other income		**23,917,725**	**116,364,873**	**23,917,725**	**116,364,873**
TOTAL REVENUE		**158,012,093**	**296,000,232**	**234,479,972**	**351,131,631**

** Revenues and expenses from balancing are recognised applying the agency principle and are disclosed on net basis within profit and loss account as part of operating income.*

*** As a result of the sharp increase in the electricity price, the Parent Company's revenues as well as costs (see also Note 8) increased significantly in 2022 as a result of the optional financial transmission rights organised jointly with the Estonian transmission system operator AS Elering (Financial Transmission Rights – option) auctions on the Estonia-Latvia border in the direction Estonia-Latvia. Optional Financial Transmission Rights are a financial instrument that allows electricity market participants to limit the risk of electricity exchange price fluctuations between the Estonian and Latvian electricity trading areas. These revenues cover the costs of the Parent Company to decongest the electricity capacity.*

****In accordance with the Methodology for Calculating the Electricity Transmission System Services Tariff, fluctuations between planned and actual revenues and costs are compensated in the next regulatory period. However, in accordance with Paragraph 67 of the Methodology, the Transmission System Operator may request permission from the PUC to use the congestion charge revenues to cover the 2023 electricity losses and process support costs. Given the above, and subject to the authorisation granted by the PUC, congestion charge revenues of EUR 14,127,667 (EUR 36,539,596 in 2022) have been allocated to cover the costs of electricity transmission losses and process support in 2023.*

REVENUE AND EXPENSES FROM THE COMPULSORY PROCUREMENT COMPONENT ARE DISCLOSED IN THE FINANCIAL STATEMENTS ON A NET BASIS, APPLYING THE AGENCY PRINCIPLE:

	PARENT COMPANY		KONCERNS	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Compulsory purchase component revenue	–	564,827	–	564,827
Compulsory purchase component expense	–	(564,827)	–	(564,827)
Compulsory purchase components, net*	–	–	–	–

From 1 January 2023 set at EUR 0/MWh. With the amendments to the Electricity Market Law of 16 February 2023, which entered into force on 1 March 2023, the Parent Company no longer collects the mandatory purchase component.

REVENUES AND EXPENSES FROM BALANCING NATURAL GAS ON AN AGENCY BASIS ARE DISCLOSED IN THE FINANCIAL STATEMENTS ON A NET BASIS:

	PARENT COMPANY		KONCERNS	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Revenue from natural gas balancing activities	–	–	12,008,790	35,537,104
Expenditure from natural gas balancing activities	–	–	(11,092,674)	(35,017,946)
Natural gas balancing, net	–	–	**916,116**	**519,158**

5. OTHER REVENUE

	PARENT COMPANY		KONCERNS	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Recognised deferred revenue from EU co-financing for capital investments (see Note 19)	3,675,572	3,628,395	4,496,462	4,242,915
Recognised deferred income from congestion charging	1,205,248	1,191,483	1,205,248	1,191,483
Proceeds from sales, disposals, net of current assets and property, plant and equipment	223,299	585,670	223,299	585,670
Other revenue*	2,593,577	1,786,195	2,821,734	2,052,969
TOTAL OTHER REVENUE	**7,697,696**	**7,191,743**	**8,746,743**	**8,073,037**

Including EUR 2,230 thousand in 2023 of State aid revenue for the capacity reserve maintenance service in 2023. Having regard to the information report of the Ministry of Climate and Energy ''On Revision of the Draft System Service Tariffs of AS "Augstsprieguma tīkls" and AS "Sadales tīkls", Cabinet Decision No. 4 of 24 January 2023, 53§, Section 49 of the annotation to the Law on the State Budget for 2023 and Budget Framework for 2023, 2024 and 2025 provides for an appropriation to the Ministry of Climate and Energy granting state aid to AS "Augstsprieguma tīkls" for the protection service (capacity reserve maintenance service) by compensating the difference between EUR 4.65 per MW per hour and the actual price of the service above this threshold.

6. RAW MATERIALS AND MATERIALS CONSUMED

	PARENT COMPANY		KONCERNS	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Purchase of balancing electricity*	32,571,272	73,818,693	32,571,272	73,818,693
Electricity transmission losses and technological consumption*	24,788,605	36,539,596	24,788,605	36,539,596
Purchase of regulatory electricity*	8,116,206	23,653,879	8,116,206	23,653,879
Natural gas transmission and storage system maintenance services	–	–	4,583,143	4,244,720
Electricity transit losses*	7,482,905	10,795,719	7,482,905	10,795,719
Cost of materials used and repair works	2,097,109	1,664,347	3,351,930	3,235,300
Natural gas costs	–	–	959,116	482,772
Electricity for self-consumption	398,347	576,799	398,347	576,799
TOTAL RAW MATERIALS AND MATERIALS USED, REPAIR COSTS	**75,454,444**	**147,049,033**	**82,251,524**	**153,347,478**

** The decrease in the cost of purchasing electricity in 2023 compared to 2022 is due to the stabilisation of the electricity price on the power exchange after its sharp increase in 2022.*

7. PERSONNEL COSTS

	PARENT COMPANY		KONCERNS	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Remuneration for work	16,703,655	13,813,365	29,038,910	24,554,512
National social insurance mandatory contributions	4,026,412	3,317,599	6,931,445	5,825,131
Contributions to a pension plan (defined contribution plan)	548,871	700,257	1,281,374	1,270,790
Other benefits under collective agreements (defined benefit plans)*	691,914	790,825	691,914	790,825
Other personnel costs	–	–	12,862	14,993
TOTAL PERSONNEL COSTS	**21,970,852**	**18,622,046**	**37,956,505**	**32,456,251**
including remuneration to the management of the Parent Company (Board, Supervisory Board):				
Remuneration for work	669,423	840,310	669,423	840,310
National social insurance mandatory contributions	158,004	198,258	158,004	198,258
TOTAL REMUNERATION TO THE MANAGEMENT OF THE PARENT COMPANY	**827,427**	**1,038,568**	**827,427**	**1,038,568**
Number of employees at the end of the reporting period	542	522	896	878
Average number of employees during the reporting period	530	522	891	878

** In 2022, additional actuarial gains and losses for prior periods of EUR 490,256 are included.*

8. OTHER OPERATING EXPENSES

	PARENT COMPANY		KONCERNS	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Elimination of electric power congestion*	7,859,059	77,916,884	7,859,059	77,916,884
Reserve Electricity Capacity for Electricity System Reliability	8,899,090	7,892,280	8,899,090	7,892,280
Telecommunications for power system reliability	41,074	49,845	41,074	49,845
Transport costs	945,068	946,951	1,228,238	1,192,118
IT system maintenance costs	5,048,166	4,388,530	6,046,490	5,170,570
Premises and grounds maintenance expenses	1,378,699	1,349,990	1,378,699	1,349,990
Synchronous compensators for power system reliability	1,178,704	1,338,608	1,178,704	1,338,608
Taxes and duties	311,097	184,525	1,276,550	1,059,157
Nature protection and occupational safety expenses	197,813	129,693	197,813	129,693
Other costs	3,407,508	3,004,333	5,941,068	4,767,999
TOTAL OTHER OPERATING EXPENSES	**29,266,278**	**97,201,639**	**34,046,785**	**100,867,144**

**As a result of electricity price increase in 2022, the Parent company's costs increased significantly within the framework of the Financial Transmission Rights – option auction organized by the Estonian transmission system operator "Elering" AS on the Estonia-Latvia border in the direction of Estonia-Latvia. The optional financial transmission right is a financial instrument with the help of which electricity market participants can limit the risk of electricity exchange price fluctuations between the electricity trading areas of Estonia and Latvia. The mentioned costs are covered by the received congestion fee revenues.*

9. FINANCE INCOME AND COSTS

	PARENT COMPANY		GROUP	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
a) Finance income				
Interest income on deposits	2,510,429	47,194	2,596,349	47,194
Other finance income	7,687	7,716	8,342	14,365
Total finance income	**2,518,116**	**54,910**	**2,604,691**	**61,559**
b) Finance costs				
Interest expense on borrowings	(102,708)	–	(2,684,217)	(589,271)
Coupon interest cost of debt securities issued (Note 20)	(526,438)	(526,438)	(526,438)	(526,438)
Capitalised interest cost of borrowings	185,822	148,268	398,225	148,268
Interest expense on leased assets (Note 20)	(230,114)	(230,846)	(250,897)	(251,502)
Other financial costs	(8,768)	(7,988)	(8,768)	(8,807)
Total finance costs	**(682,206)**	**(617,004)**	**(3,072,095)**	**(1,227,749)**

10. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

10.1. INTANGIBLE ASSETS

	PARENT COMPANY			
	Computer software and licences EUR	Transmission right of use assets EUR	Intangible assets under construction EUR	Total EUR
At 31 December 2021				
Historical cost	3,126,796	1,892	321,492	3,450,180
Accumulated amortisation	(1,327,483)	(930)	–	(1,328,413)
NBV	**1,799,313**	**962**	**321,492**	**2,121,767**
2022				
Additions	585,678	–	983,254	1,568,932
Transferred	390,000	–	(390,000)	–
Amortisation charge	(635,308)	(95)	–	(635,403)
NBV at 31 December 2022	**2,139,683**	**867**	**914,746**	**3,055,296**
At 31 December 2022				
Historical cost	3,993,948	1,892	914,746	4,910,586
Accumulated amortisation	(1,854,265)	(1,025)	–	(1,855,290)
NBV	**2,139,683**	**867**	**914,746**	**3,055,296**
2023				
Additions	514,455	–	579,929	1,094,384
Transferred	1,494,675	–	(1,494,675)	–
Disposals	(27,139)	–	–	(27,139)
Amortisation charge	(851,985)	(95)	–	(852,080)
NBV at 31 December 2023	**3,269,689**	**772**	–	**3,270,461**
At 31 December 2023				
Historical cost	5,831,454	1,892	–	5,833,346
Accumulated amortisation	(2,561,765)	(1,120)	–	(2,562,885)
NBV	**3,269,689**	**772**	–	**3,270,461**

	Group				Total
	Computer software and licences EUR	Transmission right of use assets EUR	Service concession agreement EUR	Intangible assets under construction EUR	
At 31 December 2021					
Historical cost	11,316,085	1,892	–	382,546	11,700,523
Accumulated amortisation	(7,536,577)	(930)	–	–	(7,537,507)
NBV	**3,779,508**	**962**	–	**382,546**	**4,163,016**
2022					
Additions	585,678	–	–	1,758,611	2,344,289
Transferred	1,177,416	–	–	(1,177,416)	–
Amortisation charge	(1,343,905)	(95)	–	–	(1,344,000)
NBV at 31 December 2022	**4,198,697**	**867**	–	**963,741**	**5,163,305**
At 31 December 2022					
Historical cost	12,785,449	1,892	–	963,741	13,751,082
Accumulated amortisation	(8,586,752)	(1,025)	–	–	(8,587,777)
NBV	**4,198,697**	**867**	–	**963,741**	**5,163,305**
2023					
Additions	514,455	–	–	16,184,953	16,699,408
Transferred	1,968,512	–	1,007,865	(1,968,512)	1,007,865
Disposals	(27,139)	–	–	–	(27,139)
Amortisation charge	(1,582,304)	(95)	–	–	(1,582,399)
NBV at 31 December 2023	**5,072,221**	**772**	**1,007,865**	**15,180,182**	**21,261,040**
At 31 December 2023					
Historical cost	13,571,767	1,892	1,007,865	15,180,182	29,761,706
Accumulated amortisation	(8,499,546)	(1,120)	–	–	(8,500,666)
NBV	**5,072,221**	**772**	**1,007,865**	**15,180,182**	**21,261,040**

As at 31 December 2023, the co-financing of the project “Klaipėda – Kiemenai pipeline capacity increase in Lithuania” for the remaining amount of EUR 1,007,865 was reclassified from deferred expenses to intangible assets in the financial accounting of the Group. In accordance with PUC Decision No. 97 of 30 April 2014 (Minutes No 16, p.4) “On the allocation of investment costs for the project of common interest “Klaipėda-Kiemenai pipeline capacity increase in Lithuania“ in 2017, a payment of EUR 1,713,370 was made to AB Amber Grid. Under IFRIC 12 “Service Concession Arrangements”, the payment made is recognised in the financial statements as intangible asset. The asset has an amortisation period until 2033, in line with the estimated payback period of the investment.

Based on the ACER (*Agency for the Cooperation of Energy Regulators*) Decision of 11 August 2014 "On the Joint Interest Project No.8.5. for Poland-Lithuania Interconnection investment request, including cross-border cost allocation" and the inter-operator agreement of 11 May 2018 on cost coverage of the *Gas Interconnection Poland – Lithuania* (GIPL) project with GAZ-System A.S., AB Amber Grid and Elering AS, the planned co-financing of AS "Conexus Baltic Grid" for the construction of the interconnection is set at EUR 14,700,000. Regulation (EU) No 347/2013 of the European Parliament and of the Supervisory Board of 17 April 2013 makes this payment mandatory, which means access to a wider range of potential customers in the future and reducing dependency on a single supplier. Under IFRIC 12 "Service Concession Arrangements", the scheduled payment is recognised as intangible asset in the financial statements. According to the information received from the Polish operator GAZ-System A.S., the investments for the cross-border gas interconnection have been made, but the supporting documents for the payments have not yet been received. Consequently, in the Group's financial statements as at 31.12.2023 the Polish-Lithuanian interconnector GIPL is recognised as intangible assets under construction and in other current financial liabilities within other liabilities for the planned co-financing of EUR 14,700,000.

10.2. PROPERTY, PLANT AND EQUIPMENT

	PARENT COMPANY						
	Land, buildings EUR	Electricity transmission structures* EUR	Transmission lines, technological equipment* EUR	Other electricity transmission equipment* EUR	Other PPE EUR	PPE under construction EUR	TOTAL EUR
At 31 December 2021							
Historical cost or revalued amount	41,572,109	8,365,473	1,204,172,346	11,471,818	17,669,409	20,409,947	1,303,661,102
Accumulated depreciation and impairment	(5,090,748)	(3,606,418)	(590,970,246)	(9,501,087)	(8,686,813)	–	(617,855,312)
NBV	**36,481,361**	**4,759,055**	**613,202,100**	**1,970,731**	**8,982,596**	**20,409,947**	**685,805,790**
2022							
Additions	14,313	–	20,591	1,633	764,401	29,129,833	29,930,771
Transferred	2,011,900	187,869	14,453,603	559,044	422,795	(17,635,211)	–
Sold	–	–	(232,479)	–	–	(26,300)	(258,779)
Disposals	(11,007)	(4,344)	(259,464)	(122)	(413)	–	(275,350)
Depreciation	(1,381,106)	(526,959)	(27,866,942)	(465,858)	(3,507,338)	–	(33,748,203)
NBV at 31 December 2022	**37,115,461**	**4,415,621**	**599,317,409**	**2,065,428**	**6,662,041**	**31,878,269**	**681,454,229**
At 31 December 2022							
Historical cost or revalued amount	43,145,635	8,617,617	1,180,904,761	10,418,763	19,966,927	31,878,269	1,294,931,972
Accumulated depreciation and impairment	(6,030,174)	(4,201,996)	(581,587,352)	(8,353,335)	(13,304,886)	–	(613,477,743)
NBV	**37,115,461**	**4,415,621**	**599,317,409**	**2,065,428**	**6,662,041**	**31,878,269**	**681,454,229**
2023							
Additions	5,965	–	2,891	3,246	1,345,377	50,674,338	52,031,817
Transferred	3,161,160	158,906	30,174,608	1,378,330	107,556	(34,980,560)	–
Sold	–	–	–	–	–	(373,272)	(373,272)
Disposals	–	(4)	(443,023)	(6)	(293)	–	(443,326)
Depreciation charge	(1,358,394)	(524,317)	(27,752,964)	(609,099)	(3,342,558)	–	(33,587,332)
NBV at 31 December 2023	**38,924,192**	**4,050,206**	**601,298,921**	**2,837,899**	**4,772,123**	**47,198,775**	**699,082,116**
At 31 December 2023							
Historical cost or revalued amount	46,311,360	8,661,999	1,200,434,390	11,640,674	21,305,280	47,198,775	1,335,552,478
Accumulated depreciation and impairment	(7,387,168)	(4,611,793)	(599,135,469)	(8,802,775)	(16,533,157)	–	(636,470,362)
NBV	**38,924,192**	**4,050,206**	**601,298,921**	**2,837,899**	**4,772,123**	**47,198,775**	**699,082,116**

**PPE class is carried at revalued amount*

	GROUP										
	Land, buildings EUR	Electricity transmis-sion enginee-ring structures* EUR	Natural gas transmission buildings and structures* EUR	Wells* EUR	Transmis-sion lines, technological equipment* EUR	Other electricity transmis-sion equipment* EUR	Natural gas pumping and automatic control equipment* EUR	Other PPE EUR	Emergency reserve EUR	PPE under con-struction EUR	TOTAL EUR
At 31 December 2021											
Historical cost or revalued amount	42,656,276	8,365,473	616,248,276	154,839,599	1,301,000,243	11,471,818	40,766,014	21,910,631	1,538,779	40,436,961	2,239,234,070
Accumulated depreciation and impairment	(5,090,748)	(3,606,418)	(403,306,997)	(44,440,524)	(632,802,841)	(9,501,087)	(23,010,859)	(11,705,649)	–	–	(1,133,465,123)
NBV	**37,565,528**	**4,759,055**	**212,941,279**	**110,399,075**	**668,197,402**	**1,970,731**	**17,755,155**	**10,204,982**	**1,538,779**	**40,436,962**	**1,105,768,947**
2022											
Additions	22,619	–	–	44,902	1,257,114	1,633	9,385	1,895,698	–	40,864,728	44,096,079
Transferred	2,011,901	187,869	10,569,472	5,285,909	14,497,214	559,044	5,370,734	654,450	–	(39,136,593)	–
Sold	–	–	–	–	(232,479)	–	–	–	–	(26,300)	(258,779)
Disposals	(11,007)	(4,344)	(202,479)	(136,482)	(262,299)	(122)	(543,627)	(36,542)	–	–	(1,196,902)
Depreciation charge	(1,381,106)	(526,959)	(8,635,488)	(2,711,816)	(31,894,041)	(465,858)	(1,262,353)	(3,994,266)	–	–	(50,871,887)
Moved	–	–	–	–	–	–	–	–	286,605	–	286,605
NBV at 31 December 2022	**38,207,935**	**4,415,621**	**214,672,784**	**112,881,588**	**651,562,911**	**2,065,428**	**21,329,294**	**8,724,322**	**1,825,384**	**42,138,797**	**1,097,824,064**
At 31 December 2022											
Historical cost or revalued amount	44,238,109	8,617,617	625,920,309	159,765,510	1,277,385,870	10,418,763	44,469,967	26,190,378	1,825,384	42,138,797	2,240,970,704
Accumulated depreciation and impairment	(6,030,174)	(4,201,996)	(411,247,525)	(46,883,922)	(625,822,959)	(8,353,335)	(23,140,673)	(17,466,056)	–	–	(1,143,146,640)
NBV	**38,207,935**	**4,415,621**	**214,672,784**	**112,881,588**	**651,562,911**	**2,065,428**	**21,329,294**	**8,724,322**	**1,825,384**	**42,138,797**	**1,097,824,064**
2023											
Additions	5,965	–	7,250	–	318,437	3,246	27,024	1,951,613	–	82,381,712	84,695,247
Transferred	3,173,197	158,906	4,551,947	489,140	30,593,742	1,378,330	6,463,828	322,157	146,719	(47,131,247)	146,719
Sold	–	–	–	–	–	–	–	–	–	(373,272)	(373,272)
Disposals	–	(4)	(114,646)	(2,548)	(463,698)	(6)	(472,330)	(1,310)	(12,395)	(97,395)	(1,164,332)
Depreciation charge	(1,358,394)	(524,317)	(8,825,608)	(2,732,666)	(31,547,203)	(609,099)	(1,538,624)	(3,900,991)	–	–	(51,036,902)
Impairment charge**	–	–	–	(16,180,709)	–	–	(7,307,135)	–	–	–	(23,487,844)
NBV at 31 December 2023	**40,028,703**	**4,050,206**	**210,291,727**	**94,454,805**	**650,464,189**	**2,837,899**	**18,502,057**	**7,095,791**	**1,959,708**	**76,918,595**	**1,106,603,680**
31 December 2023											
Historical cost or revalued amount	47,415,871	8,661,999	629,594,092	138,773,371	1,296,985,314	11,640,674	38,000,336	27,872,587	1,959,708	76,918,595	2,277,822,547
Accumulated depreciation and impairment	(7,387,168)	(4,611,793)	(419,302,365)	(44,318,566)	(646,521,125)	(8,802,775)	(19,498,279)	(20,776,796)	–	–	(1,171,218,867)
NBV	**40,028,703**	**4,050,206**	**210,291,727**	**94,454,805**	**650,464,189**	**2,837,899**	**18,502,057**	**7,095,791**	**1,959,708**	**76,918,595**	**1,106,603,680**

**PPE class is carried at revalued amount*

** The Group has reviewed the fair values of natural gas wells, gas pumping equipment and automatic plant control stems to ensure that their carrying amounts are not materially different from their fair values at the reporting date. The carrying amount of these classes of property, plant and equipment (wells, gas pumping equipment and automatic control systems) was reduced by EUR 23,487,844. The decrease of EUR 23,487,844 is recognised in the Group's Statement of profit and loss under "Deprecia-tion, amortisation and impairment of property, plant and equipment".*

As at 31 December 2023, the Group's property, plant and equipment comprised fully depreciated property, plant and equipment with historical cost of EUR 43,162,215 (at 31 December 2022: EUR 23,078,576), while the Parent Company's property, plant and equipment at 31 December 2023 comprised fully depreciated property, plant and equipment with historical cost of EUR 29,723,655 (at 31 December 2022: EUR 11,504,886).

In 2023, the Parent Company capitalised borrowing costs of EUR 185,822 (in 2022: EUR 148,268); the Group capitalised borrowing costs of EUR 398,225 (in 2022: EUR 148,268) (Note 9b).

At the end of the reporting period, the Group's unfinished construction objects amounted to EUR 76,918,595, and consisted of the following major projects:

Cost of unfinished construction	Estimated date of completion of the project	31.12.2023 EUR	31.12.2022 EUR
The operations of the Inčukalns underground gas storage improvements	01.12.2025	22,080,453	8,534,857
330kV interconnector Valmiera (LV) – Tsirgulina (EE) capacity increase	31.12.2024	12,649,868	1,806,338
Purchase and installation of system synchronisation and inertia equipment a/st "Grobina"	28.02.2025	6,735,399	-
Purchase and installation of system synchronisation and inertia equipment a/st "Ventspils"	31.06.2025	3,482,761	-
Purchase and installation of system synchronisation and inertia equipment a/st "Līksna"	31.10.2025	3,430,488	-
110kV power transmission cable line No 210 a/st "Torņkalns"-"Centrālā" capacity increase	31.01.2024	2,751,182	2,679,723
110 kV switchgear of 330/110/20 kV substation No.20 "Krustpils" re-building	31.10.2025	2,712,405	-
Construction of the control and data centre, redevelopment of the production base area and building complex at Dārzciema iela 86, Riga	31.12.2027	1,163,947	-
330kV interconnector Valmiera (LV) – Tartu (EE) capacity increase	31.12.2023	–	8,756,682
Project of common interest "Improvement of the Latvian-Lithuanian interconnection"	31.12.2023	–	1,180,131
Substation No.208 "Šķirotava" 110kV switchgear reconstruction	31.12.2023	–	4,587,227
Other projects	2024-2026	21,912,092	14,593,839
Total		**76,918,595**	**42,138,797**

At the end of the reporting period, significant part of the balance of advances paid for PPE and construction in progress constitutes EU co-financed projects. Breakdown of the PPE advances by the project:

Balance of advances paid	PARENT COMPANY		KONCERNS	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Inčukalns UGS projects	–	–	2,217,520	5,075,020
Gas transmission projects	–	–	–	149,075
EU-funded projects	–	–	**2,217,520**	**5,224,095**
Other projects	–	4,250	266,026	102,164
Total	–	**4,250**	**2,483,546**	**5,326,259**

The table below summarises the carrying amounts of the Group's revalued asset classes, assuming that the assets are carried at historical cost:

	NBV if no revaluation 31.12.2023. EUR	NBV 31.12.2023. EUR
Electricity transmission structures	3,479,196	4,050,206
Natural gas transmission buildings and structures	210,291,727	210,291,727
Wells	110,635,514	94,454,805
Transmission lines and technological equipment	665,267,198	650,464,189
Gas pumping and automatic control equipment	25,809,192	18,502,057
Other electricity transmission equipment	2,313,985	2,837,899
TOTAL	**1,017,796,812**	**980,600,883**

	NBV if no revaluation 31.12.2022. EUR	NBV 31.12.2022. EUR
Electricity transmission structures	3,639,527	4,415,621
Natural gas transmission buildings and structures	214,672,784	214,672,784
Wells	112,881,588	112,881,588
Transmission lines and technological equipment	618,139,305	651,562,911
Gas pumping and automatic control equipment	21,329,294	21,329,294
Other electricity transmission equipment	1,626,768	2,065,428
TOTAL	**972,289,266**	**1,006,927,626**

a) Property, plant and equipment of the electricity transmission segment

The following classes of property, plant and equipment of the electricity transmission segment are revalued regularly, but at least once every five years, and are presented as:

- Electricity transmission structures;
- Transmission lines, process equipment;
- Other electricity transmission equipment.

The above-mentioned classes of property, plant and equipment were revalued in 2021 at their value on 1 August 2021. The revaluation was carried out by an independent external certified valuer.

The valuation was carried out in accordance with property valuation standards and based on the best and most efficient use of existing PPEs. The revaluation resulted in a residual replacement cost for each asset. The residual replacement cost is the difference between the replacement cost of an asset or an analogous asset at the time of measurement and the accumulated total physical, functional, and economic depreciation.

Due to the unique nature and use of the assets, Level 3 data are used for the revaluation, which means that the data are not directly observable in the market for the respective asset type.

The replacement cost was based on current material costs and personnel costs indexed to the increase in the material price index and average wage growth rates, respectively. The main assumptions relate to the useful lives of the PPE and the range of depreciation within the regulatory useful lives. The scrap value remaining at the end of useful life was generally assumed to be around 5% of the unit cost of the asset.

THE FOLLOWING TABLES SUMMARISE THE CARRYING AMOUNTS OF THE REVALUED ASSET GROUPS, ASSUMING THAT THE ASSETS ARE CARRIED AT ACQUISITION VALUE:

	Historical cost if no revaluation 31.12.2023 EUR	Accumulated depreciation if no revaluation 31.12.2023 EUR	NBV if no revaluation 31.12.2023 EUR	NBV 31.12.2023 EUR
Electricity transmission structures	8,703,860	5,224,664	3,479,196	4,050,206
Transmission lines, technological equipment	1,144,474,993	572,028,947	572,446,046	601,298,921
Other electricity transmission equipment	11,506,434	9,192,449	2,313,985	2,837,899
TOTAL	**1,164,685,287**	**586,446,060**	**578,239,227**	**608,187,026**

	Historical cost if no revaluation 31.12.2022 EUR	Accumulated depreciation if no revaluation 31.12.2022 EUR	NBV if no revaluation 31.12.2022 EUR	NBV 31.12.2022 EUR
Electricity transmission structures	8,660,301	5,020,774	3,639,527	4,415,621
Transmission lines, technological equipment	1,120,791,336	554,897,533	565,893,803	599,317,409
Other electricity transmission equipment	10,283,091	8,656,323	1,626,768	2,065,428
TOTAL	**1,139,734,728**	**568,574,630**	**571,160,098**	**605,798,458**

The assets of the Parent Company consist of one cash-generating unit: electricity transmission. The determination of cash generating units assumes that the infrastructure elements that make up the electricity transmission system are common, indivisible and necessary for the reliable operation of the electricity transmission system and the provision of services.

The calculation of the recoverable amount of assets is based on the value in use of the cash-generating units, determined by discounting the future cash flows expected to arise from the continued use of the cash-generating units. Cash flows are based on the projected performance of the cash-generating units and management's forecasts of the cash-generating units' performance.

Given the geopolitical situation and the sharp rise in interest rates, the management of AST carried out an impairment review of assets at the end of 2022. In assessing the current situation, the management of AST concluded that no further indications were detected at the end of the reporting year, while the assessment of existing indications has not changed since the last assessment. Given the above, no impairment testing of assets is carried out.

Given the projected business volumes and the likely market value of the assets, the Parent Company's management believes that no material adjustments to the value of intangible assets and property, plant and equipment are required as at 31 December 2023.

b) PPE of the natural gas transmission and natural gas storage segments

In accordance with the Group's accounting policy, the following classes of property, plant and equipment are carried at revalued amounts in the natural gas transmission and natural gas storage segments: natural gas transmission-related buildings and structures, transmission lines and related process equipment, natural gas wells and gas pumping and automatic control equipment.

Due to the unique nature and use of PPE, Level 3 data are used for revaluation, which means that data are not readily observable in the market for the asset type.

THE TABLE BELOW SUMMARISES THE NBVS FOR THE REVALUED ASSET GROUPS, ASSUMING THAT THE ASSETS WOULD BE CARRIED AT HISTORICAL COST:

	Historical cost if no revaluation 31.12.2023 EUR	Accumulated depreciation if no revaluation 31.12.2023 EUR	NBV if no revaluation 31.12.2023 EUR	NBV 31.12.2023 EUR
Buildings and structures	629,594,093	419,302,364	210,291,729	210,291,729
Technological equipment	96,550,924	47,385,657	49,165,267	49,165,267
Wells	160,241,650	49,606,136	110,635,514	94,454,805
Gas pumping and automatic control equipment	49,788,909	23,979,716	25,809,193	18,502,058
TOTAL	**936,175,576**	**540,273,873**	**395,901,703**	**372,413,859**

	Historical cost if no revaluation 31.12.2022 EUR	Accumulated depreciation if no revaluation 31.12.2022 EUR	NBV if no revaluation 31.12.2022 EUR	NBV 31.12.2022 EUR
Buildings and structures	625,920,310	411,247,525	214,672,785	214,672,785
Technological equipment	96,481,109	44,235,607	52,245,502	52,245,502
Wells	159,765,510	46,883,922	112,881,588	112,881,588
Gas pumping and automatic control equipment	44,469,967	23,140,673	21,329,294	21,329,294
TOTAL	**926,636,896**	**525,507,727**	**401,129,169**	**401,129,169**

In 2023, the management of the Subsidiary has assessed the price level of pipelines, process equipment and general construction and has identified changes in inflation, labour and material cost increases compared to January 2020 when the revaluation was performed and the fair value of property, plant and equipment was determined using the depreciated replacement cost method. As a result, it is reasonable to expect that the replacement value could be materially higher than the current carrying amount of the assets at 31 December 2023. However, as a precautionary measure, given the geopolitical situation and uncertainties in the sector, the value in use of assets was also assessed as a basis for determining the recoverable amount of natural gas transmission and storage infrastructure and management concluded that no adjustments to carrying amounts of PPE are necessary as at 31 December 2023, except as described below.

Under Paragraph 31 of IAS 16: Property, plant and equipment, if an entity has elected to measure property, plant and equipment at revalued amounts, such revaluations shall be made with sufficient regularity to ensure that the carrying amount of the property, plant and equipment at the balance sheet date is not materially different from its fair value. The standard also requires an entity to group property, plant and equipment of similar in nature and their use in the entity's business activities in classes. In 2023, the Group's review of the classes of property, plant and equipment identified specific classes of property, plant and equipment that, by their nature and use, should be accounted for separately. Natural gas wells, gas pumping and automatic control equipment were separated into asset classes.

Decision No. 162 of 28 December 2023 of the PUC Supervisory Board "On the use of the regulatory invoice accrual for the natural gas storage system service of joint stock company Conexus Baltic Grid" states that 50% of the regulatory invoice balance may be allocated for financing of assets created during the regulatory period. This way the value of the Regulated Asset Base (RAB), which represents the capital cost of the storage system service, is reduced. The subsidiary has decided to allocate the balance of the regulatory invoice to those assets created in the Inčukalns UGS facility modernisation project that were created during the regulatory period and that were not financed with EU co-financing.

To determine whether the fair value of the above identified classes of property, plant and equipment differs from their carrying amount at the end of the reporting year, the Subsidiary performed an internal valuation of the PPE classes which are carried at revalued amounts and which had signs of impairment as of 31 December 2023. Analysing the measurement methods provided for in Paragraph 62 of IFRS 13: Fair Value Measurement, the Subsidiary assessed that the income approach was the most appropriate.

In determining the fair value of wells, gas pumping and automatic control equipment classes of property, plant and equipment, the Subsidiary has used the approved rate of return on capital for the current regulatory period and has assumed that the rate of return on capital after the end of the regulatory period will be the estimated market rate. The discount rate used in the calculation is 7.25%. If this rate were 6.25%, the carrying amount of the assets would decrease by EUR 21,459 thousand for certain classes of property, plant and equipment. If this rate were 8.25%, the asset value of the individual classes of property, plant and equipment would be decrease by EUR 25,461 thousand.

10.3. THE RIGHT-OF- USE ASSETS

	PARENT COMPANY Buildings and land EUR	GROUP Buildings and land EUR
At 31 December 2021		
Historical cost	19,010,549	19,586,019
Accumulated depreciation	(4,375,132)	(4,499,495)
NBV	**14,635,417**	**15,086,524**
2022		
Changes to lease agreements recognised	69,881	106,527
Increase in rights of use assets	686,101	686,101
Depreciation charge	(920,010)	(946,261)
NBV at 31 December 2022	**14,471,389**	**14,932,892**
At 31 December 2022		
Historical cost	19,766,531	20,270,161
Accumulated depreciation	(5,295,142)	(5,337,269)
NBV	**14,471,389**	**14,932,892**
2023		
Changes to lease agreements recognised	629,464	629,464
Increase in rights of use assets	218,494	218,494
Depreciation charge	(920,407)	(933,552)
NBV at 31 December 2023	**14,398,940**	**14,847,298**
At 31 December 2023		
Historical cost	20,609,163	21,112,793
Accumulated depreciation	(6,210,223)	(6,265,495)
NBV	**14,398,940**	**14,847,298**

10.4. DEPRECIATION AND AMORTISATION

	PARENT COMPANY		GROUP	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Depreciation of property, plant and equipment (Note 10.2)	(33,587,332)	(33,748,203)	(51,036,902)	(50,871,887)
Amortisation of intangible assets (Note 10.1)	(852,080)	(635,403)	(1,582,399)	(1,344,000)
Depreciation of rights of use assets (Note 10.3)	(920,407)	(920,010)	(933,552)	(946,261)
Depreciation and amortisation	(35,359,819)	(35,303,616)	(53,552,853)	(53,162,148)
Decrease in value of non- current assets due to revaluation (Note 10.2)	–	–	(23,487,844)	–
Total Decrease in value of non- current assets due to revaluation	–	–	(23,487,844)	–
Write-offs and other adjustments	(470,465)	(275,350)	(1,191,470)	(1,196,902)
Impairment of intangible assets and property, plant and equipment	(470,465)	(275,350)	(1,191,470)	(1,196,902)
TOTAL depreciation and amortisation excluding write-offs and other adjustments	**(35,359,819)**	**(35,303,616)**	**(77,040,697)**	**(53,162,148)**

11. OTHER LONG-TERM FINANCIAL INVESTMENTS

	PARENT COMPANY		GROUP	
	31.12 .2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Investments in the capital of subsidiaries, including:	**134,394,971**	**134,394,971**	–	–
AS “Conexus Baltic Grid”	134,394,971	134,394,971	–	–
Investment in the capital of associated companies, including:	**53,333**	**45,000**	**53,333**	**45,000**
OÜ, ‘‘Baltic RCC”	53,333	45,000	53,333	45,000
Investments in the capital of other companies, including:	**1,422**	**1,422**	**1,422**	**1,422**
AS “First closed pension fund”	1,422	1,422	1,422	1,422
NBV at the end of the reporting period	**134,449,726**	**134,441,393**	**54,755**	**46,422**

The Parent Company owns 1.9% of the capital AS “Pirmais slēgtais pensiju fonds”. The Parent Company is the nominee shareholder, as all risks and rewards arising from the operation of the Fund are borne or acquired by the employees of the Parent Company – the members of the pension plan.

Society	Location	Type of business	Participation share
AS “Conexus Baltic Grid”	Latvia	Natural gas transmission and storage operator in Latvia	68.46%
‘‘Baltic RCC” OÜ	Estonia	Baltic Regional Coordination Centre for Electricity Transmission Systems	33.33%
AS “Pirmais slēgtais pensiju fonds	Latvia	Managing pension plans	1.9%

Summary of Subsidiary's financial performance

Name	Equity		Profit		Dividends received from Subsidiary	
	31.12.2023 EUR	31.12.2022 EUR	2023 EUR	2022 EUR	2023 EUR	2022 EUR
AS "Conexus Baltic Grid"	328,916,708	333,360,664	16,171,765	11,364,745	5,719,677	6,536,774

In 2023, cash dividends of EUR 5,719,677 were received from the Subsidiary (2022: EUR 6,536,774). Dividends paid to minority interest shareholders amounted to EUR 2,635,401 (in 2022: EUR 3,011,887).

Summarised financial information on the non-controlling interests is as follows:

Company name	Long-term assets		Short-term assets		Non-current liabilities		Current liabilities	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
AS "Conexus Baltic Grid" (31.54%)	439,192,910	435,977,384	30,091,564	27,831,911	93,422,046	96,237,057	46,945,720	34,211,574

12. INVENTORIES

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Materials and spare parts	385,559	425,526	2,928,456	3,240,045
Natural gas	–	–	2,272,259	1,015,561
Advances paid for inventories	–	–	1,433	665
Provisions for slow-moving stocks	–	–	(138,980)	(139,810)
TOTAL INVENTORIES	**385,559**	**425,526**	**5,063,168**	**4,116,461**

13. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Receivables from contracts with customers			–	
Electricity transmission service debts	13,670,798	20,111,627	13,670,798	20,111,627
Natural gas transmission and storage service debts	–	–	11,555,119	9,594,064
Other trade receivables	5,192,972	2,288,649	5,192,972	2,931,320
Total amounts due from contracts with customers	**18,863,770**	**22,400,276**	**30,418,889**	**32,637,011**
Expected credit losses				
Other trade receivables*	(5,455)	(5,495)	(5,455)	(5,495)
Total expected credit losses	**(5,455)**	**(5,495)**	**(5,455)**	**(5,495)**
Debtors, net				
Electricity transmission service debts	13,670,798	20,111,627	13,670,798	20,111,627
Natural gas transmission and storage service debts	–	–	11,555,119	9,594,064
Other trade receivables	5,187,517	2,283,154	5,187,517	2,925,825
AMOUNTS DUE FROM CONTRACTS WITH CUSTOMERS, NET	**18,858,315**	**22,394,781**	**30,413,434**	**32,631,516**

Expected credit losses of receivables from contracts with customers*	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
At the beginning of the reporting year	5,495	4,350	5,495	4,350
Included in the Statement of profit and loss	(40)	1,145	(40)	1,145
At the end of the reporting year	**5,455**	**5,495**	**5,455**	**5,495**

** For more information on the expected credit loss calculation indicators, see Note 23*

14. OTHER RECEIVABLES

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Bank deposits*	80,767,903	–	80,767,903	-
EU funding to be received***	26,383,283	8,384,944	26,383,283	8,384,944
Fraudulent transaction debt**	172,850	172,850	172,850	172,850
Provision for fraudulent transaction**	(172,850)	(172,850)	(172,850)	(172,850)
Other financial assets	**107,151,186**	**8,384,944**	**107,151,186**	**8,384,944**
Overpaid Corporate income tax	–	11,512	–	11,512
Deferred charges	631,277	1,013,784	1,271,503	1,013,784
Advance payment for balancing services on an exchange	–	–	–	2,000,000
Other receivables	11,910,306	91,370	12,175,466	1,027,923
Other non-financial assets	**12,541,583**	**1,116,666**	**13,446,969**	**4,053,219**
TOTAL OTHER RECEIVABLES	**119,692,769**	**9,501,610**	**120,598,155**	**12,438,163**

**To ensure efficient management of resources, taking into account rising interest rates, in 2023, freely available cash was placed in short-term fixed-term deposits with maturities of 6 to 12 months and annual interest rates ranging from 3.41% to 4.4% (see Note 23).*
***The Parent Company has created provisions of EUR 172, 850 in 2022 in relation to a fraudulent transaction. Criminal proceedings have been initiated on this matter.*
**** In 2023, the Parent Company continues the implementation of the EU co-funded projects ''Synchronisation with Continental Europe, Phase 1" and ''Synchronisation with Continental Europe, Phase 2", as well as projects under the Recovery and Resilience Mechanism Plan investment ''Modernisation of the electricity transmission and distribution networks" (see chapter ''Future development of the Group" in the Management Report) has been started.*

15. CORPORATE INCOME TAX

	PARENT COMPANY		GROUP	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Corporate income tax	–	–	(2,088,770)	(2,387,165)
Deferred tax	–	–	851,734	341,511
TOTAL corporate income tax	–	–	**(1,237,036)**	**(2,045,654)**

Corporate income tax relates to the Group Subsidiary's payment of corporation tax during the year on the payment of dividends.

Deferred tax

The Group's deferred tax is calculated on the future corporation tax payable on the Subsidiary's retained earnings that is expected to be paid to the Parent in dividends over the next three years, based on the dividend rate set out in the Subsidiary's strategy, which is that 90% of the Subsidiary's earnings are paid in dividends. The deferred tax attributable to dividends received by the minority interest is allocated to the value of the minority interest in equity.

	2023 EUR	2022 EUR
Deferred tax liability at the beginning of the year	4,490,381	4,831,892
Decrease in deferred corporate income tax liability	(851,734)	(341,511)
Deferred tax liability at year-end	**3,638,647**	**4,490,381**

16. CASH AND CASH EQUIVALENTS

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Cash at bank	28,735,057	92,042,624	41,453,794	103,009,740
Demand deposits*	3,211,633	-	3,446,346	-
TOTAL cash and cash equivalents	**31,946,690**	**92,042,624**	**44,900,140**	**103,009,740**

**Due to the increase in interest rates offered by commercial banks on cash balances in current accounts, overnight deposit agreements have been concluded with partner banks with variable interest rates in 2023, the amount of which varies according to the Group's immediate cash requirements.*

17. EQUITY

a) Share capital

An overview of the changes in the Parent Company's equity is presented in the table below:

	Number of shares	Registered share capital, EUR
31 December 2021	365,895,957	365,895,957
Issue of new shares	25,702,577	25,702,577
31 December 2022	391,598,534	391,598,534
31 December 2023	**391,598,534**	**391,598,534**

The Group's share capital consists of ordinary shares of the Parent Company. The share capital is fully paid up.

In accordance with the decision of the Shareholders' Meeting of AS "Augstsprieguma tīkls" of 3 November 2022 (Minutes No.3, § 1), a contribution of EUR 25,702,577 has been made to the share capital of the Parent Company by capitalising retained earnings.

The Parent Company has made payments to the State budget for the use of State capital (dividends) from the previous year's profits:

- EUR 29,143,118 (EUR 0.79649 per share) in 2022.
- EUR 7,033,805 (EUR 0.01796 per share) in 2023.

b) Reserves

The reserves of the Parent Company consist of a revaluation reserve, a reserve for post-employment benefits, retained earnings, which are allocated to other reserves at the discretion of the shareholder for development purposes. The Group's reserves consist of the revaluation reserve for property, plant and equipment, the reserves required by the Articles of Association of the Subsidiary, the revaluation reserve for post-employment benefits, retained earnings allocated to other reserves for development purposes at the shareholder's discretion.

c) Minority interests

Information on non-controlling interests is presented in Note 11. Other than dividends, there have been no transactions with non-controlling interests.

18. EMPLOYEE BENEFIT OBLIGATIONS

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
At the beginning of the reporting year	**3,294,185**	**3,426,477**	**4,645,953**	**4,800,612**
Recognised in the Statement of comprehensive income – Post-employment measurement result	(309,558)	(329,736)	(339,038)	(388,781)
Recognised in the Statement of profit or loss- Personnel costs	277,267	197,444	286,456	234,122
At the end of the reporting year	**3,261,894**	**3,294,185**	**4,593,371**	**4,645,953**

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
At the beginning of the reporting year	**3,294,185**	**3,426,477**	**4,645,953**	**4,800,612**
Post-employment benefits paid	(125,146)	(352,360)	(280,202)	(451,907)
Changes in provisions	92,855	220,068	227,620	297,248
At the end of the reporting year	**3,261,894**	**3,294,185**	**4,593,371**	**4,645,953**

Details of the assumptions used in the calculations as well as the sensitivity analysis are provided in Note 2.12.

19. DEFERRED INCOME

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
(a) Non-current deferred income				
– from connection charges	37,477,190	38,084,750	37,477,190	38,084,750
Non-current deferred income from contracts with customers	**37,477,190**	**38,084,750**	**37,477,190**	**38,084,750**
– from European Union funding	142,366,370	136,421,913	168,437,244	161,379,662
– from the expected advance of European Union funding	26,383,283	8,384,944	26,383,283	8,384,944
– from advances received from European Union funding	18,562,500	18,562,500	18,562,500	18,562,500
– from congestion charge	134,178,984	141,537,570	134,178,984	141,537,570
Other non-current deferred income	**321,491,137**	**304,906,927**	**347,562,011**	**329,864,675**
TOTAL Non-current deferred income	**358,968,327**	**342,991,677**	**385,039,201**	**367,949,425**

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
(b) Current deferred income				
– from connection charges	4,117,311	3,658,224	4,117,311	3,658,224
– other contractual obligations recognised	–	–	4,475	–
Current deferred income from contracts with customers	**4,117,311**	**3,658,224**	**4,121,786**	**3,658,224**
– Unfinished EU co-funded projects, including:	16,531,253	3,881,759	16,531,253	3,881,759
Project "Synchronisation of the Baltic electricity transmission system with the European grid, phase 2"	2,650,549	777,947	2,650,549	777,947
Synchronisation of the Baltic States with Continental Europe, Phase 1	6,620,186	2,950,889	6,620,186	2,950,889
Modernisation of the electricity distribution system	7,239,338	-	7,239,338	-
Project "EU-SysFlex – A European framework with effectively coordinated use of flexibility to integrate more RES"	–	37,812	–	37,812
Project ''Dynamic stability study of Baltic power systems"	–	26,250	–	26,250
Project ''System for TSO-SSO-end-user interconnection, INTERRFACE"	21,180	88,861	21,180	88,861
– Completed EU-funded projects	3,570,603	3,609,338	4,540,432	4,372,019
– from congestion charge	19,014,063	1,204,239	19,014,063	1,204,239
– from connection to the natural gas transmission system	–	–	4,654	4,654
Other current deferred income	**39,115,919**	**8,695,336**	**40,090,402**	**9,462,671**
TOTAL current deferred income	**43,233,230**	**12,353,560**	**44,212,188**	**13,120,895**

Movement in deferred income from contracts with customers (long-term and short-term):

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
At the beginning of the reporting year	**41,742,974**	**41,625,094**	**41,742,974**	**41,625,094**
Connection fees and capacity reservation fees recognised in the statement of profit or loss	(3,612,980)	(3,467,086)	(3,620,810)	(3,467,086)
Connection fee and capacity reservation fee received from customer contributions	3,464,507	3,584,966	3,476,812	3,584,966
At the end of the reporting year	**41,594,501**	**41,742,974**	**41,598,976**	**41,742,974**

Movement in other deferred income (non-current and current):

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
At the beginning of the reporting period	**313,602,263**	**251,557,503**	**339,327,346**	**270,490,450**
EU co-financing received*	26,383,283	7,720,085	28,524,447	7,720,085
Accumulated EU co-financing received from previous periods	(8,318,710)	(509,198)	(8,318,710)	(509,198)
Deferred income received from EU co-financing	7,065,258	489,433	7,065,258	8,133,373
EU co-financing advance received**	15,099,296	21,513,389	15,099,296	21,513,389
Congestion charge income received***	11,656,486	37,650,929	11,646,486	37,650,929
Congestion charge income included in statement of profit or loss	(1,205,248)	(1,191,483)	(1,205,248)	(1,191,483)
IPGK reserved capacity charge	–	–	–	(237,284)
EU co-financing included in statement of profit or loss	(3,675,572)	(3,628,395)	(4,496,462)	(4,242,915)
At the end of the reporting year	**360,607,056**	**313,602,263**	**387,652,413**	**339,327,346**
TOTAL: Non-current and current movements at the end of the reporting year	**402,201,557**	**355,345,237**	**429,251,389**	**381,070,320**

**Funding received from the European Union (related to assets) is recognised when the Group and the Parent Company have fulfilled the conditions attached to the receipt of the funding and have an unconditional right to receive the funding. The conditions attached to the funding are: the Parent Company and the Group ensure the management, internal control and accounting of projects co-financed by the European Union in accordance with the European Union guidelines and the requirements of the legislation of the Republic of Latvia. Each transaction relating to the accounting of EU co-financed projects is accounted for in a separate segregated account. The Parent Company and the Group shall maintain accounting records of the relevant income, expenses, long-term investments and value added tax of the projects co-financed by the Separate Entities. If funds are not received by the end of the reporting period, they are recorded as a receivable under the balance sheet item "Other receivables".*

*** Taking into account the significant planned investments in the EU co-funded PCIs "Synchronisation with Continental Europe, Phase 1" and "Synchronisation with Continental Europe, Phase 2".Phase 2", as well as investments in the Recovery and Resilience Mechanism Investment Plan projects ''Modernisation of the electricity transmission and distribution networks" (see also chapter ''Future development of the Group"), advances were received for the implementation of the projects under the concluded grant agreements.*

****Total income received from congestion charges and the liquidation of electricity capacity in 2023 EUR 33,855,768 (in 2022: EUR 152,247,568), of which EUR 8,071,615 (in 2022: EUR 78,057,043) is recognised in the statement of profit or loss to cover congestion avoidance costs and EUR 14,127,667 (in 2022: EUR 36,539,596) for the cost of electricity transmission system losses costs. The remainder of EUR 11,656,486 (in 2022: EUR 37,650,929) is assigned to deferred income.*

Breakdown of deferred income by period:

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Deferred income from European Union funding				
1 year or less	20,101,856	7,491,097	21,076,160	8,253,778
1–5 years	17,214,431	17,441,591	22,085,951	17,441,591
Over 5 years	170,097,722	145,927,766	191,297,076	170,885,514
Deferred income from congestion fees				
1 year or less	19,014,063	1,204,239	19,014,063	1,204,239
1–5 years	34,251,119	5,788,368	34,251,119	5,788,368
Over 5 years	99,927,865	135,749,202	99,927,865	135,749,202
Deferred income from connection fees				
1 year or less	4,117,311	3,658,224	4,117,311	3,658,224
1–5 years	17,342,436	17,512,079	17,342,436	17,512,079
Over 5 years	20,134,754	20,572,671	20,134,754	20,572,671
Deferred income from connection to the natural gas transmission system				
1 year or less	–	–	4,654	4,654
TOTAL deferred income	**402,201,557**	**355,345,237**	**429,251,389**	**381,070,320**

20. BORROWINGS AND LEASE COMMITMENTS

In October 2021, the Parent Company issued bonds in the amount of EUR 100,000 thousand. The total amount of the bond issue programme is up to EUR 160,000 thousand, with the possibility of additional issues if needed. The bonds are listed on Nasdaq Riga with a fixed coupon rate of 0.5% per annum and a maturity date of 20 January 2027. The Parent Company shall have the right to redeem each series of Bonds issued in whole but not in part at any time within 3 (three) months before their maturity at a price equal to the nominal value of the Bonds together with accrued interest. In addition to the events of default, a *cross-default* provision is included if the outstanding debts of the Parent Company and its Subsidiary, individually or in aggregate, exceed EUR 20,000 thousand.

To finance working capital and to ensure liquidity reserve for the next 24 months, the credit line agreement concluded on 9 December 2022 between AS "Augstsprieguma tīkls" and Swedbank AS with a limit of up to EUR 10,000 thousand was extended in 2023, with a maturity of 9 December 2025, a base interest rate of 3-month EURIBOR and an added interest rate of 1.05%. The credit line agreement is unsecured.

The term of the credit line agreement between AS "Augstsprieguma tīkls" and AS "SEB banka" providing for a facility of up to EUR 20,000 thousand and with a maturity of 18 June 2023 was not extended.

During the reporting period, AS "Augstsprieguma tīkls" did not receive any borrowings under the two credit facility agreements. The financial covenants in the Parent Company's existing borrowing agreements have been complied with during the reporting period and at the date of approval of the financial statements:

Limits on financial ratios	31.12.2023	31.12.2022
Capital adequacy >25%	44%	47%
Net borrowings / EBITDA <6	1.3	0.2

At the end of the reporting period, the weighted average interest rate on the Parent Company's Non-current borrowings remained unchanged at 0.5% (at 31 December 2022: 0.5%). 100% of total long-term loans with fixed rate interest (at 31 December 2022: 100%).

The Parent Company's Subsidiary – natural gas operator AS "Conexus Baltic Grid", raises external financing on its own. In the reporting year, AS "Conexus Baltic Grid" has borrowings from both domestic and foreign credit institutions. The weighted average interest rate on borrowings at the end of the reporting year is 3.30% (31.12.2022: 1.76%). 35% of the borrowings received but not yet repaid at the end of the reporting year are at a fixed interest rate (31.12.2022: 36%). All Conexus borrowings are denominated in euros and are unsecured.

At the end of the reporting year, Conexus has available long-term loan agreements of EUR 45 000 thousand to be received during 2024..

The financial covenants in the Subsidiary's existing borrowing agreements have been complied with during the reporting period and at the date of approval of the financial statements:

Limits on financial ratios	31.12.2023	31.12.2022
Capital adequacy >50%	70%	72%
Net borrowings / EBITDA <5	1.32	2.72
Debt service coverage ratio (DSCR) >1.2x	3.3	2.85

The Group's weighted average interest rate on long-term loans at the end of the reporting period was 1.74% (at 31 December 2021: 1.07%), the weighted average interest rate on short-term borrowings is 4.76% (31.12.2022: 2.77%). 71% of the Group's total Non-current borrowings are at fixed interest rates (31 December 2022: 71%). All the Group's borrowings are denominated in euro and are unsecured.

The Group and the Parent Company have entered into various land and property lease agreements, the most significant of which is a long-term agreement entered into in 2011 with a term until 2044. The lease of the electrical part of the combined optical *ground* wire (OPGW – *optical ground wire with dual function*), which is located on the transmission line supports and whose metal reinforcement also provides lightning surge protection for the 330 kV and 110 kV electricity transmission lines, is concluded with AS "Latvenergo AS" (which holds the ownership rights).

Borrowings from credit institutions

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Non-current borrowings from credit institutions	–	–	65,568,897	69,468,183
Non-current portion of issued bonds	99,919,164	99,892,726	99,919,164	99,892,726
Current borrowings from credit institutions	–	–	13,899,286	12,899,286
Borrowings	**99,919,164**	**99,892,726**	**179,387,347**	**182,260,195**
Non-current accrued liability for interest costs on issued bonds	473,973	473,973	473,973	473,973
Current accrued liabilities for interest costs on borrowings from credit institutions	–	–	75,493	62,480
TOTAL borrowings	**100,393,137**	**100,366,699**	**179,936,813**	**182,796,648**
Including:				
Non-current borrowings	100,393,137	100,366,699	165,962,034	169,834,882
Current borrowings	–	–	13,974,779	12,961,766

Lease liabilities:

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
TOTAL lease liabilities	**14,880,675**	**14,865,954**	**15,358,677**	**15,350,376**
Including:				
Non-current	14,036,873	14,184,247	14,487,671	14,643,605
Current	843,802	681,707	871,006	706,771

Movement of borrowings and Lease liabilities:

	PARENT COMPANY		
	Lease commitments EUR	Other borrowings EUR	Total EUR
At 31 December 2021	14,938,982	99,966,288	114,905,270
Recognised changes to lease agreements	69,881	-	69,881
New agreements	686,101	-	686,101
Repayments, excluding interest	(829,010)	-	(829,010)
Interest payments	(230,846)	(126,027)	(356,873)
Calculated interest	230,846	526,438	757,284
At 31 December 2022	**14,865,954**	**100,366,699**	**115,232,653**
Recognised changes to lease agreements	629,297	-	629,297
New agreements	218,494	-	218,494
Repayments, excluding interest	(833,070)	-	(833,070)
Interest payments	(230,114)	(500,000)	(730,114)
Calculated interest	230,114	526,438	756,552
At 31 December 2023	**14,880,675**	**100,393,137**	**115,273,812**

	GROUP			
	Lease liabilities EUR	Borrowings from credit institutions	Other borrowings EUR	Total EUR
At 31 December 2021	**15,406,319**	**98,093,221**	**99,966,288**	**213,465,828**
Recognised changes to lease agreements	106,527	-	-	106,527
New agreements	686,101	20,000,000	-	20,686,101
Repayments, excluding interest	(848,571)	(35,688,383)	-	(36,536,954)
Interest payments	(251,502)	(564,160)	(126,027)	(941,689)
Calculated interest	251,502	589,271	526,438	1,367,211
At 31 December 2022	**15,350,376**	**82,429,949**	**100,366,699**	**198,147,024**
Recognised changes to lease agreements	629,297	-	-	629,297
New agreements	218,494	10,000,000	-	10,218,494
Repayments, excluding interest	(839,490)	(12,899,286)	-	(13,738,776)
Interest payments	(250,897)	(2,568,496)	(500,000)	(3,319,393)
Calculated interest	250,897	2,581,509	526,438	3,358,844
At 31 December 2023	**15,358,677**	**79,543,676**	**100,393,137**	**195,295,490**

Borrowings by maturity:

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Non-current and current borrowings at fixed interest rates:				
1 year or less (short-term portion of Non-current borrowings)	473,973	473,973	2,458,289	2,446,332
1-5 years	99,919,164	–	107,661,099	7,741,935
over 5 years	–	99,892,726	18,387,097	120,215,307
Total	**100,393,137**	**100,366,699**	**128,506,485**	**130,403,574**
Non-current and current borrowings at variable interest rates:				
1 year or less (short-term borrowings)	–	–	11,990,463	2,354
1 year or less (short-term portion of Non-current borrowings)	–	–	–	10,987,053
1-5 years	–	–	39,439,865	41,403,667
Total	–	–	**51,430,328**	**52,393,074**
TOTAL borrowings	**100,393,137**	**100,366,699**	**179,936,813**	**182,796,648**

Breakdown of lease liabilities by maturity:

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
1 year or less	843,802	681,707	871,006	706,771
1-5 years	3,029,123	3,242,843	3,137,939	3,343,099
Over 5 years	11,007,750	10,941,404	11,349,732	11,300,506
TOTAL lease liabilities	**14,880,675**	**14,865,954**	**15,358,677**	**15,350,376**

21. TRADE AND OTHER LIABILITIES

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Financial liabilities:				
Payables for electricity and natural gas	16,697,580	22,243,344	16,697,580	22,243,344
Receivables for materials and services	8,075,054	6,467,104	13,856,645	13,877,958
Accrued liabilities	59,320	95,367	815,112	2,356,219
Other short-term financial liabilities	7,677,092	2,662,036	22,931,538	2,662,036
TOTAL FINANCIAL LIABILITIES	**32,509,046**	**31,467,851**	**54,300,875**	**41,139,557**
Non-financial liabilities:				
State social insurance contributions and other taxes	1,352,511	1,455,831	2,464,382	2,532,591
Advances received for connection charges	795,572	479,283	795,572	479,283
Advances received for capacity reservation charges*	12,036,879	-	12,036,879	-
Advances received	–	650	6,112,856	8,581,032
Other current non-financial liabilities	3,309,290	2,995,440	6,257,513	4,123,429
TOTAL NON-FINANCIAL LIABILITIES	**17,494,252**	**4,931,204**	**27,667,202**	**15,716,335**
TOTAL PAYABLES TO SUPPLIERS AND OTHER CREDITORS, including	**50,003,298**	**36,399,055**	**81,968,077**	**56,855,892**
Due to suppliers	24,772,634	28,710,448	30,554,225	36,121,302
Due to other creditors	25,230,664	7,688,607	51,413,852	20,734,590

**In 2023, the Parent Company has received advances of EUR 12 036 879 for capacity reservation fees and bank guarantees of EUR 59 156 969 for capacity reservation fees.*

Movement of connection charge advances received:

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
At the beginning of the reporting period	**479,283**	**1,247,950**	**479,283**	**1,247,950**
Advances received for connection charges	1,115,112	1,377,194	1,115,112	1,377,194
Advances to reclassified to deferred income after completion of connections	(798,823)	(2,145,861)	(798,823)	(2,145,861)
At the end of the reporting period	**795,572**	**479,283**	**795,572**	**479,283**

22. FAIR VALUE CONSIDERATIONS

IFRS 13 establishes a hierarchy of valuation techniques based on whether the valuation technique uses observable market data or unobservable market data. Observable market data is obtained from independent sources. Where market data are not observable, the valuation technique reflects the Group's assumptions about the market situation.

This hierarchy requires the use of observable market data, if available. When remeasuring fair values, the Group and the Parent Company take relevant observable market prices into account where practicable.

The objective of fair value measurement is to determine the transaction price at which market participants would be willing to sell an asset or assume a liability at a specific measurement date under current market conditions, even if the market is not active.

Several methods are used to determine the fair value of a financial instrument: quoted prices or valuation techniques that incorporate observable market data and are based on internal models. On the basis of the fair value hierarchy, all valuation techniques are categorised into Level 1, Level 2 and Level 3.

A level in the fair value hierarchy of a financial instrument is designated as the lowest level if a significant portion of its value is derived from inputs at a lower level.

The classification of a financial instrument into the fair value hierarchy is made in two steps:

3. Classify the inputs at each level to determine the fair value hierarchy;

4. Classify own financial instruments on the basis of the lowest level if a significant part of their value is derived from lower level inputs.

Quoted market prices – Level 1

The Level 1 valuation technique uses unadjusted quoted prices in an active market for identical assets or liabilities, where the quoted prices are readily available, and the price is representative of the actual market situation for arm's length transactions.

Valuation technique using observable market data – Level 2

In the models used in the Level 2 valuation technique, all relevant inputs are directly or indirectly observable on the asset or liability side. The model uses market data other than quoted prices included in Level 1, which are observable directly (i.e. the price) or indirectly (i.e., derived from the price).

Valuation technique using market data that is not based on observable market data – Level 3

In the valuation technique, market data that are not based on observable market data (unobservable market data) are classified at Level 3. Unobservable market data are data that are not readily available in an active market due to the illiquid nature of the market or the complexity of the financial instrument. Level 3 data are mostly determined on the basis of observable market data of a similar nature, historical observations or analytical approaches.

Assets and liabilities for which fair value is reported and assets measured at fair value

The fair value of borrowings and lease liabilities is determined by discounting future cash flows using market interest rates. As the interest rates for borrowings from credit institutions were recently determined and do not differ significantly from market interest rates (although part of them are fixed), while the interest rates for lease liabilities are estimated to be in line with current market interest rates, while the risk premium for the Group and the Parent Company has not changed significantly, the fair value of non-current liabilities approximates their carrying amount.

Although the bonds issued (included under borrowings) are quoted on the market, transactions in these securities are rare and cannot be regarded as evidence of an active market. The bonds are therefore not measured using Level 1 data. The fair value of bonds is determined by discounting future cash flows using market interest rates. As the interest rates applied to the bonds in 2021 were determined taking into account the increase in market interest rates, the carrying amount of the bonds issued by the Parent Company exceeds their fair value. The risk premium applied to the Group and the Parent Company has not changed significantly.

Management believes that cash and short-term deposits, trade receivables, receivables from suppliers and contractors, bank overdrafts and other current liabilities approximate their carrying amount, mainly due to the short maturity of these instruments.

	PARENT COMPANY			
	NBV EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
At 31.12.2023.				
Assets measured at fair value:				
Revalued PPE (Note 10.2)	608,187,026	–	–	608,187,026
Assets for which fair value is reported:				
Cash (Note 16)	31,946,690	–	31,946,690	–
Receivables from contracts with customers (Note 13)	18,858,315	–	–	18,858,315
Other long-term financial investments (Note 11)	54,755	–	–	54,755
Term deposits (Note 14)	80,767,903		80,767,903	
Other receivables (Note 14)	26,383,283	–	–	26,383,283
Liabilities for which fair value is reported:				
Borrowings (Note 20)	100,393,137	–	88,353,553	–
Lease liabilities (Note 20)	14,880,675	–	–	14,880,675
Trade and other payables (Note 21)	32,509,046	–	–	32,509,046
At 31.12.2022.				
Assets measured at fair value:				
Revalued PPE (Note 10.2)	605,798,458	–	–	605,798,458
Assets for which fair value is reported:				
Cash (Note 16)	92,042,624	–	92,042,624	–
Receivables from contracts with customers (Note 13)	22,394,781	–	–	22,394,781
Other long-term financial investments (Note 11)	46,422	–	–	46,422
Other receivables (Note 14)	8,384,944	–	–	8,384,944
Liabilities for which fair value is reported:				
Borrowings (Note 20)	100,366,699	–	84,864,725	–
Lease liabilities (Note 20)	14,865,954	–	–	14,865,954
Trade and other payables (Note 21)	31,467,851	–	–	31,467,851

	GROUP			
	NBV EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
At 31.12.2023.				
Assets measured at fair value:				
Revalued PPE (Note 10.2)	980,600,883	–	–	980,600,883
Assets for which fair value is reported:				
Cash (Note 16)	44,900,140	–	44,900,140	–
Receivables from contracts with customers (Note 13)	30,413,434	–	–	30,413,434
Other long-term financial investments (Note 11)	54,755	–	–	54,755
Bank deposits (Note 14)	80,767,903		80,767,903	
Other receivables (Note 14)	26,383,283	–	–	26,383,283
Liabilities for which fair value is reported:				
Other borrowings (Note 20)	100,393,137	–	88,353,553	–
Borrowings from credit institutions (Note 20)	79,543,676	–	–	79,543,676
Lease liabilities (Note 20)	15,358,677	–	–	15,358,677
Trade and other payables (Note 21)	54,300,875	–	–	54,300,875
At 31.12.2022.				
Assets measured at fair value:				
Revalued PPE (Note 10.2)	1,006,927,626	–	–	1,006,927,626
Assets for which fair value is reported:				
Cash (Note 16)	103,009,740	–	103,009,740	–
Receivables from contracts with customers (Note 13)	32,631,516	–	–	32,631,516
Other long-term financial investments (Note 11)	46,422	–	–	46,422
Other receivables (Note 14)	8,384,944	–	–	8,384,944
Liabilities for which fair value is reported:				
Other borrowings (Note 20)	100,366,699	–	84,684,725	–
Borrowings from credit institutions (Note 20)	82,429,949	–	–	82,429,949
Lease liabilities (Note 20)	15,350,376	–	–	15,350,376
Trade and other payables (Note 21)	41,139,557	–	–	41,139,557

**To reflect more accurately the fair value for financial liabilities, borrowings from credit institutions are included in level 3.*

23. FINANCIAL RISK MANAGEMENT

Risk management at Augstsprieguma tīkls Group is implemented in accordance with the Financial Risk Management Policy and its subordinate Financial Risk Management Rules.

The Group's subsidiary AS "Conexus Baltic Grid" develops and approves its own Financial Risk Management Policies, which are aligned with the guiding principles contained in the Group's policies.

The purpose of financial resource management is ensure the financing and financial stability of economic activities by managing financial risks conservatively. As part of financial risk management, the Group and the Parent Company apply financial risk controls and hedging measures to reduce the risk on open positions.

Liquidity risk

Liquidity risk relates to the Group's and Parent Company's ability to meet their obligations as they fall due. To hedge operational risk, unpredictable cash flow fluctuations and short-term liquidity risk, the Group and the Parent Company maintain a reserve in the form of cash or committed and irrevocably available credit facilities for the next 24 months.

The Group and the Parent Company exercise prudent liquidity risk management by ensuring continuous cash flow monitoring, forecasting short-term and long-term cash flows, and ensuring sufficient financial resources are available to settle liabilities when they become due.

The Group and the Parent Company's management believes that the Group and the Parent Company will have sufficient cash resources so that their liquidity will not be threatened.

Maturity analysis of financial liabilities by their contractual cash flows including interest, EURR

	NBV	PARENT COMPANY				
		2023	2024	2025	2026–...	Total
	EUR	EUR	EUR	EUR	EUR	EUR
At 31.12.2022.						
Lease liabilities	14,865,954	902,036	901,945	901,793	14,871,322	17,577,096
Bonds issued	100,366,699	472,603	472,603	472,678	100,945,205	102,363,089
Payables to suppliers and other creditors	31,467,851	31,467,851	–	–	–	31,467,851
Total	**146,700,504**	**32,842,490**	**1,374,548**	**1,374,471**	**115,816,527**	**151,408,036**
		2024	2025	2026	2027–...	Total
		EUR	EUR	EUR	EUR	EUR
At 31.12.2023.						
Lease liabilities	14,880,675	1,062,978	1,062,826	1,054,417	14,238,025	17,418,246
Bonds issued	100,393,137	500,000	500,000	500,000	100,501,370	102,001,370
Payables to suppliers and other creditors	32,509,046	32,509,046	–	–	–	32,509,046
Total	**147,782,858**	**34,072,024**	**1,562,826**	**1,554,417**	**114,739,395**	**151,928,662**

	NBV	GROUP				
		2023	2024	2025	2026–...	Total
	EUR	EUR	EUR	EUR	EUR	EUR
At 31.12.2022.						
Lease liabilities	15,350,376	927,100	927,009	926,857	15,739,206	18,520,172
Borrowings from credit institutions	82,429,949	15,171,022	14,743,768	19,545,505	45,377,570	94,837,865
Bonds issued	100,366,699	472,603	472,603	472,678	100,945,205	102,363,089
Payables to suppliers and other creditors	41,139,557	41,139,557	-	-	-	41,139,557
Total	**239,286,581**	**57,710,282**	**16,143,380**	**20,945,040**	**162,061,981**	**256,860,683**
		2024	**2025**	**2026**	**2027–...**	**Total**
		EUR	**EUR**	**EUR**	**EUR**	**EUR**
At 31.12.2023.						
Lease liabilities	15,358,677	1,090,182	1,090,030	1,081,621	15,150,973	18,412,806
Borrowings from credit institutions	79,543,676	16,277,559	22,653,338	8,016,645	41,884,985	88,832,527
Bonds issued	100,393,137	500,000	500,000	500,000	100,501,370	102,001,370
Payables to suppliers and other creditors	54,300,875	54,300,875	-	-	-	54,300,875
Total	**249,596,365**	**72,168,616**	**24,243,368**	**9,598,266**	**157,537,328**	**263,547,579**

Interest rate risk

The interest rate risk arises mainly from borrowings at floating interest rates, whereby there is a risk of a significant increase in financing costs due to rising interest rates. In order to limit the risk, the financial risk management policy of the Group and the Parent Company stipulates that the proportion of fixed or capped interest rates in the loan portfolio must not be less than 35%. At the same time, the Financial risk management rules provide deviations from this indicator that are allowed in the process of restructuring liabilities assumed as part of the reorganisation of ownership of transmission assets.

As at 31 December 2023, the Parent Company's borrowing portfolio consisted of bonds in the amount of EUR 99,919 thousand (loan portfolio at 31.12.2022: EUR 99,893 thousand) (nominal value of EUR 100,000 thousand) with a term of 5.25 years, a fixed annual interest rate (coupon) of 0.5% and a yield of 0.527%. Non-current fixed-rate borrowings represented 100% of the total borrowing portfolio and therefore the Parent Company is not exposed to any interest rate risk as at 31 December 2023.

For the financing of current assets, the Parent Company has a valid credit line agreement with a limit of 10,000 thousand. EUR and the base interest rate of 3-month EURIBOR and the added interest rate of 1.05%, which could potentially create an interest rate risk. However, since the Parent Company has not used the available credit line so far, the risk is assessed as insignificant.

As at 31 December 2023, the Group's borrowing portfolio consisted of borrowings of EUR 128,506 thousand (in 2022: EUR 130,404 thousand) at a fixed interest rate and EUR 51,430 thousand (in 2022: EUR 51,430 thousand) at a variable interest rate. Long-term fixed-rate borrowings accounted for 71% of the total borrowing portfolio (at 31.12.2022: 71%).

The following table shows the sensitivity of the Group's profit before tax to reasonably possible changes in interest rates at the end of each reporting period, with all other variables held constant.

	GROUP			
	Rate changes (base points)	Impact on profit before tax (EUR)	Rate changes (base points)	Impact on profit before tax (EUR)
	2023		2022	
EURIBOR	(+50)	(249,463)	(+50)	(235,444)
	(-50)	249,463	(-50)	42,070

Credit risk

Credit risk arises when a partner of the Group or the Parent Company is unable to meet its contractual obligations, resulting in a loss to the Group or the Parent Company. Credit risk arises from the Group's and Parent Company's cash, deposits with commercial banks and receivables. Credit risk can be related to financial counterparty risk and counterparty risk.

In the course of their business activities, the Group and the Parent Company cooperate with domestic and foreign financial institutions. This creates **counterparty risk** – the Group and the Parent Company may incur losses in the event of the insolvency or suspension of operations of counterparties. In the case of external financing, the risk remains until the borrowing is drawn down and transferred to one of the Group's or the Parent Company's partner banks.

The credit risk arising from the Group's and Parent Company's current account balances is managed in accordance with the Group's financial risk management policy and financial risk management rules, balancing the allocation of financial resources.

In accordance with the financial risk management policy, counterparties with a minimum credit rating of at least investment grade by an international credit rating agency, either its own or the parent bank, are accepted in cooperation with banks and financial institutions.

The Group and the Parent Company cooperate with local and foreign companies in the course of their business activities. This gives rise to counterparty or **debtor risk** – the Group or the Parent Company may suffer losses in the event of the insolvency or suspension of operations of counterparties. The Law on International and National Sanctions of the Republic of Latvia imposes financial and civil restrictions on entities included in the sanctions list, including freezing of financial assets. In view of the above, cooperation with a sanctioned entity entails contractual, legal and reputational risks for the Group or the Parent Company.

Although the Group and the Parent Company have a significant concentration of receivables risk with respect to a single counterparty or a group of similar counterparties, this risk is assessed as limited, given that the most significant counterparty is the state-owned commercial company Latvenergo, as well as its group companies.

Credit risk related to receivables is managed in accordance with the risk management measures set out in the Financial Risk Management regulations, through an analysis of receivables on a monthly basis and at least quarterly.

	PARENT COMPANY	
Maximum exposure to credit risk	31.12.2023 EUR	31.12.2022 EUR
Cash and cash equivalents (Note 16)	31,946,690	92,042,624
Bank deposits (Note 14)	80,767,903	-
Receivables from contracts with customers (gross) (Note 13)	18,863,770	22,400,276
Other financial receivables (gross) (Note 14)	26,556,133	8,557,794
TOTAL	**158,134,496**	**123,000,694**

In addition, the following disclosures are made in respect of credit risk (excluding cash and cash equivalents):

	PARENT COMPANY	
	31.12.2023 EUR	31.12.2022 EUR
Receivables not past due date	125,927,083	30,774,361
Overdue receivables:		
Up to 3 months	82,026	4,394
From 3 to 12 months	459	174,375
1 to 5 years	174,249	951
More than 5 years	3,989	3,989
TOTAL	**126,187,806**	**30,958,070**

	GROUP	
Maximum exposure to credit risk	31.12.2023 EUR	31.12.2022 EUR
Cash and cash equivalents (Note 16)	44,900,140	103,009,740
Bank deposits (Note 14)	80,767,903	-
Receivables from contracts with customers (gross) (Note 13)	30,418,889	32,637,011
Other financial receivables (gross)(Note 14)	26,556,133	8,557,794
TOTAL	**182,643,065**	**144,204,545**

In addition, the following disclosures are made for credit risk (excluding cash and cash equivalents):

	GROUP	
	31.12.2023 EUR	31.12.2022 EUR
Outstanding debts	137,360,017	40,991,784
Arrears:		
Up to 3 months	204,211	23,706
From 3 to 12 months	459	174,375
1 to 5 years	174,249	951
More than 5 years	3,989	3,989
TOTAL	**137,742,925**	**41,194,805**

Quality of financial assets – cash and deposits

	PARENT COMPANY			
Balance sheet item	**Bank**	**Credit rating (Moody's)**	**31.12.2023 EUR**	**31.12.2022 EUR**
Cash and cash equivalents:				
Cash in current accounts	SEB banka	Aa3	24,929,679	86,968,083
	Swedbank	Aa3	–	5,067,927
	Luminor bank AS Latvian branch	Baa1	3,803,569	6,614
	Citadele banka	Baa2	991	–
	State Treasury		818	–
Demand deposits	Swedbank	Aa3	3,211,633	–
Total Cash and cash equivalents:			**31,946,690**	**92,042,624**
Term deposits:				
Term deposits:	Citadele banka	Baa2	40,147,522	–
	OP Corporate bank plc Latvian branch	Aa3	30,468,964	–
	Luminor bank AS Latvian branch	Baa1	10,151,417	–
Term deposits			**80,767,903**	–

	GROUP			
Balance sheet item	**Bank**	**Credit rating (Moody's)**	**31.12.2023 EUR**	**31.12.2022 EUR**
Cash and cash equivalents:				
Cash in current accounts	SEB banka	Aa3	32,980,865	97,643,276
	Swedbank	Aa3	1,450	5,190,926
	OP Corporate bank plc Latvian branch	Aa3	4,663,087	166,771
	Citadele banka	Baa2	2,046	1,121
	Luminor bank AS Latvian branch	Baa1	3,805,528	7,646
	State Treasury		818	
Demand deposits	Swedbank	Aa3	3,446,346	
Total Cash and cash equivalents:			**44,900,140**	**103,009,740**
Term deposits:				
Term deposits:	Citadele banka	Baa2	40,147,522	–
	OP Corporate bank plc Latvian branch	Aa3	30,468,964	–
	Luminor bank AS Latvian branch	Baa1	10,151,417	–
Total term deposits			**80,767,903**	–

The Group and the Parent Company continuously monitor their receivable balances to minimise the possibility of uncollectible receivables. Impairment of receivables from contracts with customers and other receivables is analysed on an ongoing basis. The Group has received security deposits of EUR 9,406,961 (in 2022: EUR 8,984,627) as collateral for receivables.

The Group and the Parent Company have not developed an internal credit rating system for measuring receivables.

There are no material changes in expected credit losses on receivables in 2023. Receivables are written off only if they are not expected to be recovered. Indicators of impossibility of recovery include, inter alia, the debtor's inability to agree on a repayment schedule, accompanied by the debtor's insolvency, bankruptcy or liquidation. Expected credit losses on customer contracts are immaterial, except for a fraudulent transaction of EUR 172 850. Criminal proceedings have been initiated in connection with the fraud.

Expected credit losses at 31 December 2023:

Days late for payment under IFRS 9	PARENT COMPANY						
	Not overdue EUR	Overdue up to 44 days late EUR	Overdue 45 to 90 days EUR	Overdue 91 to 180 days EUR	Overdue 181 to 359 days EUR	Overdue more than 360 days EUR	Total EUR
Expected credit loss rate	0%	0.013%	2.12%	12.51%	18.84%	100%	
Receivables from contracts with customers (gross) (Note 13)	18,775,897	82,026	–	459	–	5,388	18,863,770
Other receivables (gross) (Note 14)	107,151,186	–	–	–	–	**172,850**	107,324,036
Expected credit losses	–	10	–	**57**	–	**178,238**	**178,305**

Days late for payment under IFRS 9	GROUP						
	Not overdue EUR	Overdue up to 44 days late EUR	Overdue 45 to 90 days EUR	Overdue 91 to 180 days EUR	Overdue 181 to 359 days EUR	Overdue more than 360 days EUR	Total EUR
Expected credit loss rate	0%	0% -0.013%	2.12%	12.51%	18.84%	100%	
Receivables from contracts with customers (gross) (Note 13)	30,208,831	204,211	–	459	–	5,388	30,418,889
Other receivables (gross) (Note 14)	107,151,186	–	–	–	–	172,850	107,324,036
Expected credit losses	–	**10**	–	**57**	–	**178,238**	**178,305**

Expected credit losses at 31 December 2022:

Days late for payment under IFRS 9	PARENT COMPANY						
	Not overdue EUR	Overdue up to 44 days late EUR	Overdue 45 to 90 days EUR	Overdue 91 to 180 days EUR	Overdue 181 to 359 days EUR	Overdue more than 360 days EUR	Total EUR
Expected credit loss rate	0%	0%	0%	0%	100%	100%	
Receivables from contracts with customers (gross) (Note 13)	22,389,417	4,394	468	502	555	4,940	22,400,276
Other receivables (gross) (Note 14)	8,384,944	–	–	–	172,850	–	8,557,794
Expected credit losses	–	–	–	–	**173,405**	**4,940**	**178,345**

Days late for payment under IFRS 9	GROUP						
	Not overdue EUR	Overdue up to 44 days late EUR	Overdue 45 to 90 days EUR	Overdue 91 to 180 days EUR	Overdue 181 to 359 days EUR	Overdue more than 360 days EUR	Total EUR
Expected credit loss rate	0%	0%	0%	0%	100%	100%	
Receivables from contracts with customers (gross) (Note 13)	32,606,840	23,706	468	502	555	4,940	32,637,011
Other receivables (gross) (Note 14)	8,384,944	–	–	–	172,850	–	8,557,794
Expected credit losses	–	–	–	–	**173,405**	**4,940**	**178,345**

Capital risk management

The shareholder of the Parent Company is the Republic of Latvia (100%), represented by the Ministry of Climate and Energy. The aim of capital risk management is to ensure the sustainable operation and development of the Group and the Parent Company, the financing required for the implementation of the development plan at the transmission facilities and the fulfilment of the restrictive covenants stipulated in the borrowing agreements. The restrictive covenants in the borrowing agreements were not breached. To ensure that the restrictive covenants in the loan agreements are complied with, the equity ratio is analysed regularly. In accordance with the Augstsprieguma tīkls Group Financial Risk Management Policy, equity capital must be maintained at a level of at least 35%. As at 31 December 2023, AS "Augstsprieguma tīkls' share of equity in the balance sheet is 44%, and the Group's share is 47% (47% and 49% respectively as at 31 December 2022).

Currency risk

The business activities of the Group and the Parent Company are centred on transactions, assets and liabilities in the functional currency of the Group and the Parent Company, the euro. The foreign currency risk of the Group and the Parent Company is considered to be insignificant, and they have no balances denominated in foreign currencies.

24. RELATED PARTY TRANSACTIONS

Related parties are State-related companies that are controlled, jointly controlled by or significantly influenced by the Latvian State.

Trading transactions in the ordinary course of business with the Latvian government, including its ministries and agencies, and transactions between state-controlled entities and public service providers are excluded from the scope of quantitative related party disclosures on the basis of Paragraph 25 of IAS 24. The Group and the Parent enter into transactions with many of these entities on an arm's length basis. Transactions with government-related entities include taxes and other related services. Income taxes are disclosed in the Statement of Financial Position and the Statement of profit or loss as shown in Notes 14 and 15, social security contributions are disclosed in Note 7 and taxes payable are disclosed in Note 21. Significant transactions are carried out with the energy supply service provider AS "Latvenergo", the distribution system operator AS "Sadales tīkls", and the public electricity trader AS "Enerģijas publiskais tirgotājs".

The remuneration of the Augstsprieguma tīkls Group' management comprises the Members of the Board and the Supervisory Board of the Group companies. The remuneration of the Parent Company's management includes the remuneration of the Members of the Board and Supervisory Supervisory Board of the Parent Company. Detailed information is provided in Note 7.

Income and expenses in related party transactions (other public capital corporations)

	PARENT COMPANY		GROUP	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Revenue				
Electricity transmission system service	84,042,604	73,514,575	84,042,604	73,514,575
Balancing electricity	8,245,624	30,205,990	8,245,624	30,205,990
Regulating electricity	(245,091)	1,843,615	(245,091)	1,843,615
Reactive energy revenues	533,940	621,896	533,940	621,896
Compulsory purchase components	–	223,692	–	223,692
Gas storage and transmission	–	–	26,320,745	22,060,969
Revenue from other services	2,125,266	2,396,715	2,125,266	2,396,715
Total income from related party transactions	**94,702,343**	**108,806,483**	**121,023,088**	**130,867,452**
Cost				
Purchase of balancing electricity	6,740,747	14,076,752	6,740,747	14,076,752
Purchase of regulatory electricity	8,116,206	23,652,121	8,116,206	23,652,121
Electricity for losses and process consumption	20,536,526	–	20,536,526	–
Electricity for transit losses	3,562,619	–	3,562,619	–
Electricity for household use	283,182	81,344	283,182	81,344
Capacity reserve for electricity system security	8,899,090	7,892,280	8,899,090	7,892,280
Use of synchronous compensators	1,178,704	1,338,608	1,178,704	1,338,608
Compulsory purchase components	–	564,827	–	564,827
Communication expenses	3,651,946	3,236,455	3,651,946	3,236,455
Electric power congestion elimination	129,458	220,200	129,458	220,200
Lease of PPE and land	805,469	814,362	805,469	814,362
Gas storage and transmission	–	–	3,542,946	5,408,435
Other costs	73,267	164,288	73,267	164,288
Total expenses in related company transactions	**53,977,214**	**52,041,237**	**57,520,160**	**57,449,672**

Balances at the end of the reporting year arising from transactions with related parties (other public capital corporations)

	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Receivables (Note 13):				
State-controlled companies	9,335,128	7,741,949	13,925,260	11,523,403
Payables (Note 21):				
State-controlled companies	12,531,931	15,821,137	12,876,397	17,386,223
Settlements for security deposits *	2,216,099	31,000	2,216,099	31,000

** Settlements for security deposits are included in Statement of financial position Other liabilities.*

Income and expenses in transactions with associated entities

Associated enterprises*	PARENT COMPANY		GROUP	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Revenue				
Revenue from other services	12,456	55,655	12,456	55,655
Income from interests in associates	8,333	-	8,333	-
Total:	**20,789**	**55,655**	**20,789**	**55,655**
Cost				
Electricity market coupling costs	333,640	132,631	333,640	132,631
Total:	**333,640**	**132,631**	**333,640**	**132,631**

** Associated entity OU "Baltic RCC" or permanent establishments of OU "Baltic RCC" in Latvia*

Balances at the end of the reporting year arising from transactions with associated entities

Associated enterprises*	PARENT COMPANY		GROUP	
	31.12.2023 EUR	31.12.2022 EUR	31.12.2023 EUR	31.12.2022 EUR
Receivables:				
Associates	144,799	216,092	144,799	216,092

Information on loans from affiliates is presented in Note 20, while information on dividends paid is presented in Note 17, and information on dividends received is presented in Note 11.

25. FUTURE LIABILITIES AND CONTINGENT LIABILITIES

As at 31 December 2023, the Group had future commitments of EUR 210,993 thousand (at 31.12.2022: EUR 183,704 thousand), and the Parent Company had future commitments of EUR 167,657 thousand (at 31.12.2022: EUR 148,794 thousand) for capital expenditure contracted but not yet committed at the balance sheet date.

The Decision of the PUC Supervisory Board of 19 October 2023 “On the Electricity Transmission System Development Plan” approves the Electricity Transmission System Development Plan developed by AS “Augstsprieguma tīkls” for the period from 2024 to 2033 (hereinafter also “Development Plan”).

The Development Plan has been developed in line with AST’s strategic objective – strengthening Latvia’s energy security by synchronising Latvia’s electricity transmission network with that of continental Europe, while respecting the principles of reliability and cost-efficiency.

The approved Development Plan defines the development of the transmission system and the necessary financial investments in the transmission infrastructure for the next 10 years, providing for an investment of EUR 509 million in the development of the electricity transmission system. The details of the approved Development Plan can be found at: https://www.ast.lv/lv/content/elektroenergijas-parvades-sistemas-attistibas-plans.

In order to ensure that planned capital investments have the least possible impact on electricity transmission tariffs, AST has successfully attracted EU co-financing for projects of common European interest included in the Development Plan, and is also redirecting accumulated congestion fee revenues to finance them, including:

- project “Synchronisation of the Baltic electricity transmission system with the European grid, Phase 1” – total project costs estimated at EUR 73,913 thousand. The project is co-financed by the EU: On 19 March 2019, an agreement was signed with INEA *(Innovation and Networks Executive Agency)* to receive European Union co-financing of 75% of eligible costs, while 24% is planned to be covered by the accumulated congestion charge revenues;

- project “Synchronisation of the Baltic electricity transmission system with the European grid, Phase 2” – total project costs estimated at EUR 165,000 thousand. Up to 80% of the total planned investment is to be covered by EU co-financing under the CEF and RePower Structural Funds, while 15% of the total planned investment is to be covered by accumulated congestion charge revenues;

- Within the framework of the investment plan “Modernisation of electricity transmission and distribution networks” under the Recovery and Resilience Mechanism Plan approved by the Cabinet of Ministers, the Parent Company has been granted financing of EUR 38 100 thousand. EUR 1 million. With the support, AS “Augstsprieguma tīkls” plans to build a dispatching and secure data centre, implement the necessary information technology infrastructure to improve the cyber security of the information system, as well as develop the digitisation of network management, ensuring the planning and management of operating modes of renewable energy producers. The Latvian Recovery Fund Plan has been prepared in line with the objectives of the Latvian National Development Plan 2021–2027, taking into account the recommendations of the European Commission and the Supervisory Board of the European Union for stable and successful growth in Latvia. The Recovery Fund must be invested in Latvia by mid-2026.

As at 31 December 2023, Conexus has entered into but not yet completed long-term asset construction contracts for an amount of EUR 43,335,131 (at 31.12.2022: EUR 34,910,221).

In view of the participation in Nord Pool power exchange, a guarantor service agreement has been concluded between the Parent Company and AS “SEB banka” in the amount of EUR 3,000 thousand at the end of the reporting period (at 31.12.2022: EUR 3,000 thousand).

Proceedings against transmission system operators, including AS “Augstsprieguma tīkls”, have been initiated in the International Court of Arbitration in Stockholm. The proceedings are related to the operators’ failure to settle invoices in accordance with international sanctions regulations. In view of the Rules of Procedure of the International Court of Arbitration in Stockholm, further details are currently considered confidential.

26. REMUNERATION OF A COMMERCIAL COMPANY OF STATUTORY AUDITORS

In accordance with the agreement between AS "Augstsprieguma tīkls" and SIA "PricewaterhouseCoopers" on the audit of the financial statements and consolidated financial statements, the fee for the audit of the financial statements and consolidated financial statements of the Parent Company in 2023 is set at EUR 36,500 (in 2022: EUR 36,100). As part of the agreement, the Parent Company has received the Sustainability Report 2023 (prepared in accordance with global reporting requirements) review service from SIA "PricewaterhouseCoopers" for EUR 7,300 in 2023 (in 2022: EUR 7,500), preparation of the Independent Auditor's Certification Report for submission to the Public Utilities Commission for EUR 14,800, supervision, quality assurance and project management supervision services for the development of the Balancing Management Information System EUR 65,868, evaluation of the Digital Maturity Transformation Strategy activities and processes, consultancy services for EUR 14,800, and services for tagging the ESEF report EUR 9,000 (in 2022: EUR 9,000).

	PARENT COMPANY		GROUP	
	2023 EUR	2022 EUR	2023 EUR	2022 EUR
Revision service	36,500	36,100	53,500	60,100
Consulting and audit services	111,768	19,500	117,068	24,800
TOTAL REMUNERATION TO THE COMPANY OF CERTIFIED AUDITORS	**148,268**	**55,600**	**170,568**	**84,900**

27. EVENTS AFTER THE END OF THE REPORTING YEAR

Aimed at strengthening the management team of the Parent Company, on 26 January 2024 the Supervisory Board of AS "Augstsprieguma tīkls" elected Ilze Znotiņa as a Member of the Board for Legal and Compliance matters. She joined AST on 1 February 2024.

Parent Company's shareholders at the extraordinary general meeting on 15 December 2023, decided to increase the share capital of the company by EUR 3 956 516, in accordance with the shareholder approved regulations for the increase of the share capital. Invested funds will be used for the planned investments, including, synchronization with the continental Europe network. As a result, the paid-in capital of the Parent Company increased from EUR 391 598 534 to EUR 395 555 050. The decision of the Enterprise Register on the registration of changes came into effect on 4 January 2024.

No other events have occurred between the last day of the reporting period and the date of signing these financial statements that have a material impact on the consolidated financial statements of the Group and the annual financial statements of AS "Augstsprieguma tīkls". Although geopolitical uncertainty has remained high, no such circumstances have been identified, which would jeopardise Group's and Parent company's continuity of operations and the fulfilment of legal obligations.

* * * * *

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

To the Shareholder of AS Augstsprieguma tīkls

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS Augstsprieguma tīkls (the "Company") and its subsidiary (together the "Group") as at 31 December 2023, and of the Company's separate and the Group's consolidated financial performance and the Company's separate and the Group's consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union (EU).

Our opinion is consistent with our additional report to the Audit Committee dated 26 April 2024.

What we have audited

The Company's separate and the Group's consolidated financial statements (together the "financial statements") comprise:

- the separate and consolidated statements of profit or loss and comprehensive income for the year ended 31 December 2023;
- the separate and consolidated statements of financial position as at 31 December 2023;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, comprising material accounting policy information and other explanatory information.

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

Independence

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia.

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This is a translation of the original independent auditor's report prepared in Latvian and issued on the financial statements of AS Augstsprieguma tīkls, which were prepared in accordance with the requirements of the European Single Electronic Format. This translated version of the independent auditor's report does not relate to the English version of the financial statements prepared in a pdf format and prepared to satisfy the needs of English speaking stakeholders of the issuer. The original financial statements in machine-readable .xhtml format together with the original independent auditor's report are submitted to the Nasdaq Riga Stock Exchange (Link: https://nasdaqbaltic.com).

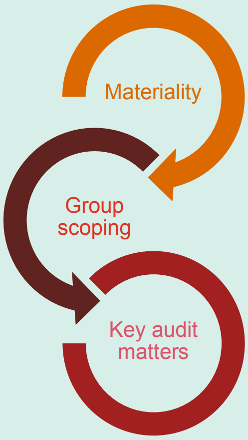
We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in Republic of Latvia and that we have not provided non-audit services that are prohibited under Article 37.[6] of the Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2023 to 31 December 2023, are disclosed in Note 26 to the financial statements.

Our audit approach

Overview



- Overall Company materiality: EUR 1,580 thousand, which represents 1% of revenue.
- Overall Group materiality: EUR 2,345 thousand EUR., which represents 1% of revenue.

- We conducted a full scope audit of the Company and its subsidiary. Both of them are in the Republic of Latvia.
- Our audit scope covered substantially all of the Group's revenues and substantially all of the Group's total assets.

- Revaluation of property, plant and equipment (the Group).

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company and Group materiality	Overall materiality applied to the Company was EUR 1,580 thousand and overall materiality applied to the Group was EUR 2,345 thousand
How we determined it	Approximately 1% of revenue for 2023
Rationale for the materiality benchmark applied	We chose revenue as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, considering that the Company's and the Group's profit has significantly fluctuated in recent years and is no longer a determining factor of financial performance. We chose 1% to be applied to a chosen benchmark as this is consistent with quantitative materiality thresholds used for public interest entities.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 158 thousand for the Company and EUR 234 thousand for the Group, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	How our audit addressed the key audit matter

Revaluation of property, plant and equipment (the Group)

The Group measure property, plant and equipment (PPE) at cost or revalued amount, less accumulated depreciation and accumulated impairment losses, if any.

As outlined in Note 10.2. to the financial statements, the Decision No. 162 of 28 December 2023 of the Public Utilities Regulation Council "On the use of the regulatory invoice accrual for the natural gas storage system service of joint stock company Conexus Baltic Grid" states that 50% of the regulatory invoice balance may be allocated for financing of assets created during the regulatory period. This reduces the value of the Regulated Asset Base (RAB), which represents the capital cost of the storage system service. The Group has decided to allocate the balance of the regulatory invoice to those assets created in the Inčukalns underground gas storage (Inčukalns UGS) facility modernisation project that were created during the regulatory period and that were not financed with EU co-financing.

As outlined in Note 10.2 to the financial statements, in the balance sheet as at 31 December 2023, property, plant and equipment of the Group amount to EUR 1,106,603 thousand. Property, plant and equipment represent 82% of the total assets of the Group.

The Group management has reviewed the fair values of natural gas wells, gas pumping equipment and automatic plant control stems to ensure that their carrying amounts are not materially different from their fair values at the reporting date as reduction of future cash flows due to decreased RAB base did indicate also a possible decrease in fair value of those assets. The carrying amount of property, plant and equipment (wells, gas pumping equipment and automatic control systems) was reduced by EUR 23,487,844 in the result of revaluation.

To determine whether the fair value of the identified groups of property, plant and equipment differs from the carrying amount at the end of the reporting year, the Group performed an internal valuation of the identified classes of property, plant and equipment as at 31 December 2023.

Revaluation of PPE requires significant assumptions and judgements to be applied by the management. These include: choice of the most appropriate method for valuation (income approach) and input data, such as future cash flows, growth rates and WACC rate etc.

We have assessed whether the Group's accounting policies in relation to fair valuation of property, plant and equipment are in compliance with IFRS Accounting standards as adopted in EU by assessing the appropriateness of the model used and each significant component: future cash flows and WACC rate.

We have obtained the internal valuation report, for the classes of property, plant and equipment, which were subject to revaluation in 2023, that was prepared by the management and gained an understanding of the management's process for fair value assessment of the selected classes of PPE. Our audit procedures included, among others, assessment of the methodologies and assumptions used by the management.

We have involved PwC valuation experts to assess whether the income method used by the management is appropriate to determine the fair value of the classes of PPE and to assess the appropriateness of WACC rate used to discount the future cashflows.

We have critically evaluated the future cash flow forecasts of the classes of property plant and equipment, growth rates and discount rates applied.

We have checked the model's mathematical accuracy.

We have recalculated management's own sensitivity analysis of key assumptions used in the valuation and performed our own sensitivity analysis by replacing key assumptions with alternative scenarios.

We have analysed the changes in the assumptions over time to assess whether the current assumptions appropriately reflect the observed changes and uncertainty in the current operating environment.

Finally, we have reviewed the fair value disclosures.

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How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We are the statutory auditors of the Group's only subsidiary, AS Conexus Baltic Grid. For the purposes of the Group audit, we performed a full scope audit of the Company and AS Conexus Baltic Grid thus covering substantially all of the Group's revenues and substantially all of the Group's total assets.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises:

- information on the Company and the Group, as set out on pages 124 to 125 of the Augstsprieguma tīkls group consolidated and AS Augstsprieguma tīkls Sustainability and Annual Report 2023 (the "Sustainability and Annual Report 2023"),
- the Key financial and operational indicators as set out on pages 126 and 127 of the Sustainability and Annual Report 2023,
- the Management Report, as set out on pages 128 to 144 of the Sustainability and Annual Report 2023,
- the Statement of the Responsibility of the Board of the Company, as set out on pages 145 to 146 of the Sustainability and Annual Report 2023,
- the Statement of Corporate Governance, set out in a separate statement prepared by the Company's management and available on the Company's website https://www.ast.lv/en/content/model-corporate-governance as at the date of this audit report,
- The Non-financial Statement of the Group as included in the Management report set out on page 138 of the Sustainability and Annual Report 2023,
- Statement of compliance with the EU Taxonomy requirements as set out on pages 113 to 118 of the Sustainability and Annual Report 2023,
- Green bond report as set out on pages 119 to 122 of the Sustainability and Annual Report ,2023

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information identified above. However, information included on pages 4 to 107 of the Sustainability and Annual Report 2023 was subject of our verification to which we have issued a separate limited assurance report on pages 108 to 112.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the Management Report, we also performed the procedures required by the Law on Audit Services of the Republic of Latvia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the applicable legislation.

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

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Governance includes the information required by section (3) of Article 56.[2] of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the other information identified above 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; and
- the Statement of Corporate Governance, available on the Company's website https://www.ast.lv/en/content/model-corporate-governance as at the date of this audit report, includes the information required by section (3) of Article 56.[2] of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services with respect to the Consolidated Non-financial Statement, our responsibility is to report whether the Group has prepared the Consolidated Non-financial Statement and whether the Consolidated 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 Consolidated Non-financial Statement, and it is included in the Management Report.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Company's and the Group'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

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aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we

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determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on the compliance of the presentation of the consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged based on our agreement dated 4 April 2024 by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of AS Augstsprieguma tīkls Group for the year ended 31 December 2023 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the 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 Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and those charged with governance

The Management Board of the Company is responsible for the Presentation of the Consolidated 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 Presentation of the Consolidated 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, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 (R) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (ISAE 3000 (R)]. This standard requires that we comply with ethical requirements, plan and

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perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000 (R) will always detect an existing material misstatement (significant non-compliance with the requirements).

Quality management requirements and professional ethics

Our firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's use of XBRL 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 conclusion.

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

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Appointment and period of our audit engagement

We were first appointed as auditors of the Company and the Group on 28 May 2021 by resolution of the general meeting with the shareholder. Our appointment has been renewed annually by shareholder's resolution representing a total period of uninterrupted engagement appointment of 3 years.

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

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
26 April 2024

INDEPENDENT AUDITOR'S REPORT IS SIGNED ELECTRONICALLY WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP.

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